Wellington City Council

Balance sheet review

Date: January 2021

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Table of contents

1 Executive Summary 1
1.1 Portfolio Level Assessment 2
1.2 Balance Sheet Review 3
1.3 Alternative Funding and Financing 3
1.4 Next steps 3
2 Scope and Approach 4
2.1 Portfolio level assessment 5
2.2 Review of WCC balance sheet 6
2.3 Alternative funding and financing 7
2.4 Out of scope 7
3 Introduction and background 8
3.1 WCC - Roles and responsibilities 9
4 Portfolio Level Assessment 11
4.1 WCC's financial performance 12
4.2 Pressures and uncertainties 20
4.3 Portfolio-level observations 25
5 Income Generating Assets 27
5.1 Overview 28
5.2 Wellington International Airport 30
Chaffers Marina 32
5.3 Landfill assets 33
5.4 Wellington Regional Stadium 35
6 Council Controlled Organisations 37
6.1 Overview 38
6.2 Wellington Zoo 41
6.3 Zealandia 43
6.4 Wellington Cable Car 44

6.5 Experience Wellington 46
6.6 Basin Reserve 48
7 Income Generating Property 49
7.1 Overview 50
7.2 Ground leases 52
7.3 Waterfront Precinct 55
7.4 Civic Precinct 58
7.5 Parking 60
7.6 Commercial Portfolio 63
8 Community and Restricted Infrastructure 65
8.1 Overview 66
8.2 Pools and recreational facilities 68
8.3 Community centres and libraries 71
8.4 Marinas 73
8.5 Parks, land, and open space 75
9 Alternative Funding and Financing 78
9.1 Overview 79
9.2 Insurance 80
9.3 Tax health-check 83
9.4 Alternate rates 84
9.5 Development Contributions 86
10 Conclusion and Next Steps 87
Appendix A. Interview schedule 97
Appendix B. Comparative performance 98
Appendix C. Glossary of terms 100
Appendix D. Asset maps 102
Appendix E. Resident and coupon parking zones 106
Appendix F. Bibliography 107

1 Executive Summary

Wellington City Council's (WCC's) current financial position is strong. Council management is sound, incomes are stable, debt is within prescribed debt covenants and is comparable to similar urban Territorial Local Authorities (TLAs).[1] However, without action, potential and actual forecast pressures could jeopardise WCC's ability to maintain this strong financial position over the medium- to long-term. Forecast pressures include:

- ► Natural hazards, earthquake strengthening, and insurance risk
- ► Three Waters regulatory reform
- ► Significant investment programmes (incl. Let's Get Wellington Moving)
- ► Climate change and zero carbon emissions.

This Balance Sheet Review (the Review) considers actions to strengthen WCCs financial position and consists of a three-step assessment:

1. **Portfolio level assessment** of the current and projected financial position of WCC to determine WCC's ability to meet the needs of current and future Wellington City residents
2. **Review of WCC balance sheet** to identify whether WCC's assets have defensible strategic alignment and if opportunities exist to realise greater commercial value
3. **Identification of alternative funding and financing** that could be utilised to improve WCC's financial position.

The Review identified 54 opportunities where WCC could improve their financial position. This includes optimising processes, increasing revenue generation, reducing financial exposure, and divesting strategically unaligned asset classes.

By taking decisive and concerted action now, WCC can ensure it retains its strong financial position into the future.

[1] Comparable urban TLAs include Christchurch City Council, Hamilton City Council, Dunedin City Council and Tauranga City Council.

1.1 Portfolio Level Assessment

Five key findings have been outlined below:

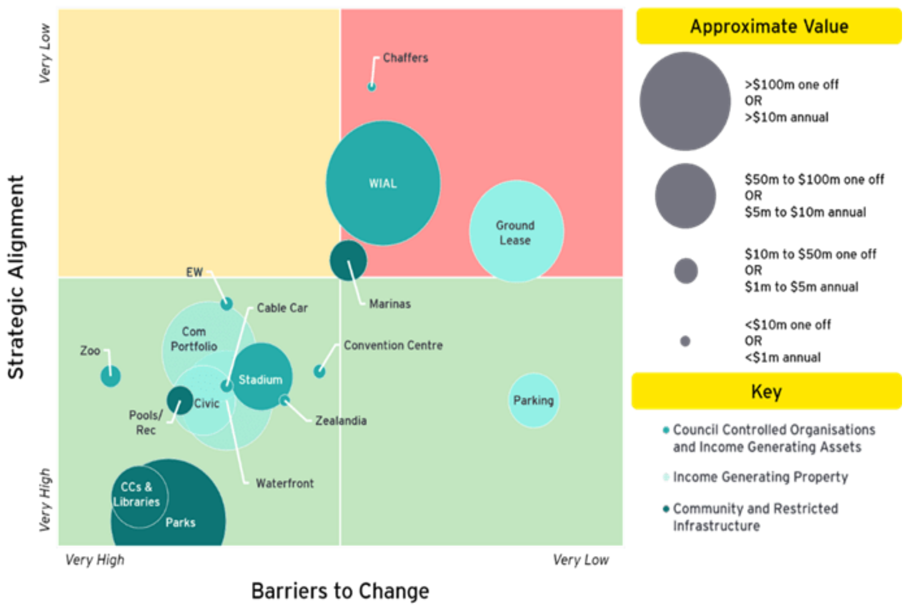
- **WCC's current financial position is strong:** S&P Global Ratings (S&P) commended WCC; despite COVID-19, incomes remain reasonably stable, debt levels are within covenants, and WCC's debt profile is within reasonable limits.
- **WCC residents pay a high price for council services:** Almost 60% of WCC's income is from rates, significantly more than similar urban TLAs (53%). Rates are 29% higher than similar urban TLAs when measured on a resident: rateable income basis. It is unclear whether this represents higher levels of service, challenges with Wellington's geography, the provision of a disproportionate level of regional services, or inefficient expenditure/asset holdings.
- **WCC's income generating asset base is concentrated and heavily reliant on CBD performance:** Most income generating asset holdings are either directly (e.g. CBD Ground Lease) or indirectly (e.g. WIAL shares) related to the performance of the CBD.
- **Natural hazard and climate change risks present a significant financial burden:** WCC's income generating properties are exposed to significant natural hazard and climate change risk. Extensive investment (current and planned) is required across social and civic assets over the next 10 years including at Te Ngākau Civic Precinct.
- **The lack of strategic asset management plans perpetuates non income generating asset accumulation:** The lack of transparent plans, strategies, and policies outlining the acquisition, retention, and divestment of asset holdings has led to ad-hoc or strategically unaligned decision-making. This is a drag on WCCs financial performance.

1.2 Balance Sheet Review

Analysis of WCC's balance sheet included consideration of 17 asset classes across four broad asset categories: Income Generating Assets, Council Controlled Organisations, Income Generating Property, and Community and Restricted Infrastructure. For each of these asset classes, assessment was undertaken through a lens of Strategic Alignment, Risk Exposure, Asset/Interest Size, and the Barriers to Change.

Initial assessment of each asset's Strategic Alignment and the Barriers to Change provided an indication as to whether divestment would be a reasonable course of action. Figure 1 provides a pictorial representation of this and showcases where divestment opportunities exist. Assets that support a divestment strategy include WIAL, the Ground Lease portfolio, and the Evans Bay and Chaffers Marinas.

Figure 1 Strategic Alignment of WCC assets



The remaining 13 assets and interest holdings were identified as core council business and should largely be retained in their current form. However, opportunities may exist to increase revenue or obtain more value from subsets of these asset holdings

A secondary, high-level, assessment of the 17 asset classes was carried out to determine their commercial value. In general, the analysis found WCC does not receive 'fair' market returns for most asset classes when compared against the private sector comparators and similar urban TLAs. Furthermore, the potential financial risks of many assets far outweigh any expected returns for several asset classes.

1.3 Alternative Funding and Financing

Desktop research and interviews with WCC officers highlighted several opportunities for new activities or funding sources to increase revenues or reduce expenditure. Within the scope of this Review, three opportunities have been considered further, and include:

- Insurance
- Expanding the rating base
- Tax health check.

1.4 Next steps

Overall, 54 opportunities to improve WCC's financial position were identified. This included streamlining processes, increasing revenue generation, reducing financial exposure, and divestment of strategically unaligned asset classes. Of these, 23 were identified as being able to pursue now. The remaining 31 opportunities require further validation and consultation prior to implementation. A full summary of activities is provided in Chapter 10.

Finally, it is worth highlighting the importance of maintaining a prudent rateable to non-rateable income balance following any divestment activity or implementation of new sources of funding and finance. This specifically responds to a key portfolio level observation about concentration risk.

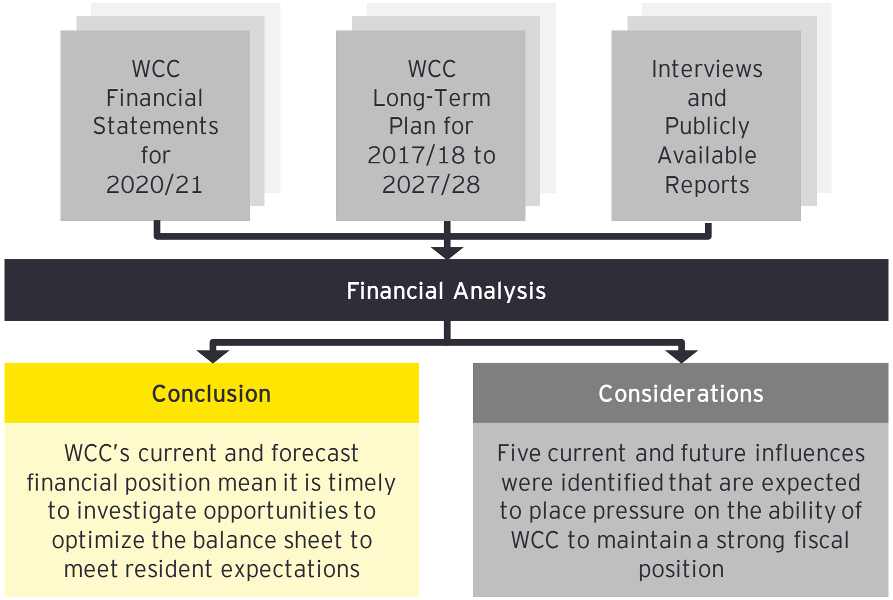
2 Scope and Approach

Ernst & Young (EY) was engaged by the Wellington City Council (WCC) to provide a review of WCCs balance sheet and identify any alternative sources of funding and finance (the Review).

EY completed a three-step process to assess WCC's financial position:

1. **Portfolio level assessment** of the current and projected financial position of WCC to determine WCC's ability to meet the needs of current and future Wellington City residents
2. **Review of WCC balance sheet** to identify whether WCC's assets have defensible strategic alignment and if opportunities exist to realise greater commercial value
3. **Identification of alternative funding and financing** that could be utilised to improve WCC's financial position

2.1 Portfolio level assessment



This analysis was based on information from the following sources:

- Information provided by WCC, including the 2020/21 financial statements and Long-Term Plan for 2017/18 to 2027/28
- Publicly available information on WCC's financial position
- Interviews with WCC Officers
- Publicly available information on comparator jurisdictions.

The financial analysis considered WCC's current state financial position and analysed the expected future state. The current state analysis reviewed revenues and liabilities, current rates levels, other non-rates revenues and balance sheet composition, and compared these to comparable TLAs across New Zealand.

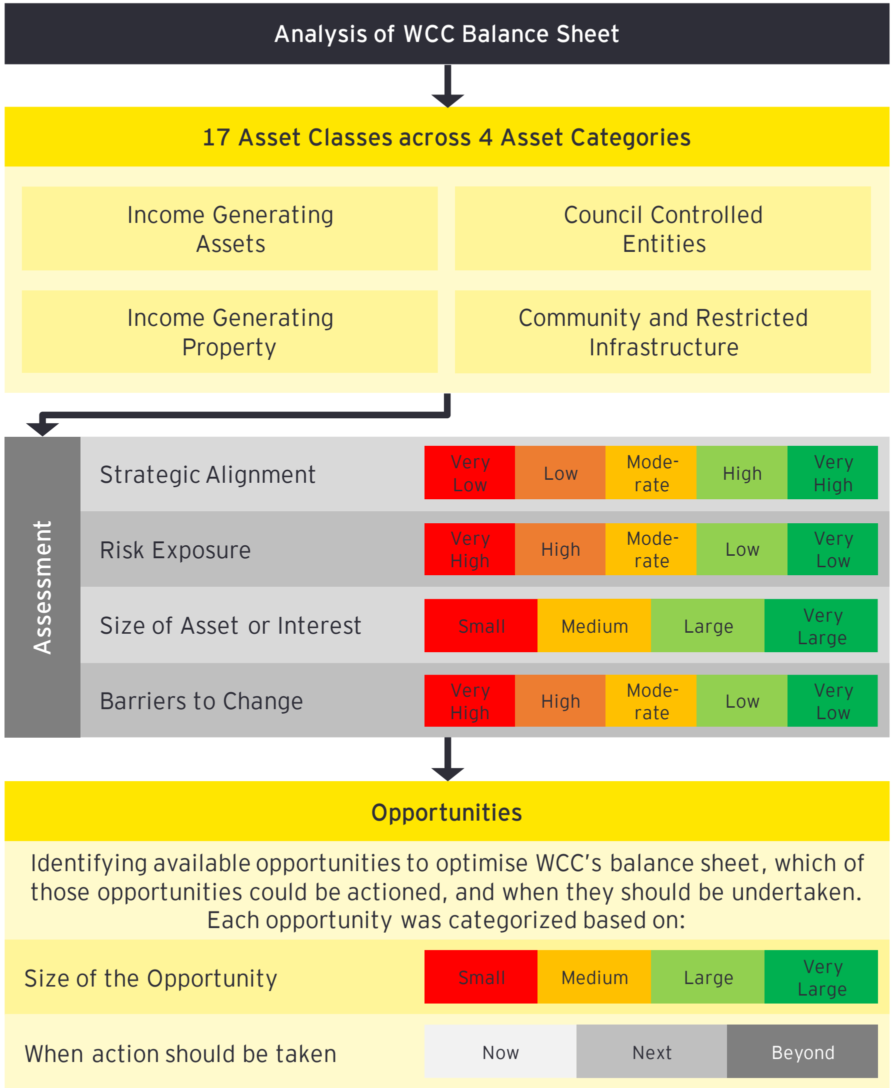
This analysis enabled a view to be formed about the characteristics of the WCC financial position and the current strengths and weaknesses.

The future state analysis focused on the projected trajectory of key financial metrics, explored the forecast levels of debt headroom, and identified key risks and exposures (considerations) that could impact on WCC's ability to meet current and future Wellington City residents' needs.

This future state analysis identifies the significant forecast (and potential) financial pressures that WCC will struggle to mitigate without concerted action; and demonstrates whether WCC will maintain a stable financial position in the medium to long term.

A review of the WCC Balance Sheet, and consideration of alternative sources of funding and finance, was then undertaken to identify opportunities to respond to forecast pressures.

2.2 Review of WCC balance sheet



The WCC balance sheet was analysed, identifying 17 asset classes for further investigation, across four broad asset categories. Each of the asset classes was individually assessed on the following criteria:

Strategic alignment: A subjective assessment of strategic alignment was carried out, considering questions such as:

- Is the asset a typical holding contemplated under the LGA?
- Does asset ownership generate public good or positive externality?

Risk exposure: Risk exposure was measured via a qualitative assessment assessing number, size, likelihood, and timeframe of key risks, including legislative, regulatory, financial, and natural hazard risks.

Size of asset or interest: An objective assessment of the current book value of the asset (or comparable valuation estimate) and/or the current levels of income the asset generates, evaluated as:

- **Small:** less than $10m asset value or less than $1m annual income.
- **Medium:** between $10 and $50m asset value or between $1m and $5m annual income.
- **Large:** between $50m and $100m asset value or between $5m and $10m annual income.
- **Very Large:** over $100m asset value or over $10m annual income.

Barriers to change: Potential barriers to change, including legal constraints, public expectations, and market conditions affecting asset holdings were identified and discussed to help inform the development of realistic opportunities.

Each of the asset classes was then plotted on a graph showing the relative performance against the Strategic Alignment and Barriers to Change criteria and the size of the asset or interest.

The outputs of this assessment allowed for the identification of opportunities that could be implemented to optimise WCC's balance sheet. The opportunities were developed based on three categories:

- **Improvements in WCC decision making processes** to provide more transparency on decision-making, encourage greater commercial rigour and help realise value or avoid unnecessary expenditure.
- **Alternate paths to generate revenue** such as increases to fees and charges, renegotiation of existing contract terms, or identification of new revenue sources.
- **Divestment of assets and interests** to realise one-off value and avoid unnecessary future financial risk exposure related to non-strategic assets.

Each opportunity is described at a high-level, highlighting the impact it could have on the realisation of better commercial outcomes and providing an initial indication of:

- **The size of the opportunity:**
  - **Small:** Less than $250k p.a. or a $10m one-off
  - **Medium:** $250k to $1m p.a. or $10m-$25m one-off
  - **Large:** $1m-$3.5m p.a. or $25m-$100m one-off
  - **Very Large:** More than $3.5m p.a. or more than $100m one-off
- **When action should be taken:** Presented as 'Now' (within the next 12 months), 'Next' (within one to three years), or 'Beyond' (after three years)

Given the timeframe of this assessment, it was not possible to explore every issue or understand the perspectives of all stakeholders. As such, this analysis should be thought of as a 'first step' towards an improved long-term financial position. Further validation and appropriate consultation should be undertaken before any change is implemented.

2.3 Alternative funding and financing

In addition to identifying and presenting opportunities to manage WCC's future financial position by optimising its balance sheet, this Review also highlights other non-balance sheet opportunities that have arisen through research and interviews with WCC officers.

These opportunities look to increase revenues or reduce expenditures by pursuing 'new' activities and funding sources. Specifically, this Review explores opportunities around:

- Insurance
- Tax health-check
- Alternative revenue streams

Each option was assessed in a similar manner to the asset classes, exploring potential opportunities that could exist, the size of those opportunities, and the timing for potential implementation.

2.4 Out of scope

This Review did not seek to investigate every asset on WCC's balance sheet. Assets were classified as 'out of scope' if they met one of the following criteria:

- Currently undergoing regulatory reform or part of a major investment programme (e.g., 3 Waters Reform and Let's Get Wellington Moving).
- Already being pursued by WCC or where commercial negotiations are already taking place.
- Not significant in size, nor does it generate significant revenue or have significant levels of risk associated with it.

3 Introduction and Background

3.1 WCC - Roles and responsibilities

WCC is a territorial local authority (TLA) established under the Local Government Act 2002 (LGA). WCC is one of eight TLAs that exist within the Greater Wellington Regional Council (GWRC) area,[2] and represents a residential population of approximately 203,000 people.[3]

WCC has a range of statutory obligations, including to:

- Enable democratic local decision-making by its communities
- Provide local infrastructure
- Undertake regulatory functions
- Promote the four well-being pillars of communities (social, economic, environmental, and cultural)[4]

Effective financial management, defined in the LGA as a TLA managing its *"revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community"* is critical to fulfilling the obligations listed above.

However, the LGA is not prescriptive about the **specific** roles, responsibilities, functions, and interests of a TLA. Provided the community wants a given service TLAs generally have autonomy to make decisions.

Financially prudent decision making, where the balance between risks and returns is optimised, will strengthen WCC's balance sheet. This will enable them to effectively meet the needs of their communities, now and into the future.

Debt is critical in supporting TLAs to fulfil their roles and responsibilities. In short, debt can:

- More equitably distribute the burden of multi-generational infrastructure investment
- Enable TLAs the flexibility to respond to changing circumstances (e.g., COVID-19, natural hazard events, etc.)
- Provide equitable funding grants for activities that have long-term benefits

Prudent debt policies that do not unduly burden future generations are a function of high-performing TLAs. In practice, this means using debt for the reasons noted above and not to fund current operating expenditure (except where multi-year benefits may exist).

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[2] Porirua City Council, Hutt City Council, Upper Hutt City Council, Kapiti Coast District Council, South Wairarapa District Council, Carterton District Council, and Masterton District Council.
[3] StatsNZ (2018) Wellington City Population estimates. Please note that in some WCC documentation population estimates are cited as being 216,300 – but 203,000 is used throughout to enable comparison with other comparable TLAs.

[4] Productivity Commission (2020) Local Government Insights. Accessed through: https://www.productivity.govt.nz/assets/Documents/d0b2849e4d/Local_Government-Insights-Report-2020_midres.pdf

3.1.1 Wellington City - Economic context

Wellington City residents have the highest per capita income in New Zealand. Mean annual earnings are estimated at $78,700 per person (the national average is $62,750 per person).[5] This is reflected in the employment composition, where industries associated with public sector expenditure are strong:

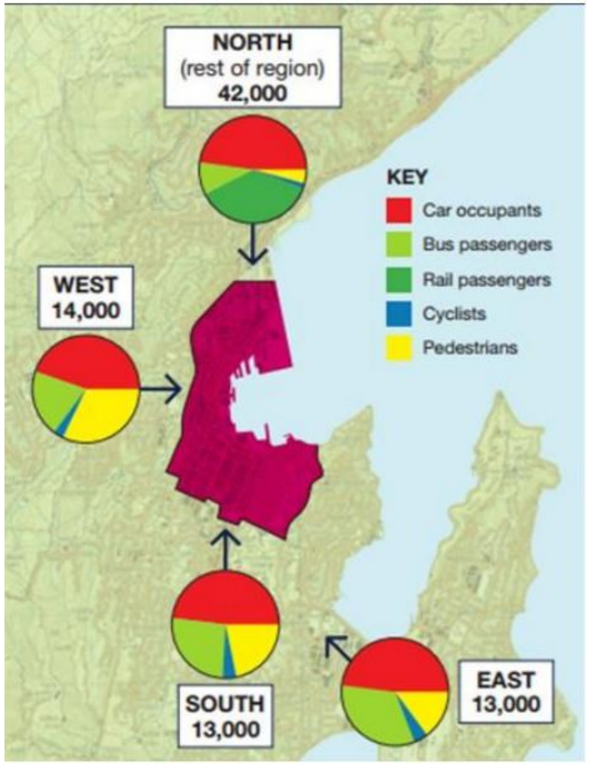
- Professional, Scientific and Technical Services (18.1%)
- Public Administration and Safety (16.0%)
- Healthcare and Social Assistance (8.0%)
- Education and Training (7.6%)

The Wellington CBD is the main employment hub for Wellington City residents, as well as most residents across the Greater Wellington region. An estimated 82,000 people commute into the CBD each day. Figure 2 illustrates where commuters are travelling from. Those commuting from the West, South, and East of the CBD (40,000 people) are located inside the WCC boundary. Approximately 42,000 people commute from North of the CBD,[6] although it remains unclear *precisely* how many of these are from outside WCC boundaries. It is reasonable to assume, however, that at least 30,000 (or 37%) reside outside the WCC boundary.

A strong labour market, coupled with the natural geography of Wellington, means that Wellington City is naturally compact. As such, opportunities for polycentric urban development are rare. Moreover, beyond isolated pockets, greenfield housing and commercial development are not common in Wellington City.

A key differentiating feature of WCC is therefore the significance of the CBD to WCC and the wider Wellington region. WCC provides city infrastructure and services that benefit WCC residents and the wider Wellington region without the supporting population base of similar urban TLAs.[7] This context cannot be forgotten when considering the suitability (or otherwise) of plans and revenue setting or asset holding decisions.

Figure 2: Persons crossing Wellington CBD cordon, 2016, by mode and area of origin



[5] Infometrics (2019) Employment at a Glance. Accessed from: https://ecoprofile.infometrics.co.nz/Wellington%2bCity/Employment

[6] Let's Get Wellington Moving (2017) Data Report. Accessed through: https://lgwm.nz/assets/Uploads/LGWM-Data-Report.pdf

7 Comparative TLAs include Auckland Council, Tauranga City Council, Hamilton City Council, Dunedin City Council and Christchurch City Council.

4 Portfolio Level Assessment

4.1 WCC's financial performance

The analysis of WCC's financial performance evaluated both the 'Current State' and the 'Future State'. Wherever possible, the latest publicly available information was used as a basis for analysis. This was primarily drawn from the 2020/2021 Annual Plan for the 'Current State' and the 2018-2028 Long-Term Plan (LTP) for the 'Future State'.

The timing of this Review has presented some challenges in accounting for the implications of COVID-19. Where relevant, assumptions about COVID-19 implications have been outlined to avoid doubt.

Appendix B has been referred to throughout this section. This appendix provides comparisons of key performance measures across local jurisdictions using data has been collected from each council's published 2018 LTP. These LTPs could not have predicted the impact of COVID-19, and as such the data has only been used for purely comparative purposes between TLAs. As the councils' Annual Reports, Annual Plans, and LTPs have been presented differently, the Department of Internal Affairs (DIA) interpreted data from LTP statements against a consistent framework. This represents the best available data set for TLA comparisons.

4.1.1 Current state: Financial summary for 2020/21

4.1.1.1 Sources of operating funding

WCC's revenue sources for 2020/21 are estimated to be $536m, as noted in Table 1. A further breakdown of rates and non-rates revenue has been provided in Figure 3.

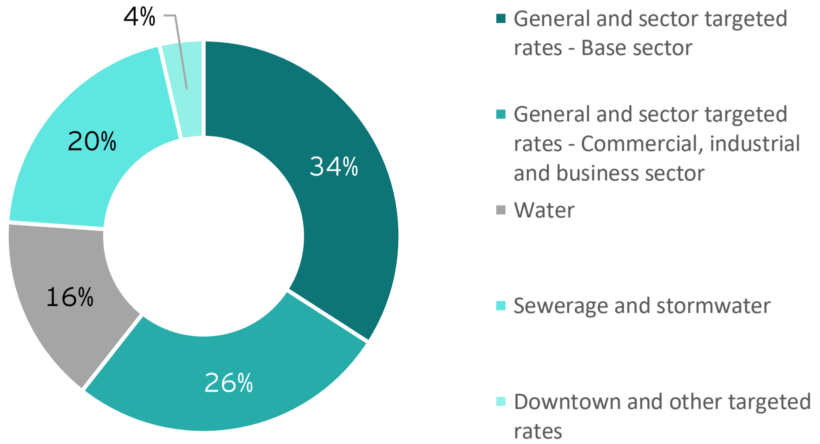
Table 1: Sources of operating funding for 2020/21

Sources of funding	$m	%
Rates	344	64%
Fees and charges	148	28%
Operating grants and subsidies[8]	35	7%
Investments revenue	1	0%
Other revenue	8	2%
Total revenue	536	100%

4.1.1.2 Rates

At 64%, rates income has been WCC's largest operating revenue stream for 2020/21. The composition of this has been illustrated in Figure 3 – WCC's rates revenue is split approximately 60:40 between Base (residential) and Commercial sectors.

Figure 3: Sources of council's rates revenue for the year



[8] Includes subsidies and grants revenue for capital expenditure

On a per resident basis, rates income is approximately 29% higher than similar urban TLAs (refer Appendix B).

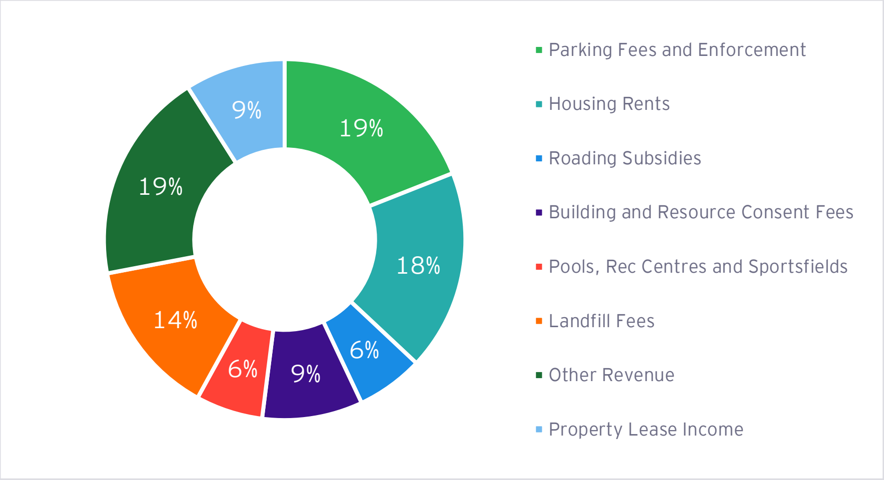
General rates are budgeted to increase 5.1% in 2020/21, a significant reduction from what was originally anticipated. The LTP originally forecast a 7.1% increase, and earlier in 2020 a 9.2% increase was signalled. The reduced extent can be attributed to the expected economic impacts to residents from COVID-19. Some increase needed to accommodate funding requirements for Let's Get Wellington Moving (LGWM), increased investment in Three Waters (potable, waste, and stormwater) networks, Te Ngākau Civic Precinct, the new temporary central city libraries, and the financial impacts of COVID-19.

Continual significant rates increases are unlikely to be a durable solution for offsetting revenue stream losses or cost increases associated with COVID-19. Alternative sources of operating funding may therefore be required to fund ongoing increases in operational expenditure.

4.1.1.3 Non-rates revenue

Forecast non-rates revenue will likely comprise 36% of WCC's total operating funding for 2020/21. The local council average in New Zealand is approximately 50%.[9] One difference primarily reflects WCC's lower income from grants and subsidies (7% relative to the national average of 14%). See Figure 4 for a breakdown of the sources of non-rateable income.

Figure 4: 2020/21 sources of non-rates revenue



For 2020/21, WCC forecast a $38m decline in non-rates revenue. This is attributable to reduced demand for services (e.g., swimming pools and recreation centres), and dividend, interest, and property revenues from COVID-19 impacts. WCC propose to fund this decline in non-rates revenue through borrowing, while forecasting a recovery in revenues as the effects of COVID-19 subside. Should the impact be permanent, opportunities to offset the loss of revenue must be explored and developed.

4.1.1.4 Operating expenditure

The cost of delivering and running council services in 2020/21 is forecast be $594m or $7.52 per day per resident. This is a $54m increase from 2019/2020, or $0.69 per day per resident. This increase reflects increased depreciation charges, inflation impacts on contracts and personnel costs.

When compared to comparable urban TLAs, WCC's operating expenditure per resident is 33% higher.[10] This may suggest Wellington has certain

[9] http://www.localcouncils.govt.nz/lgip.nsf/wpg_popup/Profiles-Local-Government-Statistical-Overview-Forecast-Operating-Revenue-and-Expenditure?OpenDocument&bodyfield=chart_translated_HTML_1

[10] See Appendix B for benchmarking information.

features (e.g., topography) that drive higher costs, WCC provides a greater level of council services, has a higher or more inefficient cost base, or council services are provided to a non-resident population in excess of comparable TLAs.

4.1.1.5 Asset base

The 2020/21 book value of WCC's assets is forecast to be $8.3b of which 93% is property, plant, and equipment (PPE). The 2019 national average (excl. Auckland) was 87%.[11]

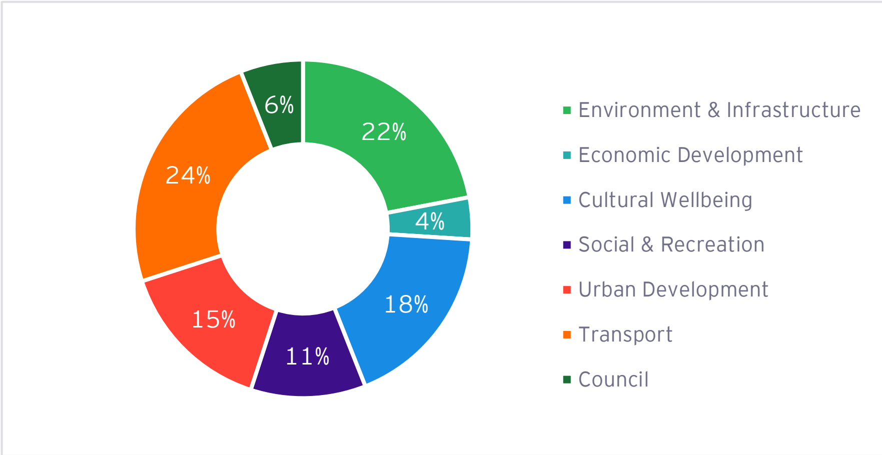
PPE is comprised of infrastructure assets (approx. 76%), operational assets (approx. 17%) and other non-current assets (approx. 7%). A further 3% of WCC's asset base is investment properties.

The limited availability of insurance on some of these assets, combined with the high concentration of PPE assets on Wellington City's balance sheet, means that WCC is exposed to financial risks resulting from the unfavourable seismic profile of the Wellington region.

4.1.1.6 Capital expenditure

Total capital expenditure for 2020/21 is forecast at $299m, or $3.79 per day per resident, which is a small increase from what was included in the LTP. The programme includes significant investment in water, stormwater, wastewater and transport networks, as well as multi-year projects to earthquake strengthen.

Figure 5: Capital expenditure for 2020/21



WCC's capital expenditure per person is 5% lower than comparable urban TLAs, as seen in Table 10 in Appendix B. This suggests WCC's capital expenditure costs are broadly 'typical' when compared to other jurisdictions. However, as is shown in the Future State section, it is likely that forecast capital expenditure will be significant and require careful management without unduly burdening ratepayers or future generations.

[11] Local Councils (N.D) Local Authority Long-Term plans. Accessed from: http://www.localcouncils.govt.nz/lgip.nsf/wpg_URL/Resources-Download-Data-Local-Authority-Long-Term-Plans?OpenDocument

4.1.1.7 Borrowing position

WCC's total borrowings are forecast to increase by $195m in 2020/21 to a total of $860m, equating to $3,970 per resident.

The debt-to-income ratio is a key measure of a New Zealand local government entity's borrowing position and is often used to outline a council's comparable borrowing position. It is a covenant applicable for borrowings with the LGFA and is also subject to internal risk limits set by councils.

Debt-to-income ratios above LGFA thresholds may preclude a council from borrowing from the LGFA, or – in the case of existing council borrowers – trigger a formal review. Non-compliance may also impact WCC's Standard & Poor's (S&P) long-term credit rating of AA, which could have ramifications for both the cost of funds and lender appetite.

WCC's debt-to-operating income (debt-to-income ratio) is forecast at 158% against an internal cap of 175% and is also approximately $10m ahead of the position forecast in WCC's LTP. In November 2019 S&P reaffirmed their AA Outlook Positive rating for WCC.[12]

While WCC's debt-to-income ratio is broadly comparable to similar urban TLAs (as noted in Appendix B), total borrowings have nearly doubled since 2010/11. Current borrowings also do not factor in potential risks that may impact WCCs borrowing position. These risks are assessed further in the Sections 4.1.2.6 and 4.1.2.7.

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[12] S&P Global (2019) Wellington City Council 'AA/A-1+' Ratings Affirmed; Outlook Positive. Accessed through: https://www.standardandpoors.com/en_US/web/guest/article/-/view/type/HTML/id/2348245

4.1.2 Future state – Long-term plan 2017/18 to 2027/28

WCC's LTP forecasts increased levels of service in priority areas: resilience and environment, housing, transport, sustainable growth, and arts and culture. The sources and uses of funding are summarised below and, unless otherwise stated, represent the period as defined in the LTP.

4.1.2.1 Rates

The LTP forecasts an increase in rates revenue to $492m by 2028, an average growth rate of 4.6%. This does not factor in the longer-term impacts of the lower than forecast 5.1% rates increase for 2020/21 (original LTP forecast was 7.1% and a potential 9.2% was signalled in early 2020).

Due to the impacts of COVID-19, WCC has deviated from their Revenue and Finance Policy, proposing to fund the near-term gaps from reduced non-rates revenue through borrowing. This approach appears prudent as long as future revenue recovers to pre-COVID-19 levels.

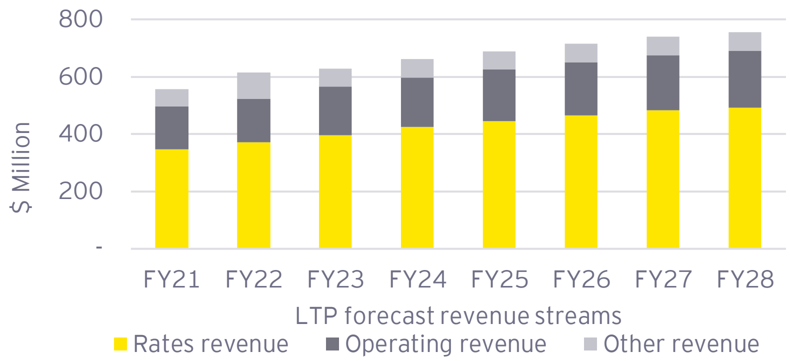
Although the ongoing impacts of COVID-19 cannot be fully understood at this stage, it is not expected that increased rates revenue alone could fully offset any prolonged shortfall in non-rates revenue – particularly given the comparatively high proportion of income that is currently generated through rates.

4.1.2.2 Non-Rates Revenue

Non-rates revenue is forecast to increase to $256m by 2027/28, continuing to make up approximately one-third of total revenue. The increase is mainly from WCC's key operating activities (e.g., parking fees, swimming pools, and recreation) increasing by 4.0% per annum (average) from 2020/21, and increased dividends from WIAL. Meeting these expectations will be challenging in a post-COVID-19 environment.

Grant, subsidy, and reimbursement revenue is expected to decline from $34.4m to $24.8m in 2027/28 – a 28% reduction. Figure 6 provides a breakdown of WCC's forecast revenue streams to 2027/28.

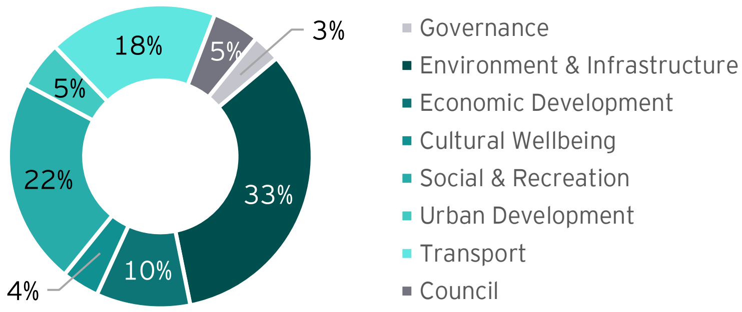
Figure 6: LTP forecast revenue streams



4.1.2.3 Operating expenditure

Operational expenditure was estimated at $6.3b over the LTP period, increasing from $594m in 2020/21 to $745m in 2027/28. The proportion of planned operating expenditure in WCC's eight activity areas has been outlined in Figure 7. The greatest operational expenditure is expected across Environment (33%), Social and Recreation (22%), and Transport (18%). Spending by activity remains relatively stable throughout the LTP period, only materially increasing for Economic Development (from 7% to 10% of total spend) as WCC has allocated more to city promotions, events and attractions, and business support.

Figure 7: WCC – operating expenditure by activity area



4.1.2.4 Capital expenditure

WCC has planned $2.3b of capital investment over the LTP period. Approximately $1.2b is for the renewal of existing assets, $931m is for improving service levels, and $187m to respond to the city's growth needs. Major activities have been outlined below:

- Strengthening civic and city venues such as the Town Hall ($91.2m) and St James Theatre ($11.8m)
- Improving the resilience of the three waters network ($201.5m)
- Investment in cycling and transport infrastructure under LGWM ($720m)
- Economic development and visitor attraction projects e.g. the Movie Museum and Convention Centre ($165m), and indoor arena ($85m)

The costs of major investment projects present a risk to WCC, and this has been noted in the LTP. Additionally, the tight construction market and project phasing, and the risk of partnership funding not eventuating (or being less than assumed) have the potential to negatively impact WCC's investment profile.

4.1.2.5 Borrowing position

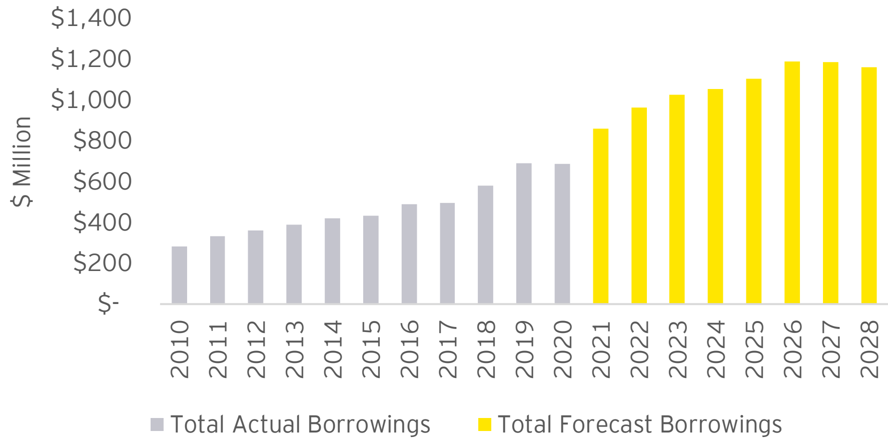
The LTP anticipates the borrowing position will move from $860m in 2020/21 to $1.16b by 2027/28. Borrowing is expected to range between 120% to 167% of annual income, which remains within the 175% debt-to-income limit set out in WCC's Financial and Infrastructure Strategy.

This level of borrowing compares favourably with other urban TLAs, where equivalent ratios range from 175% to 200%. However, WCC's aggregate borrowings have steadily increased from 2010, as shown in Figure 8. On a per resident basis, this is projected to increase from $3,970 in 2020/21 to $5,100 by 2027/28. Additionally, these forecasts do not account for potential risks to WCC's borrowing position and debt-to-income ratio. For example:

- Additional impacts from COVID-19 on sources of revenue and expenditure
- Contingent liabilities from the Council's self-insurance of certain assets, estimated at $336m
- Other challenges to the WCC's borrowing position, including natural disasters, climate change, housing and waste sustainability, Three Waters resilience, and changes to the funding of significant infrastructure

The impact of these risks to WCC have been discussed in Sections 4.1.2.6 and 4.1.2.7.

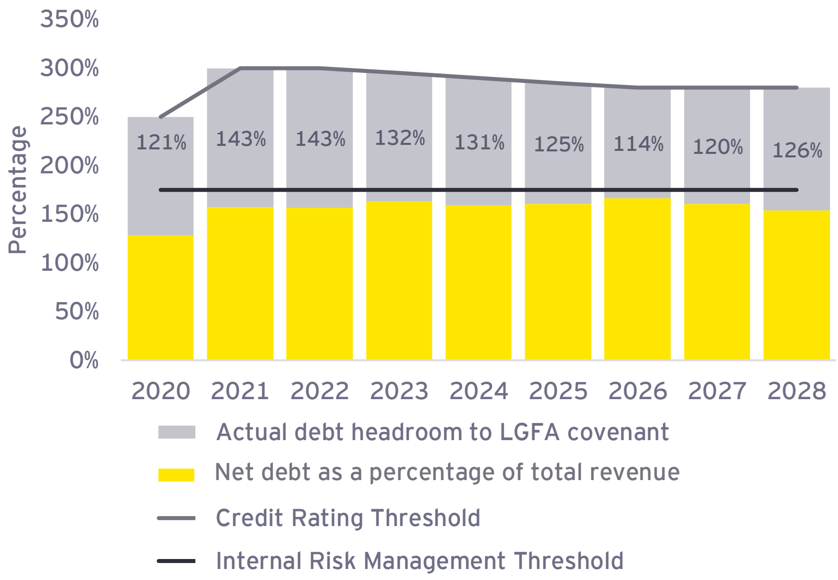
Figure 8: Wellington City Council borrowings FY10 to FY28



4.1.2.6 Debt headroom

Figure 9 shows WCC's forecast debt-to-income ratio and headroom against both the Local Government Funding Agency's (LGFA's) covenant level and WCC's internal risk management limit.

Figure 9: Wellington City Council - net debt as a percentage of total revenue (%; 2021 – 2028)



S&P noted a downside scenario for WCC "*could occur if the council's financial management weakens as demonstrated by significantly increasing capital expenditure without raising additional revenues to help fund it. This would lead to larger deficits, or potentially weaken its liquidity*". This would result in a downgrade from 'positive' to 'stable'.[13]

Accordingly, it is important WCC maintains a prudent level of debt headroom. This will enable them to mitigate the impact of any significant event that may lead to increased levels of capital expenditure and decreased revenues. The debt – this combination would have a material impact on the debt-to-income ratio in particular.

4.1.2.7 Debt headroom sensitivities

Noting comments from S&P on potential impacts to WCC's rating, a simple and modest downside scenario (from 2022 onwards) has been provided to test WCC's resiliency to:

- **Capital expenditure from an unplanned and external event:** For example, an earthquake triggering a $336m increase in borrowing to fund contingent liabilities from WCC's self-insurance of certain assets.[14] It was assumed this additional borrowing would not be repaid over the sensitivity period.
- **Ongoing impacts to revenue from this unplanned and external event:** Using the impact on revenue from COVID-19 as a base, this assumed a decline in revenue of $38m in the first year. Growth rates on the lower revenue base then remained in line with the original LTP for the remainder of the period. Deficits are funded by increased borrowing.

This scenario has been run for indicative purposes. Sensitivities were only applied to the borrowings and income line items in the LTP. Key impacts of the sensitivity scenario compared against the LTP have been shown in Table 2. The impact against the internal and LGFA debt-to-income thresholds has been illustrated in

Figure 10.

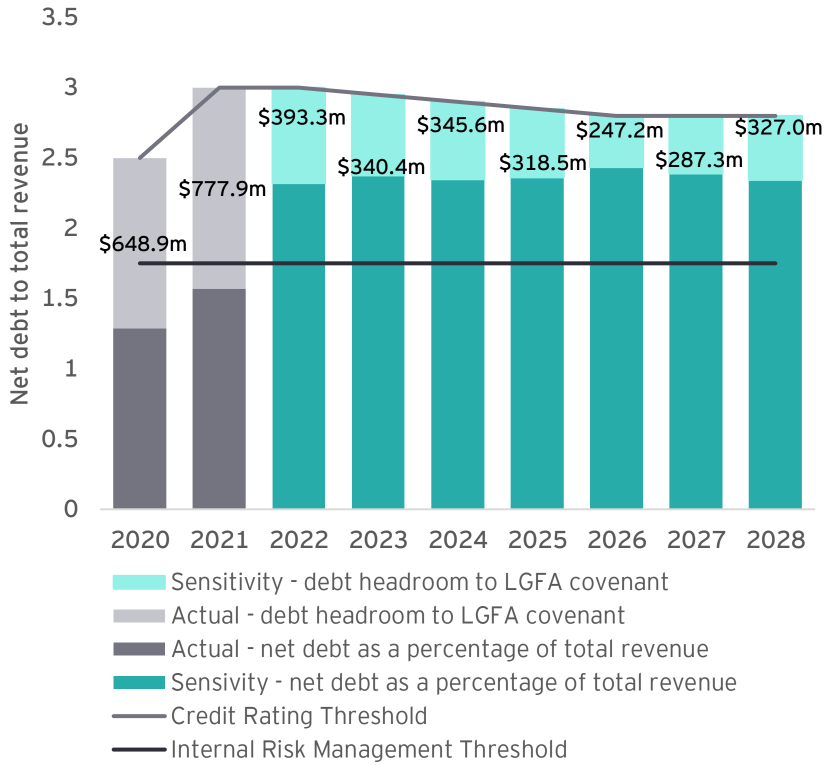
[13] S&P Global (2019) Wellington City Council 'AA/A-1+' Ratings Affirmed; Outlook Positive. Accessed through: https://www.standardandpoors.com/en_US/web/guest/article/-/view/type/HTML/id/2348245

[14] WCC presentation: 2021/31 Long-term Plan – Financial Context, 11 August 2020

Table 2: Key sensitivity scenario impacts against the LTP

2027/28	LTP	Sensitivity
Borrowings	$1,162m	$1,674m
Revenue	$756m	$715m
Debt-to-income	153%	234%
Cumulative operating deficit funded by borrowings	$-	$176m

Figure 10: Net debt as a percentage of total revenue, under a modest downside sensitivity



Where debt headroom remains, WCC's ability to reduce borrowings will be hampered and likely only achieved through either:

- The divestment of assets, the values of which may also be impacted by the major event
- Reducing expenditure
- Seeking additional revenue streams.

4.2 Pressures and uncertainties

This Review highlights five current or future influences expected to place pressure on WCC's ability to maintain a strong financial position.

4.2.1.1 Natural hazards, earthquake strengthening and insurance risk

Like many parts of New Zealand, Wellington City is subject to natural hazard risks, particularly earthquakes, storm surges, and climate change. The Wellington Lifelines Regional Resilience Project specifically noted:

"Wellington's vulnerability to a major earthquake is well-known and it is not a question of if, but when "the big one" will occur."[15]

The recent Kaikoura and Canterbury earthquakes precipitated a change in approach from both regulators and markets towards natural hazard risk management.

From a regulatory standpoint, the National Building Standards (NBS) set explicit (or de facto) guidelines outlining the extent of remediation and seismic strengthening required for buildings to be deemed fit for occupancy. Meeting these new standards represents a cost for all commercial and retail building owners in Wellington.

Given WCC holds property interests with a book value of $1.38b,[16] this is a significant cost burden. Moreover, private property owners (particularly in the CBD) will also feel this cost burden, which may serve as a disincentive for further development in Wellington.

In addition to the new requirements for seismic strengthening, the insurance industry continues to transition towards property-based risk pricing. While some properties have benefitted from this transition, it is noticeable that both the affordability and accessibility of insurance in Wellington appears to have decreased – a trend likely to continue in the future. This issue appears particularly acute for multi-unit buildings, which are a common feature of the Wellington CBD.[17]

Market participants are struggling to secure insurance for certain asset classes. For example, WCC notes only 67% of its target insurance cover could be achieved in 2019.[18]

This is primarily a function of supply, where some major insurance providers have withdrawn coverage from the Wellington market. However, strong tenant interest for prime buildings has also had an impact on the demand side – vacancy for prime office space is less than 1,900 sqm.[19]

Furthermore, from an affordability standpoint, it is noted that insurance premium prices are cyclical (Figure 11), however IAG's decision to apply a conservative approach to insurance in Wellington is a further contributor to a general trend of rising prices.[20]

[15] Wellington Lifelines Group (2019) Protecting Wellington's Economy Through Accelerated Infrastructure Investment Programme Business Case. Accessed through: https://wremo.nz/assets/Uploads/191111-Wellington-Lifelines-PBC-MAIN-20191009.pdf

[16] Figure includes investment property and operational property. Operational property includes buildings, land, Civic Precinct and restricted buildings. Excluded: infrastructure property interests, Town Belts, parks and reserves. Source: Wellington City Council Annual Report 2018/19.

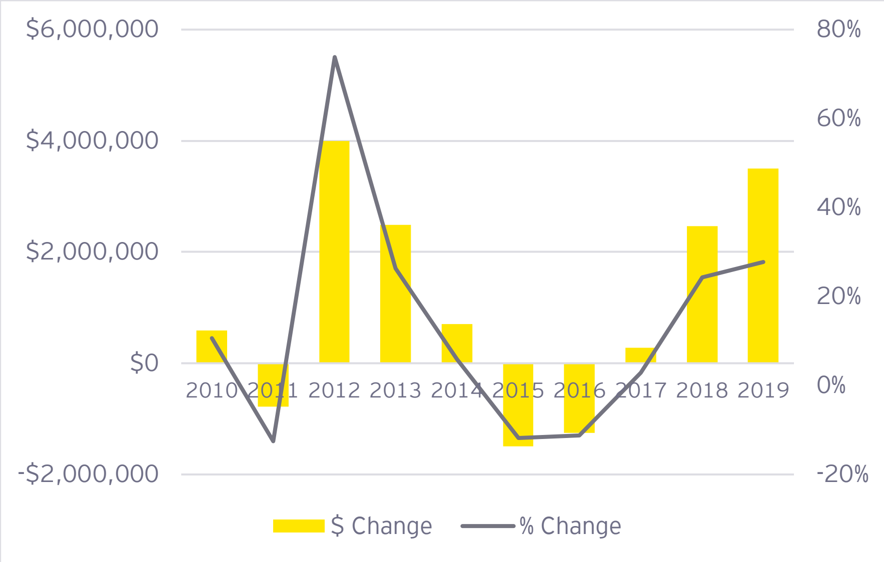
[17] StatsNZ (2013) 2013 Census Quickstats about housing, by types of occupied dwellings. Accessed through: https://www.stats.govt.nz/reports/2013-census-quickstats-about-housing

[18] Wellington City Council Annual Plan 2020/21

[19] Colliers International (2020). Wellington CBD Office Report; Second Half 2020. Accessed through: https://www.colliers.co.nz/en-NZ/Research/Colliers-Essentials-Wellington-CBD-Office-2H-2020

[20] IAG (2019) IAG NZ remains committed to Wellington. Accessed through: https://www.iag.co.nz/latest-news/articles/IAG-remains-committed-to-Wellington.html

Figure 11: Insurance premiums (2010-2019)[21]



As a result of these increasing premiums and a lack of access to affordable insurance, an increasing proportion of WCC's balance sheet is uncovered. Where they cannot receive market insurance, WCC has opted to self-insure. This includes an insurance reserve of $11.4m (with annual, rates funded contributions of $1.5m)[22] and an expectation of using debt headroom.

Stats NZ also shows the cost for households to access building related insurance has increased from $16.30 per week in 2010 to $36.60 per week in 2020 – an almost 125% price increase in ten years.[23]

Opportunities to avoid natural hazard risk – or to better allocate risk to the party/parties best able to manage it – by divesting high-risk properties should be pursued.

Similar to seismic strengthening costs, this results in a real cost to WCC's balance sheet and serves as a potential disincentive to development in the CBD. This could negatively impact on CBD occupancy rates.

4.2.1.2 Three Waters regulatory reforms

Over the past three years, Central and Local Government have been considering solutions to challenges facing three waters service delivery in communities. This has seen the development of new legislation and the creation of Taumata Arowai – the new Water Services Regulator. Taumata Arowai has been tasked with overseeing and enforcing a new drinking water regulatory framework across the country and has an additional oversight role for wastewater and stormwater networks.

Both Local and Central Government have acknowledged the broader challenges faced in providing water services and infrastructure, and the communities that fund and rely on these services. Of particular concern is the ability of local authorities to fund necessary infrastructure investment.

In July 2020, the Government announced a funding package of $761m to provide immediate post COVID-19 stimulus to local authorities. This funding package is targeted to the maintenance and improvement of three waters infrastructure, and to support reform of local government water services delivery arrangements.

The Government has also indicated that it is exploring the viability of multi-regional models for water service delivery. This will enable realisation

[21] Wellington City Council (2011-2020) Annual Reports. All accessed through: https://wellington.govt.nz
[22] Wellington City Council (2019) Annual Report 2018/19. Accessed through: https://wellington.govt.nz/your-council/plans-policies-and-bylaws/plans-and-reports/annual-report/annual-report-2018-19

[23] Note that this data is in relation to average national household expenditure on insurance. StatsNZ (2020) Household expenditure on housing costs, by housing-cost type, for households with that type of expenditure. Accessed through: https://www.stats.govt.nz/information-releases/household-income-and-housing-cost-statistics-year-ended-june-2019

of the benefits of scale for communities and will also reflect neighbouring catchments and communities of interest. [24]

Given WCC owns $1.46b of core potable water, wastewater, and stormwater assets,[25] this reform programme will likely have a significant impact on WCC, the direction of which is yet to be determined.

4.2.1.3 Significant investment programmes

Seismic Strengthening

Significant capital expenditure is required, and $259m has already been planned for 2019/20. However, $42m of this has been deferred to future years, raising concerns that the accumulation of these deferrals could lead to greater investment in the future.

Moreover, future investments will be required across some social and civic assets. These investments predominantly relate to seismic strengthening, replacement of written off assets (due to seismic events), and historic under funding.

WCC has budgeted $87.2m for seismic strengthening across the portfolio over the next 10 years. However, multiple assets, including the Central Library, appear to have been excluded from consideration. Estimates for the Central Library repair costs are between $90m to $200m[26] alone. As such, the budget may not accurately reflect the full extent of repairs required for Civic assets e.g., the Municipal Office Building (MOB) and the Civic Administrative Building (CAB).

[24] Department of Internal Affairs (2020) Central/Local Government Three Waters Reform Programme. Accessed through: https://www.dia.govt.nz/Three-Waters-Reform-Programme
[25] This amount includes $3.16m from the Crown in relation to emergency water stations to add to the resilience of the city

Let's Get Wellington Moving

Additionally, while the LGWM Programme has the potential to transform Wellington City (and the wider Wellington Region), it comes with a significant price tag. WCC's Annual Plan projects the total expenditure towards the programme for 2020/21 at $14.1m. Over the lifetime of the Programme, WCC's total contribution is currently forecast at $1.6b.[27]

Resulting impact and considerations

These 'city shaping' investments are likely to be predominantly (if not fully) funded through a combination of debt and rates increases. Given WCC's increasing debt level and the limited capacity of residents to afford higher rates, serious consideration must be given to both levels of service requirements and alternative sources of funding and financing.

4.2.1.4 COVID-19 implications

In addition to the obvious health, social and economic implications of COVID-19, the short-term financial implications for WCC have been considerable and may have longer lasting implications.

In the short-term it is noted that a number of revenue streams have suffered, with shortfalls covered through increases in debt. For example:

- Throughputs at WIAL decreased by over 90% in May 2020 compared with May 2019. Furthermore, WCC is not expecting to receive a dividend from WIAL in 2020/21
- WCC also estimates revenue from fees and charges to be $38m below policy expectations

[26] Council Report 27 May 2020: Wellington Central Library building and service update and building remediation options. Accessed through: https://wellington.govt.nz/-/media/your-council/meetings/Council/2020/May/2020-05-27-agenda-council.pdf?la=en&hash=520B18F48A87EACF1C55EA143E3AFCFB37CA7342
[27] WCC's forecasted total contribution to LGWM was calculated by taking 25% of the total estimated costs of $6.4 billion. The total estimated cost is sourced from Let's Get Wellington Moving (N.D) Our Plan. Accessed from: https://lgwm.nz/our-plan/overview/

- Major sponsorship revenues could be jeopardised when renewal periods come up.

In the medium- to long-term, it is possible structural change to the economy may be required and will require careful management. A prominent example is the growth in popularity (albeit through necessity) of 'working from home'. This poses risks to the commerciality and attractiveness of the CBD, and it could drive suburban development initiatives and have implications for rateable assessments, user fees / charges policy settings.

4.2.1.5 Climate change and zero carbon emissions

Significant opportunities and challenges are forecast in how society responds and adapts to the threat of climate change. This will have profound implications for public institutions including WCC. For example:

- Approximately $7 billion in Wellington property would be affected by sea level rise at 1.4m of rise – about 10% of the city's property value.
- Approximately $1 billion of WCC property would be affected.
- Wellington properties that pay around 25% of the Council's yearly rates would be impacted.

This can be demonstrated in the images (Figure 12) from Te Atakura.[28]

Not only will funding streams be needed to face the challenges posed by climate change, but the funding available to Council to do so will be compromised.[28]

Figure 12 Sea level rise inundation potential for Wellington City

[28] Wellington City Council (2019). Te Atakura – First to Zero. Accessed through: https://www.zerocarboncapital.nz/assets/Modules/DocumentGrid/J008785-Zero-Carbon-Plan-final-WEB.PDF

Zero Carbon Act and Te Atakura

The Climate Change Response (Zero Carbon) Amendment Act 2019 provides a framework by which New Zealand can develop and implement clear and stable climate change policies. Amongst a raft of activities, the core aim is to reduce net emissions of all greenhouse gases (except biogenic methane) to zero by 2050.

In alignment with the Zero Carbon Act, and the responsibility to reduce greenhouse gas emissions, WCC has set a zero-carbon target for the whole city. The Te Atakura blueprint is a longlist of possible initiatives/actions we could take to cut carbon and help WCC reach the goal.

This will have direct implications about the types of capital investment required (to reduce private vehicle usage) as well as potentially impacting on revenue sources (for example parking fees).

Waste Minimisation Act

The Government has confirmed its plans to increase and expand the national waste disposal levy to divert more material from landfill. It will use the revenue gathered from the waste disposal levy for resource recovery and waste minimisation.

Similar to the Zero Carbon Act, the plan includes a raft of activities. Most notably it proposes to progressively increase the levy rate for landfills that take household waste from the current $10 per tonne – set in 2009 – to $60 per tonne by 2024.

This will have direct implications on the financial position, and operational practices, of landfills under WCC control – and supporting activities (including wastewater treatment and management of sludge).

4.3 Portfolio-level observations

Five portfolio-level observations have been drawn following a consideration of WCC's current and future financial performance.

WCC's current financial position is strong

In a late 2019 research note, S&P Global Ratings (S&P) "*consider WCC's management to be very strong compared with its global peers*." Moreover, they commented that the city has a wealthier and higher percentage of working-age population compared to the national average.[29]

Despite COVID 19, non-rateable incomes remain reasonably stable (with the main exceptions of WIAL dividend suspension) with non-rateable revenue only decreasing 4.55% compared to decreases for both Christchurch City Council and Auckland Council of 21.33% and 10.57% respectively.

Finally, debt levels are within covenants and WCC's debt profile is within reasonable limits – particularly when compared to comparable urban TLAs.

This suggests that significant reform of WCC financial management is not warranted – particularly not in the short term. Although a renewed focus on the ability to meet future funding pressures will be warranted.

WCC residents pay a high price for council services

Almost 60% of WCC's income is from rates, significantly more than similar urban TLAs (53%).

These higher costs are in part due to Wellington City's role as 'the seat' of a wider urban region. [30] Despite this, WCC receives little or no funding for regional assets located in the urban core.

Alternative funding or rating structures are encouraged to better distribute the liability of these assets across a wider population base. Equally as important is the need to examine structures that capture some differential from tourists and out-of-region users.

WCC's income generating asset base is concentrated and heavily reliant on CBD performance

A significant chunk of WCCs non-rateable income asset holdings are either directly (e.g., CBD Ground Lease) or indirectly (e.g., WIAL shares) related to the performance of the CBD.

Given the susceptibility of the CBD to climate change, natural hazard risk, and potentially the longer lasting implications of Covid-19 (including working from home trends) it is prudent to explore whether this level of financial exposure is appropriate.

Natural hazard and climate change risks present a significant financial challenges and potential opportunities

Extensive investment (current and planned) is required across social and civic assets over the next 10 years to respond to earthquake risk including: reactive work in Te Ngākau Civic Precinct and the St James theatre upgrade as well as proactive seismic strengthening work elsewhere.

Moreover, significant opportunities and challenges are forecast in how society responds and adapts to the threat of climate change. Profound implications for WCC are forecast given that approximately $1 billion of WCC property, and Wellington properties that pay 25% of base rates, would be affected by sea level rise of 1.4m.

New funding streams are needed to face the challenges posed by climate change and natural hazard risk and to mitigate the potential loss of revenue from existing sources.

[29] Standard and Poors (2019) Wellington City Council 'AA/A-1+' Ratings Affirmed; Outlook Positive | Research Update.

[30] Other potential explanations include geography (with higher transport costs relating to slope stabilisation efforts for instance), inefficient expenditure relating to community assets, and/or higher services level expectations.

The lack of strategic asset management plans perpetuates non-income generating asset accumulation

WCC does not currently have transparent plans, strategies, or policies that provide decision-making guidelines on holding or divesting assets.

While this may be a trivial or administrative observation in theory, the practical implications are not insignificant. In practice, decision-making becomes ad-hoc or in conflict with sound commercial principles, and councils may carry a range of 'hidden costs' over a long timeframe.

Beyond major investments like the Convention Centre (i.e. those subject to the rigor of the Better Business Case process), the focus of many smaller investments appears to be on 'headline' capital costs. Ongoing whole-of-life costs and opportunities to explore network integration are either not considered or relegated to an afterthought.

Given the ongoing nature of these costs and the increased risk exposure from buildings, more rigorous asset acquisition and disposal policies would likely net meaningful long-term savings.

This review provides no "silver bullet", but shows steady commercial improvements make a real difference

Due to the dominance of rateable income and the relatively small size of income generating assets/investments, it should be noted there are not just one or two headline opportunities that would significantly assist WCC in addressing future financial challenges.

Proactive balance sheet management is critical and will require WCC to re-evaluate current asset holdings current decision-making processes. Doing so could minimize risks, retain agency of decision making, and protect the financial position of WCC in the long-term.

Balance Sheet Review

5.1 Overview

5.1.1 In scope

5.1.1.1 Wellington International Airport (WIAL)

First opened in the 1950s, WIAL catered to 6.4m passengers travelling on nine airlines, to and from 26 destinations in 2019.[31] The airport's long-term plan includes improvements to the terminals and a possible runway extension, allowing for increased passenger volumes and routes.[32]

Ownership of the airport hotel, carparks, and an investment portfolio provides WIAL with additional revenue streams. For the 2020 financial year, WIAL's revenue consisted of $80m from airport activities, $52m from the hotel and carpark, and $13m from rent and lease.[33] WCC owns 34% of the airport and Infratil holds the remaining share.

5.1.1.2 Southern Landfill and Spicers Valley

Wellington City Council owns Southern Landfill, which is the main landfill for the Wellington region. Wellington also has a JV interest in Spicers Valley Landfall, which handles Wellington City and Porirua waste. It also manages sewer sludge.

Both landfills have significant remaining physical capacity, but Southern Landfill will reach its consented capacity in 5.5 years. They make a modest return, but the funds are mostly reinvested in the landfill sites.

5.1.1.3 Chaffers Marina

Chaffers Marina is a deep water floating, marina comprising 185 berths.[34] Chaffers Marina was developed by Lambton Harbour Management Ltd (now Wellington Waterfront Limited) after the waterfront land was bought by WCC.[35] The Marina was developed between 1991 and 1993 as part of a wider ambition to rejuvenate the waterfront.

Chaffers Marina received the land and assets under a deed of license, giving it the ownership and responsibility for these assets while the deed is in effect. WCC will receive this land back at the end of the deed of license, and in the interim, they currently hold 8,420 shares, the equivalent of 16 berths in the marina. These berths were not sold during the initial offering, and have not been able to sell since, as they are considered less desirable than the other berths.

As a shareholder in Chaffers Marina, WCC is required to pay a monthly management for the berths they hold. There are also upcoming asset maintenance fees that WCC will be required to contribute to.

5.1.1.4 Wellington Regional Stadium Trust

The Wellington Regional Stadium Trust owns and manages the Sky Stadium in Wellington (The Stadium). The Stadium was built in 2000 and has had multiple title sponsors, the most recent of which is Sky.

WCC originally provided a $15m contribution to help fund the construction. This was supported by $25m from the Wellington Regional Council and $90m from donations, fundraising and bank loans.[36]

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[31] Wellington Airport (2020). Airport Facts, Accessed through: https://www.wellingtonairport.co.nz/about/airport-facts/
[32] Wellington Airport (2020). Master Plan, Accessed through: https://www.wellingtonairport.co.nz/vision/find-out-more/
[33] Wellington Airport (2020). Annual Report FY20, Accessed through: https://www.wellingtonairport.co.nz/documents/3148/WIAL_Annual_Report_FY20.pdf

[34] Chaffers Marina (2020). Accessed through: https://chaffersmarina.co.nz/
[35] Chaffers Marina (2020). About Chaffers Marina, Accessed through: https://chaffersmarina.co.nz/about-chaffers-marina/
[36] Sky Stadium (2020). History, Accessed through: https://skystadium.co.nz/contact-us/about-us/history/

5.1.2 Out of Scope

5.1.2.1 Convention centre

Tākina, The Wellington Convention and Exhibition Centre, is a new build, due to open mid-2023. The initial cost of $180m included the cost of land and was fully funded by WCC and new debt. The ongoing costs will be funded by both commercial (67%) and residential (33%) ratepayers.[37]

As Tākina is not yet operational, it is difficult to comment on how well it is run, or to provide commentary on options for improvement. Tākina has therefore been considered out of scope for this Review. That said, the following points about progress and benefits should be noted:

- Given the large public benefit convention centres provide, it is not uncommon for them to be held by local authorities. The Business Case for Tākina suggests the operation of the convention centre could contribute $44.8m GDP per annum, and provide 554 jobs, to the regional economy.[37]
- Attempts to create an operational partnership for Tākina are currently underway.

[37] Wellington City Council (2018). Wellington Convention and Exhibition Centre, Business Case, Accessed through: https://wellington.govt.nz/-/media/your-council/projects/files/wellington-convention-and-exhibition-centre/wellington-convention-exhibition-centre-business-case.pdf?la=en&hash=63FDDA12588EBC6D025259E16B44FAFCE24DAEE0

5.2 Wellington International Airport

5.2.1 Summary

Assessment Criteria	Rating
Strategic alignment	Low
Risk exposure	Moderate
Size of asset / income / interest	Very Large
Barriers to change	Moderate

5.2.2 Assessment

5.2.2.1 Strategic Alignment

There appear to be two possible strategic rationales for airport ownership: portfolio diversification and coordination of regional tourism attraction. Ownership of this asset does not appear to materially achieve either of these outcomes for WCC.

The strategic role of the airport ownership is relatively limited. As WCC does not own a controlling stake in the airport, their ability to influence the strategic direction of the airport is limited. This was confirmed during interviews with WCC officials, who stated WCC does not exert significant influence over airport operations.

Strategic alignment exists between WCC and Infratil (the majority shareholder) with respect to tourism outcomes (e.g., economic development). However, the impacts from increased tourism are arguably as much regional or national in nature as they are local; a question remains as to whether the incentives of a local council are best aligned to achieving such objectives. It could be argued that if these incentives were the reason for the airport shareholding, this function would be better served by GWRC or Central Government holding the shares.

The diversification benefits are also relatively modest. The airport generated a dividend of $13.9m in FY 2019,[33] but this return was below that of other highly regulated assets. Table 3 illustrates this and presents the Return on Equity for FY18 and FY19.[38]

Table 3: Monopoly asset returns (2018, 2019)

Company	FY18 ROE	FY19 ROE
Wellington International Airport	4.5%	4.0%
Auckland International Airport	13.4%	8.9%
Christchurch Airport	9.6%	5.5%

This dividend also makes up a relatively small proportion of overall revenue at 2.48%, equivalent to 4.48% of annual rates revenue.

Ultimately, WCC's influence over the WIAL is small, and strategic benefits could still be achieved without having an ownership stake.

5.2.2.2 Risk Exposure

Legislative & regulatory

There are ongoing regulatory risks to the airport's operation and expansion resulting from the limited apron and width of the runway. The current findings have been in favour of WIAL, but future adverse rulings could see a requirement for significant, unplanned investment to maintain or expand operations.

Implementation of the Runway End Safety Areas (RESAs) extension or Engineered Material Arresting System (EMAS) remains a potential risk to the Airport's financial position and expansion prospects. The current RESAs total 90 metres, the minimum required by New Zealand and international standards. The recommended RESA is 240 metres (potentially less with

[38] S&P Capital IQ database (2020).

appropriate EMAS). Both options require significant additional investment to what is required for the runway extension itself.[39]

Financial

The airport's revenue is largely driven by aircraft throughput. The decrease in demand and significant uncertainty resulting from COVID-19 means that short- to medium-term revenues are uncertain. This affects the risk-adjusted value of WCC's airport shareholding and the revenue it can anticipate from its dividend.

WCC has agreed to provide an equity underwrite of up to $25.8m. This is WCC's proportion of the total $75.8m underwrite provided to WIAL, with the remainder provided by Infratil. While WCC does not anticipate needing to draw this down, it is there to provide comfort for the airport's debtors.[40]

Natural hazard

There are no known direct natural hazard risks to the airport beyond those to which the rest of Wellington is exposed.

Climate change has the potential to increase turbulence and poor weather, which could marginally reduce the viability of air travel. This would affect all airports, including Wellington.

5.2.2.3 Size of the asset

The airport generated a dividend of $13.9m in the 2019 financial year and has historically generated a moderate and stable return.

5.2.2.4 Barriers to change

Divestment of WCC's airport shareholding in the short- to medium-term would be subject to significant and adverse risk pricing due to the uncertain travel environment created by COVID-19.

In the medium-term, the public and political perception of divesting control over a key tourism hub and/or the perception of losing control over the timing and manner of any expansion could induce significant community opposition.

5.2.3 Potential Opportunities

Cumulative opportunity rating	Very Large

1. **Full asset divestment:** Potentially to Infratil or another infrastructure fund. This would release some capital from the balance sheet.

2. **Reduction of existing shareholding:** WCC could maintain a level of involvement – and potentially Board representation – but further reduce its shareholding. This would release less capital than the above option and would still provide WCC with a (reduced) ongoing dividend but would continue to support assumed strategic objectives.

3. **Advocate for increased dividends:** WCC's board members could advocate for increased dividends. However, the likelihood of realising this is low as WCC does not own a controlling stake. Moreover, in the short-term, dividends will come under significant pressure due to reduced throughputs.

[39] Supreme Court of New Zealand (2017). Accessed through: https://www.courtsofnz.govt.nz/assets/cases/2017/wiaj.pdf

[40] Wellington City Council (2020). Airport shareholder support confirmed, Accessed through: https://wellington.govt.nz/your-council/news/2020/06/airport-shareholder-support-confirmed

Chaffers Marina

5.2.4 Summary

Assessment Criteria	Rating
Strategic alignment	Very Low
Risk exposure	Low
Size of asset / income / interest	Small
Barriers to change	Moderate

5.2.5 Assessment

5.2.5.1 Strategic Alignment

There is little strategic rationale for ownership of Chaffers Marina; asset ownership is merely a residual component of the previous development.

Ownership of the asset provides no material benefit to WCC. However, as no other obvious owner has been identified, WCC ownership prevents future decommissioning or asset degradation.

5.2.5.2 Risk Exposure

Financial

All parties are currently required to contribute to a one-off asset renewal, which has arisen due to previously deferred investment decisions. For WCC, this payment amounts to approx. $170k and must come from shareholders – the Deed of License blocks Chaffers Marina Limited from borrowing against its assets.

Under the current Deed of Licence, Chaffers Marina Limited is compelled to insure the Marinas assets for the full replacement value. Insurance for these types of assets is becoming increasingly expensive to obtain and may become unavailable in the medium-term.

Natural hazard

There are no particular natural hazard risks to Chaffers Marina that do not apply to other Wellington assets located on or proximal to the shore (e.g., sea-level rise, inundation, flooding, storm surge, tsunami, and earthquake risk).

5.2.5.3 Size of the asset

The current Book Value of the asset is $1m, which represents less than 1% of WCC's balance sheet. However, this may not represent the market value of the Marina as previous attempts to divest the berths have not been successful.

5.2.5.4 Barriers to change

The berths appear undesirable and will likely be challenging to divest.

The Deed of Licence provides Chaffers Marina the rights to the land and assets until 2058. As such, WCC's ability to use the marina and reconfigure the carparks into a more efficient layout is limited.

5.2.6 Potential Opportunities

Cumulative opportunity rating	Small

1. **Re-explore divestment of the asset:** however, previous attempts have not met with success.
2. **Abandon the asset:** this would at least have the medium-term effect of limiting WCC's ongoing risk and maintenance obligations.

5.3 Landfill assets

5.3.1 Summary

Assessment Criteria	Rating
Strategic alignment	High
Risk exposure	Low
Size of asset / income / interest	Medium
Barriers to change	Moderate

5.3.2 Assessment

5.3.2.1 Strategic Alignment

Waste collection is a core function of all Councils, and waste management is key to maintaining good public health.

Increasingly, Councils also look to achieve sustainability objectives through their waste management policies. This includes changing the way waste is managed, collected, and disposed of. Councils are also increasingly adopting waste minimisation strategies that seek to impose costs or limits on waste disposal by individuals. This can be at odds with a profit maximisation strategy for landfill owners.

Of the major Councils only Auckland Council has limited interest in or control over its landfill assets. Dunedin owns and controls outright its landfill assets, Christchurch has a PPP arrangement with Transwaste in partnership with other regional Councils.

5.3.2.2 Risk Exposure

The risks of owning the landfill assets at Spicer Valley and Southern Landfill are limited. The city will continue to need sites to dispose of waste. These sites may be subject to greater regulatory costs as a result of greenhouse gas and waste management, but these costs are likely to be borne by the Council irrespective of ownership.

5.3.2.3 Size of the asset / income / interest

Southern Landfill returns approximately $15m per annum to the Council and has another 150 years of useful life left if consents are granted, although only 5.5 years existing under the remaining consent. There is no direct financial returned to WCC as dividends are recycled into the holding company to cover maintenance and operations. Wellington City has a 26% stake in Spicers landfill with the remaining interest held by Porirua City Council.

The gate rate for waste is low relative to other landfills at $132.30/tonne (clean fill)[41] at Spicers landfill and $170/tonne at Southern landfill.[42] To achieve the goals of the Council's waste minimisation plan gate fees need to be higher – some $300/tonne.

[41] Porirua City Council (2020). Spicer Landfill. Accessed through: https://poriruacity.govt.nz/services/rubbish-and-recycling/spicer-landfill/

[42] Wellington City Council (2020). Landfill charges. Accessed through: https://wellington.govt.nz/rubbish-recycling-and-waste/southern-landfill-tip-shop-and-recycle-centre/landfill charges#:~:text=Domestic%20general%20waste%20drop%2Doff,%242.50%20to%20%242.75%20per%20bag

Table 4: Publicly available Gate Fees of NZ Landfills

Landfill	Gate Fee	Council Usage	Note:
Kate Valley	$287.50[43]	Christchurch City Council	Waste sorted at EcoDrop facility then transported to landfill.[44]
Whitford	$195.73	Auckland Council	Advertised rate for other/commercial per tonne.[45]
Redvale	$230	Auckland Council	Advertised rate for refuse per tonne.[46]
Bonny Glen	$170	Palmerston North City Council	Waste processed at EnviroNZ MRF facility then transported to landfill.[47]

5.3.2.4 Barriers to change

There have been two previous attempts to bring the landfills under coordinated management through a CCTO, but the Council has been reluctant to do so, as it fears it could lose control of waste strategy. Anecdotal evidence, however, suggests that integration of Spicers and Southern Landfills could yield some modest efficiency dividends, resulting mostly from better waste and sludge disposal coordination.

There is also reluctance to outsource the responsibility for sludge management from the Council. Failure to manage sewage waste appropriately is costly, with a 10-week failure costing up to $20m in financial terms and unmeasured environmental and reputational impacts.

Regulatory barriers are also possible. Two possible operators / purchasers of the landfills are Envirowaste and Waste Management Limited, which are both New Zealand companies. These companies already have stakes or operational interests in a large number of landfills. Further expansion could attract unwanted attention from the Commerce Commission.

Alternatively, there are some overseas operators and owners that may be interested in Spicers or Southern Landfill, but they would be expected to face Overseas Investment Act restrictions.

5.3.3 Potential Opportunities

Cumulative opportunity rating	Moderate

1. **Complete a targeted review of commercial strategy:** In spite of these barriers, there are opportunities to increase revenue from the two landfills either directly through more aggressive gate pricing, or by selling them for private operation.

   The local authority stronghold over landfills in the region has driven prices down and introducing a more competitive market could return higher dividends to Council that maintain an interest in these landfills. Private operators may also consider taking waste from other regions, further increasing revenue potential.

   The dynamics of this opportunity are extremely complex, and we would recommend retaining a specialist waste consultancy firm to better understand the potential in coordinated operation / divestment of the landfills.

[43] EcoCentral (2020). Fees. Accessed through: https://ecocentral.co.nz/ecodrops/fees
[44] BERL: Business and Economic Research (2019). Waste to energy – the incineration option. Accessed through: https://www.mfe.govt.nz/sites/default/files/media/Waste/20-D-00784a.pdf
[45] Waste Disposal Services (2020). Hours and Prices. Accessed through: https://www.wastedisposalservices.co.nz/landfill/about/
[46] Waste Management (2020). North Shore Transfer Station. Accessed through: https://www.wastemanagement.co.nz/for-home/transfer-stations/north-island/auckland/north-shore-transfer-station
[47] BERL: Business and Economic Research (2019). Waste to energy – the incineration option. Accessed through: https://www.mfe.govt.nz/sites/default/files/media/Waste/20-D-00784a.pdf

5.4 Wellington Regional Stadium

5.4.1 Summary

Assessment Criteria	Rating
Strategic alignment	High
Risk exposure	Moderate
Size of asset / income / interest	Small
Barriers to change	High

5.4.2 Assessment

Strategic Alignment

Public ownership of stadia is common in New Zealand. Almost all major urban TLAs own, plan to own, or have an interest in stadiums and arenas in their urban areas.

In a country with small cities and low population density, the commercial viability of these assets is often minimal. Consequently, there are no large-scale privately owned and operated arenas or stadia in New Zealand. Providing the economic and cultural benefits of these assets therefore falls to the public sector – usually regional and local councils.

Wellington is no different. It has an interest in providing sports, concert, and event content to its residents, and the main way it can facilitate that reality is through ownership and support of the stadium.

5.4.2.1 Risk Exposure

Financial

The stadium is owned by the Wellington Regional Stadium Trust ('the Trust'), which settles to Wellington City Council and the Greater Wellington Regional Council (GWRC). The Trust operates that stadium on behalf of these entities, and the trust has made an operating profit each year it has been open without any contribution from either WCC or GWRC. The stadium has reduced its debt down to $2.5m outstanding from the original $33m loan from ANZ.[36] Neither trustee seeks a commercial return on its capital contribution, and in practice, the trustees act as lenders of last resort.

The Trust occasionally calls on WCC for financial aid. Recently, the Stadium Trust made a $2m call on a $5m loan facility for a concourse upgrade. Should a major facility upgrade or significant maintenance be required, the Trust may need to make additional capital calls on WCC.

Maintaining the stadium asset to a suitable standard will require ongoing investment. The Trust notes this will be funded from either accumulated earnings or commercial borrowings. Until the current commercial loan is extinguished, the Trust is not required to make any repayments of the settlor loans.[48]

There is also the potential for throughput risks depending on the extent to which COVID-19 risk remains in New Zealand.

Natural hazard

The annual report of the Trust does not disclose any specific natural hazard risk. Given its location it is reasonable to assume that the Stadium may be subject to sea-level risk risks.

5.4.2.2 Size of the asset / income / interest

WCC provided a $15m limited recourse loan to fund the stadium.[36] The loan is interest free and repayments are only required if surplus is accrued after

[48] Wellington Regional Stadium Trust (2019). 2019 Annual Report, Accessed through: https://register.charities.govt.nz/CharitiesRegister/ViewCharity?accountId=9a1e531d-ec89-dc11-98a0-0015c5f3da29&searchId=e80588b6-2611-438a-9062-4d3859ef1f0d

considerations, which includes adequate allocation of future capital expenditure.[48]

5.4.2.3 Barriers to change

The Stadium currently makes a profit, but there is no reason to believe another entity would be interested in an ownership stake. The sale or disposal of the asset would also be contingent on agreement from the trustees. Ultimately significant maintenance to the facility would be required which will almost certainly exceed any accumulated revenue from the facility.

5.4.3 Potential Opportunities

Cumulative opportunity rating	Small

There are few opportunities to shift ownership of the Stadium to alternative providers. There may be opportunities for sale-and-leaseback arrangements, but these are not likely to be financially advantageous given the Council's access to historically low borrowing rates. Sale and leaseback would not transfer any risk and would come with a higher financing cost.

An outright sale of the asset is not a credible option as there are no obvious private or public sector parties that would be willing to take on this asset.

1. **Regional rate or levy increase:** WCC could evaluate whether a regional rate or increase to the existing ticket levy would sufficiently increase revenue to allow the Trust to repay its loans more efficiently.

6 Council Controlled Organisations

6.1 Overview

WCC has seven Council Controlled Organisations (CCOs) that are not within direct operational control.

The Basin Reserve Trust has also been included in this section given the characteristics of WCC's interest.

6.1.1.1 In scope

Wellington Zoo Trust

The Wellington Zoo was opened in 1906 as New Zealand's first zoo[49]. Since 2003 the Zoo has been run by a not-for-profit charitable trust on behalf of WCC. The Wellington Zoo trust manages and guides the future direction of the Wellington Zoo, which currently includes both conservation activities as well as the traditional visitor experience that zoos provide. WCC provides the zoo trust with a grant of around $3.2m a year and appoints all the trustees. [50]

Zealandia

Zealandia is an urban eco-sanctuary, relatively close to the Wellington CBD. The sanctuary has been operating since the early 1990s, and has expanded its capabilities to include conservation, education, research, engagement, and tourism.[51] Historically, an independent trust ran Zealandia, however, WCC established a CCO to take over management of the sanctuary in 2012.

The CCO is comprised of six board members appointed by WCC – three of which were involved with establishment of the sanctuary. Following selection of the board members, Zealandia's operating deficit has decreased from $1.7m in the 2013 financial year to a $0.4m surplus as of the 2019 financial year. This success has also enabled development of a new visitor centre.

Wellington Cable Car Limited

First opened in 1902, the Wellington Cable connects Kelburn to Lambton Quay. The Cable Car is an iconic feature of Wellington, an important tourist attraction, and a minor part of its commuter network (particularly for students). It is not, however, subject to public transport funding, as it is not considered part of the official network. While the Cable Car does not pay a dividend to WCC, it did generate a profit of $785k in the 2019 financial year. [52]

Experience Wellington

Experience Wellington owns and manages Capital E (a creative children's centre), City Gallery Wellington, Wellington Museum, Space Place, Cable Car Museum, and Nairn Street Cottage. These businesses provide a wide range of services to the Wellington public, including heritage protection and the provision of educational opportunities. In the 2019 Financial year about 770,000 visitors across all Experience Wellington's businesses. [53] In the same financial year, WCC provided $9m to Experience Wellington to fund its operations.[52]

Basin Reserve

The Basin Reserve is one of New Zealand's most historic sporting grounds, and has been hosting cricket matched from as early as the 1860's. In

[49] Wellington Zoo (2020). About us, Accessed through: https://wellingtonzoo.com/about-us/about-our-zoo/
[50] Wellington Zoo (2019). Annual Report 2019, Accessed through: https://wellingtonzoo.com/assets/Resources/Annual-Report-2019-FINAL-compressed4.pdf)
[51] Zealandia (2020). About the Sanctuary, Accessed through: https://www.visitzealandia.com/About#The-Sanctuary
[52] Wellington Cable Car (2019). Annual Report 2019, Accessed through: https://www.wellingtoncablecar.co.nz/sites/default/files/2020-09/WCCL%202019%20Annual%20Report%202019%20-%20Signed.pdf
[53] Experience Wellington (2019). Annual Report 2018-2019, Accessed through: http://experiencewellington.org.nz/wp-content/uploads/2019/09/AnnualReport2018-19_Final_Onlinev2.pdf

recognition of this, it was registered as a Historic Area by Heritage New Zealand in 1998.[54]

The Basin Reserve mainly serves as a cricket ground, although it has hosted other sporting and social events in the past e.g., Beers at the Basin.

WCC has full ownership over the Basin Reserve, and provides approximately $680k of funding each year, but does not receive any dividends from the Basin Reserve Trust.[55]

6.1.1.2 Out of scope

Wellington Water

Wellington Water provides three waters services to Wellington City and the wider Wellington region.[56] As an asset owner of the underlying three waters infrastructure, WCC has a significant input to, and influence over, three waters investment decisions.

The entire three waters sector is currently in the midst of significant reform including the development of Taumata Arowai, Freshwater Management, National Policy Statement (NPS), and the DIA Three Waters Reform Programme.

Given the varying stages of development these initiatives and reform programmes are in, and the significant potential impact to WCC, consideration of alternative three waters asset holding positions or arrangements with Wellington Water has been considered out of scope for this Review.

WellingtonNZ

WellingtonNZ is Wellingtons economic development agency. Although WCC provides $1.2m of annual funding, WellingtonNZ has been considered out of scope for this Review as they do not hold substantial assets.

6.1.1.3 Other CCOs

It is noted that Wellington does not have the number of CCOs that are typical of some urban TLAs in New Zealand. It is unclear whether this is an intentional strategic decision.

Table 5 presents a summary of CCO structures across other TLAs.

Table 5: TLA's by Council

	Wellington	Auckland	Christchurch	Dunedin
Economic Development	✓	✓	✓	
Urban Development		✓	✓	
Waste Management			✓	
Transport		✓		
Water Services	✓	✓	✓	
Events and Venues	✓	✓	✓	✓

While it is not within the scope of this Review to formally recommend redevelopment of existing governance structures (including CCOs), this Review has prompted thinking over their efficacy.

[54] Wellington City Council (2020). Basin Reserve, Accessed through: https://wellington.govt.nz/your-council/council-controlled-organisations/basin-reserve

[55] Basin Reserve Trust (2020). Basin Reserve Trust Annual Returns, Accessed through: https://register.charities.govt.nz/CharitiesRegister/ViewCharity?accountId=783613b3-7d1a-dd11-99cd-0015c5f3da29&searchId=e6e0ba8a-a7fd-43df-ac1f-68e038672d30

[56] 3 water services include: Potable, storm and wastewater.

In 2009, the Royal Commission on Auckland Governance noted several benefits of a CCO structure.[57] Two that appear relevant in a Wellington context include:

- **Improved commercial focus:** Operating a company with a professional board of directors, with the objective of achieving greater operating efficiency.

- **Ring-fencing financial risk**: Using an incorporated structure to insulate a local authority from financial liability for an activity or venture involving other parties (such as a joint venture).

It is also notable that the presence of CCOs can enable TLAs to derive tax credits from commercial subsidiaries that pay dividends.

Given observations about a comparatively weak commercial focus and the presence of high levels of commercial risk across the entirety of the balance sheet, it is worth highlighting the potential to explore the merits of widening the CCO structure.

In particular, CCO structures could benefit:

- **Transport**: LGWM is a large-scale, high-profile programme. A CCO structure could be useful to provide the level of oversight and implementation support required to ensure the Programme aligns with existing transport systems and networks.

- **Urban Development**: A CCO structure would be beneficial given the size of the property portfolio, of the extent of natural hazard risk, and potential sub-urban development opportunities (particularly around major transport nodes). Moreover, the integration potential with Kainga Ora is also high, and could be effectively managed through a CCO structure.

However, consideration must also be given to the potential and observed drawbacks of CCOs, including increased administrative and establishment costs, lack of accountability, misalignment of strategy and delivery, and increased monitoring costs.

[57] Office of the Auditor General (2015) Governance and Accountability of CCOs. Accessed through: https://oag.parliament.nz/2015/cco-governance/part3.htm

6.2 Wellington Zoo

6.2.1 Summary

Assessment Criteria	Rating
Strategic alignment	High
Risk exposure	Moderate
Size of asset / income / interest	Small
Barriers to change	Very High

6.2.2 Assessment

6.2.2.1 Strategic Alignment

Zoos are arguably expected in a city of Wellington's size and prominence. It's also not uncommon for zoos to be owned or subsidised by TLAs; Auckland's Zoo is owned by Auckland Council, and Christchurch City Council provides financial support to Orana park in the form of an annual grant.

There are also economic benefits to be gained from the research facility and the tourist activity that the zoo attracts, given the regional role that the asset plays as a cultural and recreational venue.

Over recent years, the Wellington Zoo Trust has fluctuated between small surpluses and deficits. In 2019, the Zoo recorded a $200,000 loss, in addition to its $3.3m grant. We understand these losses are consolidated, and this means that WCC provided a functional subsidy of some $3.5m. This represents 1.13% of rates.

6.2.2.2 Risk Exposure

Financial

Losses incurred by the zoo are covered by WCC. These losses fluctuate and are in addition to the annual c. $3m operating grant given to the Zoo by WCC each year ($3.3m in 2019).

WCC is exposed to patronage/demand risk, particularly near-term risks from a reduction in international tourism. This could affect the Zoo's ability to generate revenue and increase its call on WCC funding.

The Zoo is also committed to a near term investment of $3m to acquire snow leopards for its exhibition.

6.2.2.3 Size of the asset / income / interest

Approximate $3.5m grant paid per annum.

6.2.2.4 Barriers to change

The land on which the Zoo is currently located is part of the town-belt, and cannot be used for commercial purposes, limiting optionality. Notwithstanding this restriction, the high cost of relocating a specialist asset like the Zoo may not be fully offset by the proceeds of any land sale, even if sale was feasible.

Changing the pricing structure may meet with public resistance, but it would place the Zoo on more stable financial footing, and it could provide WCC with non-trivial operational revenue flexibility.

6.2.3 Potential Opportunities

Cumulative opportunity rating	Large

1. **Review entry fees:** Entry fees charged by the Zoo are similar to that charged by other publicly owned or controlled Zoos (Auckland) but are lower than for those facilities that are primarily or completely privately owned / funded. This provides an opportunity to reduce required funding.

The Wellington Zoo receives 47% of its total revenue from patrons, compared to 86% for Orana Park and 60% for Auckland Zoo[58]. If Wellington Zoo increased its adult admission to the same rates charged at Orana while retaining current visitor numbers in the 2019 financial year, the zoo could reduce its losses by approx. $2.5m. This has been illustrated in the table below.

Name	Location	Ownership	Adult	Child	Concession
Zoos					
Wellington	Wellington	Trust-100% council ownership	$27.00	$12.00	$20.00
Auckland	Auckland	100% council ownership	$24.00	$13.00	$19.00
Wildlife Parks					
Orana Park	Christchurch	Private Trust, $200,000 CCC operational grant[59]	$36.50	$9.50	$29.50
Willowbank	Christchurch	Private ownership	$32.50	$12.00	$26.00
Aquarium					
Kelly Tarltons	Auckland	Private ownership	$41.00	$29.00	$33.00

2. **Shared Funding Structure:** Considering a shared funding structure with GWRC for this asset, given the regional tourism benefits it generates, may also be worthwhile.

[58] Auckland Zoo (2020). Accessed through: https://www.aucklandzoo.co.nz/get-involved/donate

[59] 2019 Orana Wildlife Trust annual report, Accessed through: https://register.charities.govt.nz/CharitiesRegister/ViewCharity?accountId=a4185738-8136-dd11-8f7f-0015c5f3da29&searchId=66e09c3d-e84e-45ee-9f00-610b50fd5df7

6.3 Zealandia

6.3.1 Summary

Assessment Criteria	Rating
Strategic alignment	High
Risk exposure	Low
Size of asset / income / interest	Small
Barriers to change	Moderate

6.3.2 Assessment

6.3.2.1 Strategic Alignment

Zealandia is an internationally recognised conservation and research facility that has become a national tourism asset. Notably, Time Magazine rated Zealandia in its 100 Top Places to visit.[60]

The nature of its focus as a conservation facility means it is *prima facie* unreasonable to anticipate commercial returns. Its increased profile as a contributor to regional and international tourism may mean that there are opportunities to generate returns. The community's interest in maintaining Zealandia as a dual-purpose operation means that public ownership is appropriate.

6.3.2.2 Risk Exposure

Natural hazard

In theory, there may be some residual risk to the reservoir dam within Zealandia from seismic activity. It is noted that successive historic actions have been taken to minimise this risk, including decommissioning the upper dam.

[60] Time (2019). World's Greatest Places, Accessed through: https://time.com/collection/worlds-greatest-places-2019/

6.3.2.3 Size of the asset / income / interest

WCC provides an operating grant to the trust each year, which has increased over the past few years. The grant has increased from $350,000 in 2013/14 to just over $1m in 2019/20.[51]

6.3.2.4 Barriers to change

Changes unrelated to ownership (i.e. changing to funding balance and additional partnerships) should be explored. Consideration to the reputation of any potential partners must be given, however.

6.3.3 Potential Opportunities

Cumulative opportunity rating	Small

1. **Strategic Partnership and shared funding:** Zealandia currently has strategic partners in GWRC and the Department of Corrections (DoC), but it does not appear they provide significant funding to Zealandia. Rebalancing contributions from these partners could lessen Zealandia's dependence on WCC funding.

   It may also be worthwhile to explore whether opportunities to expand partnerships with key Universities and government departments exist. Zealandia appears to receive some contribution from the Ministry of Education, Massey University, and the University of Waikato Universities, however, Victoria University of Wellington is notably absent from this list.

6.4 Wellington Cable Car

6.4.1 Summary

Assessment Criteria	Rating
Strategic alignment	Moderate
Risk exposure	Low
Size of asset / income / interest	Small
Barriers to change	High

6.4.2 Assessment

6.4.2.1 Strategic Alignment

The Cable Car is an historic and iconic feature in Wellington, supports Wellington's brand, and adds value as a tourist attraction – particularly for those that come into Wellington via cruise ships. It also has some limited value as part of the transport network.

While this asset suffers from patronage risk the Cable Car made a modest return until COVID-19 – $785k in FY 2019.[52] It is anticipated to make a loss in FY20.

The modest returns combined with the regional tourism and branding benefit justify a continued stake in its operations.

6.4.2.2 Risk Exposure

Financial

The largest risk to the Cable Car is COVID-19. In its current form, the Cable Car relies heavily on tourism, particularly cruise passengers. Given restrictions on international travel into New Zealand, the Cable Car is unlikely to generate profits in the short-term.

The Cable Car funds its maintenance programmes through its revenues. As such, a significant decrease in those revenues could cause Wellington Cable Car to seek a capital injection from WCC.

6.4.2.3 Size of the asset / income / interest

N/A - Last year, the Cable Car returned 7.5% on equity but no dividend was paid to WCC. According to the Statement of Intent[61] Wellington Cable Car will not return a dividend for the next two years so that it may conduct planned maintenance and retain its financial self-sufficiency.[62]

6.4.2.4 Barriers to change

Changes to ownership are likely to be adversely received by the community.

Changes to pricing strategy and structures cannot be directly mandated by WCC, but an expectation regarding the short-term revenue strategy for the Cable Car could be communicated through WCC's Letter of Expectations (LoE).

Engagement with GWRC would be required to consider formal integration of the Cable Car into the public transport network. There appear to be no formal eligibility criteria for a mode to qualify as 'public transport', however, it makes little sense to subsidise the cable car which is currently profitable without a subsidy, and which provides serves only a very limited public transport function.

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[61] Wellington Cable Car (2019). Statement of Intent 2019-20, Accessed through: https://www.wellingtoncablecar.co.nz/site/wellingtoncc/WCCL%20SOI%202019-20-FINAL.pdf

[62] Wellington Cable Car (2020). Statement of Intent 2020-21, Accessed through: https://www.wellingtoncablecar.co.nz/sites/default/files/2020-09/WCCL%20SOI%20%282020-21%29%20-%20For%20Website.pdf

6.4.3 Potential Opportunities

Cumulative opportunity rating	Small

WCC could reasonably require a greater return from the Cable Car CCO particularly in years with significant profits.

1. **Explore options to increase ridership:** WCC could consider mechanisms to increase ridership for students and Kelburn residents while tourists remain scarce. An examination of pricing structures and timetables could be warranted to increase ridership and revenue with an aim to offset near-term losses.

2. **Integration into the public transport network:** A formal integration of the Cable Car into the public transport network, attracting GWRC funding could also be explored, although it is unlikely that this would be an attractive option given perceived barriers.

6.5 Experience Wellington

6.5.1 Summary

Assessment Criteria	Rating
Strategic alignment	Moderate
Risk exposure	Moderate
Size of asset / income / interest	Medium
Barriers to change	Moderate

6.5.2 Assessment

6.5.2.1 Strategic Alignment

Experience Wellington has a dual purpose. The first is to protect Wellington's Heritage, which is done through the Wellington and Cable Car museums, as well and the Nairn Street Cottage. The second is to provide spaces for creative and scientific expression and education, which is accomplished through its funding of the Art Gallery and Space Place.

These benefits are often underprovided by the private sector relative to their socially optimal / desired level. In New Zealand, it is common for the public sector, and councils in particular, to take an interest in maintaining local history and supporting the creative sector. Canterbury,[63] Otago,[64] and the Auckland War Memorial museums[65] also receive significant funding from their respective local and regional councils. This ranges from 60%-75% of total revenue; WCC's 67%[53] contribution to Experience Wellington is within this range.

6.5.2.2 Risk Exposure

Financial

The yearly grant provided to Experience Wellington is significant, equating to 2% of total operating expenditure and 23% of WCC grants.

This combined with asset and patronage demand risk suggests moderate exposure to WCC.

6.5.2.3 Size of the asset / income / interest

WCC provides approximately $9m in grants to Experience Wellington each year.[53] This is on par with the combined grant revenue Christchurch Museum receives from the local and regional Council. There may be an opportunity to consider regional funding for Experience Wellington given many of the assets it operates have regional benefits.

6.5.2.4 Barriers to change

These are public assets which have limited commercial value. Disposing of or changing management of these assets would need to be conducted within a public sector benefits framework.

[63] Canterbury Museum (2019). Annual Report 2018-2019, Accessed through: https://www.canterburymuseum.com/assets/Uploads/CM-Annual-Report-20182019.pdf

[64] Otago Museum (2019). Annual Report 2018-2019, Accessed through: https://otagomuseum.nz/assets/Otago-Museum-Annual-Report-2018-19-low-res-25.11.19.pdf

[65] Auckland Museum (2019). Annual Report 2018-2019, Accessed through: https://www.aucklandmuseum.com/your-museum/about/our-organisation/annual-plan-and-annual-report/annual-report-2018-19

6.5.3 Potential Opportunities

Cumulative opportunity rating	Medium

1. **Review pricing and admission, and revenue structures:** A review of the pricing and admission structure for its museums and galleries, and a review of the revenue strategy for Space Place would be warranted given an increase in visitor expenditure could be expected.

2. **Consideration of a different pricing strategy:** Currently the pricing strategy (free admission) for museums and art galleries matches that in Dunedin and Christchurch. Consideration of a different pricing strategy could be valuable. For example, the War Memorial Museum in Auckland is free for Auckland residents, and non-residents are charged a small entry fee. This allows for the generation of tourism revenue, while still ensuring these spaces remain open and accessible for local residents.

3. **Review scope of services and offerings:** The scope of Experience Wellington should also be reviewed. It oversees several different assets and experiences. Some appear to be well-utilised and highly valued; others appear to have more limited appeal. A review of the community value provided by each of the assets could help rationalise Experience Wellington's operating portfolio. This is reinforced by Experience Wellington's apparent inability to meet some of its financial and non-financial targets, particularly its visitor spend target.[53]

6.6 Basin Reserve

6.6.1 Summary

Assessment Criteria	Rating
Strategic alignment	High
Risk exposure	Moderate
Size of asset / income / interest	Small
Barriers to change	High

6.6.2 Assessment

6.6.2.1 Strategic Alignment

Public ownership of sporting grounds is common in New Zealand. This is highlighted by the stadium ownership in New Zealand but is also true for venues such as the Basin Reserve.

The Basin Reserve is part of the historic fabric of Wellington and has served as a cricket ground for almost as long as Wellington has been a city. The Basin Reserve provides a space for WCC to host international cricket test matches, as well as other sporting and social events.

6.6.2.2 Risk Exposure

Financial

There is moderate risk for WCC from the Basin Reserve, which relies on WCC and other grants for operational funding. In the 2020 financial year, grants and public funding totalled $1.4m; 87% of the Basin Reserve's total revenue. This includes $680k of funding from WCC.[55] WCC is also called upon to fund asset renewals, the most recent of which was a $21.5m facilities upgrade. At present, $4m of this is still to be completed.

Natural hazard

Land at the Basin Reserve is prone to liquefaction.

6.6.2.3 Size of the asset / income / interest

The Basin Reserve is not profitable, despite being the most utilised international sporting ground in New Zealand. On average, the Basin Reserve is used for 221 days per annum.[66,55] This resulted in approximately $204k revenue in the 2020 financial year, which was only a third of the event costs, which totalled approximately $627k.[55]

6.6.2.4 Barriers to change

Public resistance to major changes in the Basin Reserve is likely as it is one of Wellington's most iconic features. The Basin Reserve also has Category II heritage status, which limits the regulatory scope for alternative uses.

6.6.3 Potential Opportunities

Cumulative opportunity rating	Small

There are few clear opportunities with the Basin Reserve. A partnership with Sky Stadium to maximise contracting efficiencies for grounds management already exists. Food and beverage services appear to make a modest return ($22.5k concession income in FY20),[55] and conference spaces are already offered and reasonably well utilised.

As 87% of revenue is from WCC and other grants, it is unlikely another party, private or public, would take over ownership. As with similar assets, consideration of opportunities to expand the scope of public funding to include the wider Wellington region (via GWRC) may be sensible.

[66] 100 were practice days, 25 days were for functions, 21 days were for community events, 50 were for cricket events and the remaining 25 were for other sports events.

7 Income Generating Property

7.1 Overview

7.1.1.1 In scope

Ground leases

WCC's Investment Property portfolio is primarily comprised of perpetually renewable ground leases,[67] generally based on 21-year renewable terms. The land and buildings held for investment purposes are leased to external parties; the properties are not held for operational purposes.

WCC's ground lease portfolio wasn't actively acquired over the years. Instead, it was vested to WCC by the Harbour Board after extensive reclamation of Wellington Harbour around the turn of the century. The portfolio is comprised of 47 properties valued at $214m (2019: $205.192m) per the valuation date of 30 June 2020. In 2019, investment property revenue totalled $11.53m – an annual yield of 5.6%.

Waterfront

The Waterfront precinct encompasses approximately 20 hectares of prime waterfront land in the CBD. Current improvements range from wharfs and decks to low rise commercial buildings. The waterfront also includes public space, operational land and buildings, and commercial properties under both freehold and leasehold interests

The Waterfront is separated into the following five following precincts.

- **Kumutoto**: Site 9, Maritime Police building, Site 10, Shed 11, Shed 13 and the Steamship Wharf ground lease.
- **Queen's Wharf:** TSB Arena, Shed 1, Shed 3, and Shed 5.
- **Frank Kitts:** Frank Kitts carpark building and various boatsheds.
- **Taranaki Street Wharf:** Circa Theatre building, Rowing Club Buildings, Odlins Square, and Karaka Grove.
- **Waitangi Park:** Waitangi Park land, Clyde Quay carpark land, and Barnett Street carpark land.

This asset comprises $45m of operational land and $18m of operational buildings per the most recent valuation report at 30 June 2018. Investment properties on the waterfront (ground leases and licenses) were valued at $43.9m according to updated documents received from WCC officials. Financial information provided by WCC officials indicated that total income from waterfront operations totalled $3.7m

Parking

WCC operates approximately 3,200 on street parks across the city, with a further 890 parks located off-street.[68] WCC currently manages 14% of the total estimated parking supply in the central city, private providers manage the rest.[69] Other carparking managed by WCC is located at sports and recreation facilities and as part of Town Belts and reserves.

WCC also manages several Resident and Coupon Parking Zones across the city and enforces parking restrictions as well as parking-related bylaws in surrounding suburbs.[70] Two carparking locations are currently closed; 96 carparks at the Michael Fowler Centre (currently used as a temporary rehearsal space for the Royal New Zealand Ballet), and 58 carparks at the Te Ngākau Civic Square (due to seismic issues).

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[67] Ground leases are parcels of land owned by the Council (lessor's interest) in the central city or on the waterfront that are leased to individuals and businesses who own the buildings situated on the land (lessee's interest).

[68] Wellington City Council (2019) Annual Report 2018/19. Accessed through: https://wellington.govt.nz/your-council/plans-policies-and-bylaws/plans-and-reports/annual-report/annual-report-2018-19

[69] Wellington City Council (2020) Parking Policy. Accessed through: https://wellington.govt.nz/your-council/plans-policies-and-bylaws/policies/parking-policy

[70] See Appendix E for parking zone maps.

Commercial portfolio

WCC's commercial portfolio consists of buildings and facilities owned or leased by WCC primarily held for either strategic, road widening, or heritage reasons.

The portfolio includes:

- Heritage buildings comprised of assets with historical, artistic, scientific, technological, geophysical, or environmental qualities that are held and maintained for their cultural and historical significance e.g., Chest Hospital
- Commercial buildings e.g., Kiwi Point Quarry Buildings and Embassy Theatre
- Operational land e.g., Ngauranga Gorge Road

WCC retains full ownership and control over the use of these assets to ensure commercial activity coincides with desired community outcomes.

Civic precinct

The civic precinct is a large city block area comprised of numerous council buildings situated around an area known as the Civic Square. The buildings are primarily used for the operation of various council services, such as administration and library services, and are also used as and cultural event venues. The buildings are also utilised as civic chambers for the Mayor and Councillors of Wellington.

There are significant remediation and strengthening costs associated with the Civic Precinct. WCC's LTP indicated $91.2m and $11.8m have been provided to strengthen the Town Hall and St James Theatre, respectively. Strengthening the Central Library has also been estimated to cost between $96m to $205m. The future planning and redevelopment of these buildings is a commercially sensitive endeavour that presents significant risks and challenges to WCC.

7.1.1.2 Out of scope

Affordable housing

Housing affordability and availability across Wellington remains a critical priority for WCC. WCC is Wellington's largest provider of affordable rental housing, with over 2,000 units at over 40 locations in Wellington City. The total market value was estimated at $353m in 2012.[71]

As a result of the extensive work already undertaken, WCC's social housing portfolio has been scoped out from this Review. Work includes:

- In 2018, WCC developed it's 10-Year Housing Strategy (2018-2028). This outlined strategic objectives and initiatives to improve and increase housing availability and quality across New Zealand.
- A review of social housing rents is underway via the Draft Social Housing and Rent Setting Policy.
- WCC has partnered with Kāinga Ora in to build 60 supported housing units under the Te Mahana homelessness strategy. WCC owned properties are also being leased to Kāinga Ora as part of an initiative to improve city housing sustainability.[72]

[71] Wellington City Council (n.d.) About the Council's social housing. Accessed through: https://wellington.govt.nz/services/community-and-culture/housing-support/about-the-councils-social-housing

[72] Wellington City Council (2020) Housing Action Plan 2020-2022. Accessed through: https://wellington.govt.nz/~/media/your-council/plans-policies-and-bylaws/plans-and-policies/a-to-z/housingstrategy/housing_action_plan_2020-22.pdf?la=en

7.2 Ground leases

7.2.1 Summary

Assessment Criteria	Rating
Strategic alignment	Moderate
Risk exposure	Moderate
Size of asset / income / interest	Very Large
Barriers to change	Low

7.2.1.1 Assessment

7.2.1.2 Strategic Alignment

WCC's investment property portfolio plays a contributing role to the overall financial position and performance of WCC. The portfolio is primarily comprised of ground lease properties concentrated within the CBD.

Ground lease properties are relatively low-risk assets that provide WCC with stable cash flows, long-term leases and tenancies, low capital costs and property appreciation potential. This also enables WCC to record non-depreciating assets on the balance sheet with minimal carrying costs.

Retaining ownership of the land would enable WCC to maintain control over the portfolio footprint, influence urban design and development, and proactively manage their relationships with the investment and development community.

WCC's ground leases are primarily based on 21-year perpetually renewable terms. This structure enables WCC to generate stable lease revenue while retaining land ownership for future investment purposes. However, WCC's long tenure leases inhibit cash flow as rent reviews occur relatively infrequently and don't capture short-term land value appreciation. Conversely, this protects against downside loss.

Notwithstanding, the revaluation of investment properties has positively impacted the position and performance of WCC's balance sheet. The revaluation of ground lease assets has increased the value of WCC's ground lease portfolio from $192.7m in 2018 to $214m in 2020.

Investment property revenue provided an annual return of 5.6% in 2019. In relation to comparable jurisdictions, Auckland and Dunedin achieved returns of 4.8% and 7.83% respectively.[73] Wellington therefore achieved a modest commercial return.

7.2.1.3 Risk Exposure

Legislative and regulatory

Development and redevelopment opportunities are bound by legislative policies such as the District Plan. Leasing policies are also impacted by the Wellington City Leasing Act 1904.

Financial

Several properties within the investment property portfolio are subject to short- to medium-term lease termination. This presents a risk to future value cashflow generation as re-leasing or leasing to a new lessee on termination may incur difficulties.

Moving forward, ground lease properties will face uncertainty regarding future rent rates and land value growth. Current market value is provisional;

[73] Auckland Council (2019) Annual Report 2018/2019. Accessed through: https://www.aucklandcouncil.govt.nz/plans-projects-policies-reports-bylaws/our-annual-reports/Pages/current-annual-report.aspx and Dunedin City Council (2019) Annual Report 2018/2019. Accessed through: https://www.dunedin.govt.nz/council/annual-reports/annual-report-2018-19

there is no guarantee these properties would achieve fair value in an open market scenario.

Revenue growth from investment properties is relatively stagnant and only influenced by inflation. Most ground leases are subject to fixed rentals and infrequent rent reviews across long lease periods.

Natural hazard

Environmental factors, such as natural disasters (i.e. earthquakes or floods) present perpetual risk for Wellington and the threat of climate change is forecasted to have profound implications on WCC, as outlined in Section 4.2.1.5.

An environmental event could cause damage to property resulting in costs that may not be fully recoverable. Moreover, rising insurance costs will drive down annual returns. Lessees will likely seek to negotiate reductions to ground rent rates to balance the cost of increased insurance premiums.

7.2.1.4 Size of the asset / income / interest

WCC's ground lease portfolio was valued at approximately $205m in 2019 and $214m in 2020.[74] The portfolio is currently comprised of more than 45 individual properties, ranging in value from $300k to $18m.

In 2019 investment property revenues totalled $11.5m, representing approximately 4.6% of WCC's total non-rates revenue and 2.0% of WCC's total revenue. Total investment property revenues equate to 3.7% of total rates revenue.

In recent years, land value appreciation has provided strong growth to the overall ground lease portfolio. Fair market value of the portfolio has increased by approximately 11% since 2018.

7.2.1.5 Barriers to change

Ownership of properties subject to long-term ground leases generally provides a declining return on land value when rent reviews occur relatively infrequently.[75] Long-term lease structures, such as WCC's 21-year renewable period, restricts the ability to align rent rates market levels when land values increase. Additionally, the majority of WCC's ground leases have no ratchet provision. The portfolio is therefore exposed to potential rent reductions in the future.

WCC's ground lease portfolio is concentrated on valuable central city land in the CBD. Moving forward, value volatility may arise due to the implications and market response from COVID-19. However, current market interest for assets such as prime office space in the CBD remains active as demand levels continue to propel future development opportunities.[76] This will enable WCC to gain interest from divestment strategies.

In light of COVID-19, property valuers are indicating a higher degree of caution in their valuation assumptions. The uncertainty and unknown impact of COVID-19 has resulted in valuers including critical assumptions around material valuation uncertainty in their assessments. Moving forward, values and incomes may change more frequently than under normal market conditions, which could result in portfolio value fluctuations. These fluctuations pose minimal impact to the ground lease portfolio given the

[74] Wellington City Council (2019) Annual Report 2018/19. Accessed through: https://wellington.govt.nz/your-council/plans-policies-and-bylaws/plans-and-reports/annual-report/annual-report-2018-19
[75] TelferYoung (2016) Demystifying Long Term Ground Leases. Accessed through: https://www.newplymouthnz.com//media/NPDC/Documents/Council/Council%20Documents/Publications%20and%20Brochures/ECM_7320096_v1_Waitara%20Leasehold%20Newsletter%20May%202016%20Telfer%20Young.ashx?la=en&hash=AF23406819341ACB426760746F174F88607A9A5A
[76] Stuff (2020) Precinct Properties commits to new $90m building on Bowen Campus after securing tenants. Accessed through: https://www.stuff.co.nz/business/121718362/precinct-properties-commits-to-new-90m-building-on-bowen-campus-after-securing-tenants

assets are primarily located on prime land within the CBD, the elongated lease tenures, and the infrequency of rent reviews.

7.2.1.6 Potential Opportunities

Cumulative opportunity rating	Very Large

1. **Carry out a strategic review:** Maintain a broader portfolio approach but conduct a strategic review to identify individual sites with lower long-term strategic value regarding income potential, risk level, and opportunity costs.

2. **Gauge interest in freehold acquisition:** Approximately $41m of WCC's investment properties are subject to a rent review between now and February 2022. This impending review provides WCC with an opportunity to gauge each lessee's interest in full freehold acquisition prior to committing to new rent rates. This would allow WCC to determine the transaction and value capture potential of a number of properties within the portfolio.

Case Study: Leasehold Land Investment Policy, Napier City Council

Napier City Council (NCC) undertook an independent review of their investment property portfolio on a property-by-property basis to highlight core strategic and non-strategic assets. This analysis led to the development of NCC's Investment Property Portfolio Policy on leasehold land, which was adopted in 2018.[77]

Leasehold land is a major part of NCC's $36m investment property portfolio.[78] The policy allows freeholding of leasehold land held in the portfolio after case-by-case consideration. The policy also only permits sales to be made to the registered lessees at the time of sale – current registered lessees may apply to have their property considered for freeholding. The application is then assessed against a methodology template and framework, bringing consistency and transparency to the assessment process. The policy document outlines NCC's process for freeholding property, factors in assessing the strategic nature of properties, and investment decisions surrounding the proceeds from property sales.

3. **Ground lease terms and conditions:** Identify if opportunities exist to alter current ground lease terms and conditions, for example reducing the length of perpetual lease terms. Reduced term structures will enable WCC to increase the frequency of rent reviews, enabling strategic alignment with market level rates.

[77] Napier City Council (2018) Investment Property Portfolio Policy (Leasehold). Accessed through: https://www.napier.govt.nz/assets/Document-Library/Policies/Investment-Property-Portfolio-Policy-2018.pdf

[78] Napier City Council (2018) Long Term Plan. Accessed through: https://www.napier.govt.nz/assets/Uploads/NCC-Long-Term-Plan-2018-2028.pdf

7.3 Waterfront Precinct

7.3.1 Summary

Assessment Criteria	Rating
Strategic alignment	High
Risk exposure	Very High
Size of asset / income / interest	Large
Barriers to change	High

7.3.2 Assessment

7.3.2.1 Strategic Alignment

The waterfront plays a key strategic role for WCC as it represents one of the most utilised areas in the city for social, cultural, and recreational gatherings, activities, and events. All of which contribute to Wellington's overall identity.

Ownership and retention of the waterfront provides WCC with flexibility and greater control over the long-term strategic objectives and planning requirements, as opposed to simply relying on planning provisions. This enables the area to remain fit-for-purpose and provides ongoing public benefit to the community.

Waterfront property represents an asset of generational importance and legacy to New Zealanders. Retaining and maintaining a level of waterfront control is apparent and evident in comparable jurisdictions, primarily due to the economic and social value waterfront property have within the community and the epicentres they create for coastal cities. Through their CCO Panuku, Auckland Council own and manage large sections of Auckland City's waterfront real estate, including land, buildings, development sites and marinas.[79] Panuku has developed long-term strategic objectives around regenerating the CBD waterfront area. Dunedin City Council have also undertaken an extensive master planning project around their future vision for waterfront development and revitalisation.

In retaining ownership, WCC would maintain direct influence in urban design and development, and control between the public, investment, and development communities.

7.3.2.2 Risk Exposure

Legislative and regulatory

The Wellington Waterfront Framework and the Waterfront District Plan (WDP) govern waterfront development and urban design initiatives. Any development on the waterfront must be in accordance with both the WDP and the Waterfront Precinct guidelines (Lambton Harbour Development Precinct).

The waterfront also contains heritage listed buildings that are protected under the Resource Management Act.

Natural hazard

External factors such as seismic events, climate change, rising sea levels, liquefaction, and storm surge pose an increased risk and vulnerability to infrastructure across the waterfront.

Capital requirements surrounding the redevelopment and remediation of core waterfront infrastructure (i.e. degrading seawall) are likely, although specific estimates have not been sighted in this Review. Sea level rise of 1.4m is forecasted to affect approximately $7 billion in Wellington property,

[79] Interest.co.nz (2019) Auckland Council vote on whether to transfer waterfront property away from Council Controlled Organisation Panuku or face a weighty tax bill looms. Accessed through: https://www.interest.co.nz/news/99741/super-city-gets-set-vote-massive-waterfront-property-swap-cco-panuku

about 10% of the city's property value and have profound implications on WCC, as outlined in Section 4.2.1.5.

Financial

WCC currently incurs a net deficit from waterfront operations. Year over year operating costs have far exceeded revenue generation. In the 2019/2020 financial year, total income from waterfront operations was $3.7m. Total expenses amounted to $11.05m.

7.3.2.3 Size of the asset / income / interest

Indicative asset values for investment and operational properties on the waterfront have been retrieved from the most recent independent valuation reports and internal documents provided by WCC officials.

The waterfront contains $45m worth of operational land and $18m of operational buildings per the most recent valuation report on 30 June 2018. Investment properties on the waterfront (ground leases and licenses) were valued at $43.9m according to updated documents received from WCC officials.

Financial information provided by WCC officials indicate that in the 2019/2020 financial year total income from waterfront operations totalled $3.7m.

7.3.2.4 Barriers to change

Regulatory barriers have posed the greatest impediment to waterfront development, divestment, and leasehold opportunities due to the expensive and time-consuming process.

WCC's waterfront assets generate very poor returns relative to their underlying value and development potential. As an open area for social and recreational activities, public engagement and involvement plays a critical role in WCC's ability tap into the waterfront's true development potential. Any development proposals or changes to public policy will require lengthy timeframes for reform, delivery, and public consultation.

Decisions made at a political level around fees, charges, and commercial arrangements on the waterfront have seemingly affected the ability to charge market rates for commercial leases and licenses.[80]

7.3.3 Potential Opportunities

Cumulative opportunity rating	Medium

1. **Engage with development community to identify leasehold opportunities:** Work with the development community on future opportunities and partnerships to potentially provide leasehold developable land. This approach could incentivise developers whereby no upfront capital investment would be required for the land purchase and overall development costs would be minimized. This would enable WCC to maintain land ownership, further develop key stakeholder relationships, commercialize underutilised land, and generate stable rental income from ground rent.

   For example, WCC could apportion off a percentage of the Waitangi Park Land and Frank Kitts Park Land for leasehold divestment. This would enable WCC to retain ownership and control of the property and generate perpetual cashflow from these sites. As an indicative example, if WCC were to leasehold 10% to 20% of the aforementioned park land with an underlying land value of $1.4m to $2.8m, the ground rent could potentially yield annual returns of 5% to 7%[81] or $70k to $98k and $140k to $196k per annum, respectively.

2. **Consider waterfront site divestment:** Consider divesting small sections of land sites on the waterfront for freehold development to suitable investors and developers. This strategy could assist with reinvestment

[80] Stuff (2019) Wellington City Councils $1 a year lease deals kept secret. Accessed through: https://www.stuff.co.nz/dominion-post/news/wellington/112991121/wellington-city-councils-1-a-year-lease-deals-kept-secret

[81] NZ Herald (2015) Property report: Ground rent needs cautious approach. Accessed through: https://www.nzherald.co.nz/property/news/article.cfm?c_id=8&objectid=11412856

and redevelopment opportunities and stimulate private investment in the waterfront.

Waitangi Park Land ($8.6m) and Frank Kitts Park Land ($5.8m) are both comprised of ample greenspace and developable land. As an indicative example, if WCC considered apportioning and divesting 10% to 20% of these land parcels to market $1.4m to $2.8m could be realised based on the assets' 2019 assessed market value.

3. **Disposal of Frank Kitts car park:** Frank Kitts underground car park has been listed as earthquake-prone and in need of seismic strengthening. The property still operates as a commercial car park as discussions around the property's future continue. Disposal of the carpark could provide WCC immediate value capture on an asset that will require future capital investment.

7.4 Civic Precinct

7.4.1 Summary

Assessment Criteria	Rating
Strategic alignment	High
Risk exposure	Very High
Size of asset / income / interest	Medium
Barriers to change	High

7.4.2 Assessment

7.4.2.1 Strategic Alignment

The Civic Precinct forms the 'heart of the city' and is home to many of the Wellington City's key civic functions. The LTP notes the importance of the Precinct *"to support the venues operations in providing a full calendar of entertainment and business events"*.

The precinct is also highly connected, providing a link for people to walk between Wellington's waterfront, the Golden Mile, and important arts, cultural, and performance venues.

Retaining and maintaining civic assets is apparent and evident in jurisdictions across New Zealand and internationally. In Wellington, the proximity of the Civic Precinct has also become an integral part of the city's identity. It is highly likely that most of these assets and services would not be provided if they were left to the private market.

7.4.2.2 Risk Exposure

Legislative and regulatory

The Civic Precinct is defined by a collection of important civic buildings, two of which have very high heritage values. Heritage buildings are protected under the Resource Management Act, and consequently have a robust consenting process for redevelopment.

Any redevelopment or alteration to a heritage building on the waterfront would be subject to difficulties surrounding consenting requirements and heritage protection.

Natural hazard

The Civic Precinct was significantly impacted during the 2013 and 2016 earthquakes. The recent closure of the Central Library Building and the CAB highlights the seismic resilience issues within the precinct.

Due to its proximity to the waterfront, the area is also vulnerable to rising sea levels associated with climate change, the threats of which are to have profound implications on WCC, as outlined in Section 4.2.1.5.

Asset management

Multiple buildings in the precinct have seismic and structural issues, which will require long-term remediation plans and investment. The Town Hall, MOB Building, CAB Building and Capital E Building are closed/closing due to safety concerns or current strengthening work.[82]

The Town Hall and MOB Building have alternate propositions for a National Music Centre with an agreement reached between the New Zealand

[82] Wellington City Council (2018) Overview on status of buildings and structures in Civic Precinct. Accessed through: https://wellington.govt.nz/news-and-events/news-and-information/news/2018/08/civic-precinct

Symphony Orchestra and Victoria University of Wellington.[83] Furthermore, an insurance settlement of $38m has been reached for the CAB Building, with options for the site to be decided.[84]

Strengthening costs may outweigh future property values – in 2019, a $50m impairment was recorded in relation to Civic Precinct assets such as the MOB, Town Hall, Central Library, and underground car park. As the CAB is inoperable, WCC currently pays over $3.6m each year to house employees on the Terrace.[85]

7.4.2.3 Size of the asset / income / interest

Due to the damage from the 2013 and 2016 earthquakes, there are significant remediation and strengthening costs associated with the Civic Precinct. WCC's LTP indicated $91.2m and $11.8m have been provided to strengthen the Town Hall and St James Theatre, respectively. Strengthening the Central Library is also estimated to cost between $96m to $205m. Redeveloping these buildings to meet recent NBS building codes will be a significant investment.

Moreover, the asset valuation is decreasing. In the 2018/2019 Annual Report, WCC reported a $119m reduction the closing value of assets in the Civic Precinct due to depreciation and impairment. The closing value totalled $47m.

7.4.2.4 Barriers to change

The land and buildings associated with the Civic Precinct are located within the Civic Square Heritage Area. Heritage classifications present barriers to redevelopment given the robust consenting process.

Due to the civic and cultural significance of the Civic precinct – which could be considered an integral component of Wellington's identity – redevelopment projects in the area will garner significant public interest and scrutiny. There is also likely to be differing priorities among both internal and external stakeholder viewpoints, which could create further planning and development complexity.

7.4.3 Potential Opportunities

Cumulative opportunity rating	Medium

1. **Master Planning activity:** Progress a Master Planning activity that considers the entire Civic Precinct as a whole – rather than planning based on a building--by--building approach. This will enable revitalisation of the Civic Precinct by better activating and linking the space to buildings, and social and cultural activities in the surrounding area.
2. **Advocate for regional rates to fund the Civic Precinct:** The Civic Precinct is an arguably regionally significant asset that happens to be located in Wellington City itself. This places a greater burden on WCC and Wellington City ratepayers to invest, maintain, and provide civic and cultural activities used and enjoyed by the regional population. There is an opportunity for WCC to advocate for use of regional rates to support and fund the Civic Precinct assets and activities.
3. **Divesting or developing underutilised or underperforming sites:** Sites such as the Michael Fowler Centre carpark and the site to the West of Capital E provide good development opportunities for WCC, the private market or both.

[83] Wellington City Council (2019) National centre of music secures Te Ngākau Civic Square building. Accessed through: https://wellington.govt.nz/news-and-events/news-and-information/news/2019/06/national-centre-of-music

[84] Wellington City Council (2020) Insurance agreed on damaged building. Accessed through: https://wellington.govt.nz/news-and-events/news-and-information/news/2020/11/insurance-agreed-on-damaged-building

[85] NZ Herald (2020) Wellington City Council paying millions in rent after building closed. Accessed through: https://www.nzherald.co.nz/nz/wellington-city-council-paying-millions-in-rent-after-buildings-close/ZE3JYKLTNRY3QUOHDEP2VXRTLU/

7.5 Parking

7.5.1 Summary

Assessment Criteria	Rating
Strategic alignment	High
Risk exposure	Low
Size of asset / income / interest	Very Large
Barriers to change	Low

7.5.2 Assessment

7.5.2.1 Strategic Alignment

Carparks are a typical asset holding for TLAs, especially on-street parking. Carparks and parking policies can also:

- Support and enable commercial and recreational activity
- Support urban development outcomes and provide strategic benefits from future development opportunities of valuable underlying land

Wellington has a significantly lower number of council operated parking spaces per 100 central city jobs than other urban TLAs (see Table 6). This is due to WCC only operating 14% of the total parking supply in the central city. Private operators provide the rest, with the total parking supply estimated at 29,000 spaces.[86] Low levels of public ownership of carparks in the CBD can be detrimental for the area, reducing price competition.[87]

Table 6 Council comparison of carparks and central city jobs

Council operated central city parking by city[88]				
City	Central city jobs (2013)	Parking spaces[89]	Spaces per 100 jobs	First hour parking charge
Wellington	62,391	4,673	7	$4.50
Auckland	48,939	8,400	17	$5.00
Christchurch	19,818	4,638	23	$3.10
Lower Hutt	8,007	1,987	25	$1.50
Porirua	5,595	Unknown	Unknown	Free

Off-street parking (e.g., carpark buildings are less commonly owned by WCC due to land availability and the cost of building a seismically safe structure. As such, private providers supply most CBD parking.

Council-controlled parking has decreased over the last 10 years. This is due to population changes, emerging growth of Wellington's suburban centres, and new cycleways and pedestrian-focused developments.[90]

Parking income is strategically important for WCC as it provides a valuable source of non-rates revenue. In 2018/19, parking generated $29.04m or 12% of non-rates revenue.[91] There is potential for this to increase with appropriate investments.

[86] Wellington City Council (2020) Parking policy review; Background information and issues report. Accessed through: https://www.letstalk.wellington.govt.nz/41514/widgets/235013/documents/142020
[87] NZ Herald (2020) Wilson parking to divest carparks, pa$500k
[88] Ibid
[89] Includes both on- and off-street parking
[90] Ibid
[91] Calculated as; Parking Revenue / (Total Revenue - Rates Revenue) = 29,036 / (559.901 - 309,887). Wellington City Council (2019) Annual Report 2018/19. Accessed through: https://wellington.govt.nz/your-council/plans-policies-and-bylaws/plans-and-reports/annual-report/annual-report-2018-19

Most off-street parks are in the Clifton Parking, area located off the Terrace. WCC manages this on behalf of NZTA, and therefore only receives 13% of the Clifton Parking revenue.

7.5.2.2 Risk Exposure

Legislative and regulatory

The National Policy Statement – Urban Development 2020 (NPS-UD 2020) and the District Plan are actively seeking to reduce the level of car parking provided for in the CBD, particularly around minimum requirements for carparks in new apartment building.

Financial

Most WCC controlled parking is not fully user pays. Fees have remained unchanged from 2009-2017 and have not been raised relative to inflation.[92]

Without a change in approach, long-term revenue reduction is expected due to the increase in low revenue parking streams e.g., mobility parking, loading zones, and dedicated spaces for taxis, rideshares, and EV users. Recent trends, such as working from home, might further exacerbate this position.

Natural hazard

Seismic risk is of particular concern for carpark buildings. For example, the WCC owned Frank Kitts carpark remains operational with an NBS rating of less than 15%, which is classed as 'Very High Risk'.[93]

7.5.2.3 Size of the asset / income / interest

Parking generated actual revenue of $29.04m and net revenue of $14.44m in 2018/19. Parking fees and enforcement are forecast to fund 20% of total non-rates revenue in 2020/21.

7.5.2.4 Barriers to change

Local authorities are not required to provide carparks, but their management is governed by a range of legislation. For example, the LGA restricts WCC to the recovery of reasonable costs for permits only, such as resident parking permits and coupon exemption permits.[94]

Parking coupons and metered parking fees are not restricted, but costs must still be reasonable. However, car parking is often a contentious public topic – any fee increases would require appropriate stakeholder engagement.

WCC cannot charge for parking on sports or recreational activities situated on reserves and the Town Belt, as 'commercial activities' are not allowed per the Wellington Town Belt Management Plan. Commercial use refers to use by an individual, group, or organisation that is carried out for profit or as a means of livelihood or gain. This includes, but is not limited to, recreation and sport, tourism, and filming businesses.[95]

[92] Wellington City Council (2020) Parking Policy. Accessed through: https://wellington.govt.nz/your-council/plans-policies-and-bylaws/policies/parking-policy

[93] Frank Kitts Carparking Detailed Seismic Assessment. Sourced from: https://wellington.govt.nz/~/media/recreation/parks-and-reserves/files/frank-kitts/frank-kitts-carpark-detailed-seismic-assessment.pdf?la=en

[94] Wellington City Council (2020) Parking policy review; Background information and issues report. Accessed through: https://www.letstalk.wellington.govt.nz/41514/widgets/235013/documents/142020

[95] Wellington City Council (2013) Wellington Town Belt Management Plan – Rules for use and development. Accessed through: https://wellington.govt.nz/~/media/your-council/plans-policies-and-bylaws/plans-and-policies/a-to-z/townbeltmgmt/files/90rules.pdf

7.5.3 Potential Opportunities

Cumulative opportunity rating	Large

1. **Invest in technology:** Per internal meetings, an approximate net revenue increase of $2.0 to $4.0m p.a. could be realised if a technology investment is made.

2. **Review encroachment fees:** Reviewing encroachment fees, which are currently a one-off per annum fee of $103.50, plus $15.10 per m^2 per annum[96]. Encroachment licences are required to build a structure on, over, or under the land between a property's front boundary and the road or footpath. This is quite common for accessing carports, garages, etc.

3. **Divest car parks:** WCC owns eight carparks in the Victoria Street Carparking Centre – based on comparable sales, this could be a one-off $300,000 value opportunity.

4. **Inhouse carpark enforcement:** WCC operates two carparks on the waterfront, providing approx. 2,180 spaces. Enforcement of the waterfront car parks is contracted out, but there is an option to bring it in-house.[97]

5. **Park and Ride parking spaces:** Partnering with a developer owned car park with some spaces allocated for park and ride. Opportunities can exist in areas such as Johnsonville where network public transport infrastructure is in place and there is comparatively high throughput.

6. **Negotiate to increase proportion of Clifton Parking revenue:** Most off-street parks are in the Clifton Parking area, which is managed by WCC on behalf of NZTA. WCC only receives 13% of the revenue from Clifton Parking, which was $3.12m in 2018/19. Internal interviews suggested there could be opportunities to negotiate to increase this percentage.

7. **Acquire central city car park buildings:** Wilson Parking is divesting the leases of three carparking facilities it currently operates in a settlement agreement with the Commerce Commission. This comprises of 850 parking bays in Wellington Central. WCC is negotiating taking over these leases, providing an opportunity for another revenue source.[98]

[96] Wellington City Council (2020) Encroachment Fees. Accessed through: https://wellington.govt.nz/services/consents-and-licences/encroachments/encroachment-fees

[97] Wellington City Council (2020) Parking policy review; Background information and issues report. Accessed through: https://www.letstalk.wellington.govt.nz/41514/widgets/235013/documents/142020

[98] Commerce Commission (2020) Wilson Parking agrees to divest car parks in settlement agreement with Commerce Commission. Accessed through: https://comcom.govt.nz/news-and-media/media-releases/2020/wilson-parking-agrees-to-divest-car-parks-in-settlement-agreement-with-commerce-commission

7.6 Commercial Portfolio

7.6.1 Summary

Assessment Criteria	Rating
Strategic alignment	Very High
Risk exposure	High
Size of asset / income / interest	Large
Barriers to change	High

7.6.2 Assessment

7.6.2.1 Strategic Alignment

Assets held in this portfolio are typical for a council, as the land and buildings are used to accommodate a city's operational activities, or held for purposes such as road widening, heritage, or compliance monitoring. In some cases, parts of these assets are leased to external parties on a commercial basis.

For some assets that have a commercial nature e.g., retail, the terms of these leases generally range from one to 15 years. However, most assets in this portfolio often provide pure public goods with no or little market appetite. If not maintained, they would create negative amenity value or disruption to necessary infrastructure development and maintenance.

These assets also enable WCC to perform long-term commercial planning requirements, assess current and future development requirements, and help manage the delivery of commercial services in the community. Some are legacy assets with historical significance and heritage status. Holding assets to maintain Wellington's cultural identity has strong strategic value.

7.6.2.2 Risk Exposure

Legislative and regulatory

Ongoing property management responsibilities for all land and buildings i.e. properties are fit-for-purpose and compliant with legislative requirements such as the Building Act 2004 and the New Building Standard (NBS).

Asset management

WCC owns a sizable heritage portfolio (565 buildings as of February 2018, 157 of which require strengthening) across the city. Within this exists a trade-off between heritage and character protection, and seismic strengthening costs. Redevelopment costs for seismically weak buildings and low return levels for development disincentivise developer demand.

Natural hazard

High seismic risk with the presence of regional fault lines. This ties into WCC's insurance risk, as not all of their assets are covered by insurance. For the amount uncovered, WCC has opted to self-insure through the maintenance of appropriate debt headroom. Additionally, sea level rise and climate change risk pose threats which are to have profound implications on WCC, as outlined in Section 4.2.1.5.

7.6.2.3 Size of the asset / income / interest

The asset class is valued at $1.078b, which is limited to land, buildings, and restricted buildings.[99]

7.6.2.4 Barriers to change

[99] Figure includes land, buildings and restricted buildings. Excluded: Civic Precinct, infrastructure property interests, Town Belts, parks and reserves. The rationale for this exclusion is that these other asset classes are captured elsewhere in this Review.

Heritage listed sites in the District Plan require resource consent under the Resource Management Act for any development or subdivision, and as such, remain largely undesirable to the market.

WCC is undertaking amendments to the District Plan and changing existing community conditions around heritage character protection in response to the Central Government's recent NPS-UD. The policy statement instructs city councils to relax planning rules and raise height limits to accommodate future population growth.

7.6.3 Potential Opportunities

Cumulative opportunity rating	Small

This portfolio comprises of a range of assets. Any value realised will be dependent on the disposals of individual assets and/or group of assets. However, as most of these have development constraints and serve operational/heritage purposes they are unlikely to be readily divested.

Notwithstanding, one potential opportunity is:

1. **Assess whether specific property ownership is necessary across the portfolio:** Consider alternatives to ownership such as increasing utilisation of existing assets, leasing land, securing desired outcomes through easements, and contracting services to the market.

Additionally, there are other levers WCC can use to realise more public value and benefits not strictly linked to the balance sheet.

1. **Enhance funding and incentive tools to heritage building owners or prospective buyers for seismic strengthening:** For example, the Israeli government developed a national policy to encourage real estate developers to retrofit old buildings in exchange for granting them the right to add additional dwelling units.[100]

2. **Develop heritage property assessment framework:** Develop a framework around participatory planning and stakeholder consultation to assess heritage properties' exposure to socioeconomic pressures, and the environmental impacts of climate change. This framework could be embedded in WCC's broader long-term planning legislation and would help prioritise strategies for conservation and development.

3. **Encourage development in accordance with long-term growth plans.** WCC could offer financial incentive mechanisms such as waiving or reducing applicable fees, such as resource consent and inspection fees. Although these costs would be covered by WCC, this strategy could make it more attractive for potential developers to undertake unique development.

[100] Technological and Economic Development of Economy (2015) Public Private Partnership for Earthquake Mitigation involving Retrofit and Insurance. Accessed through: https://www.researchgate.net/publication/280835964_Public-Private_Partnership_for_earthquake_mitigation_involving_retrofit_and_insurance

8 Community and Restricted Infrastructure

8.1 Overview

8.1.1.1 In scope

Pools and recreation facilities

WCC wholly owns, manages, maintains, and operates:

- Five indoor swimming pools
- Two outdoor swimming pools
- Five multi-purpose recreation centres including the ASB Sports Centre
- 44 natural and 11 artificial sports turfs (two in partnership with schools)

Ground leases relating to recreational activities have been considered in scope.

Libraries and community centres

WCC wholly owns, manages, maintains, and operates:

- 14 libraries
- 25 community centres

WCC's community centres offer resources, support services, and activities to improve the quality of life for its communities. Community centres are available for hire at subsidised rates.

A map of all pools and recreation centres, libraries and community centres owned by WCC has been attached in Appendix D.

Operational marinas

Clyde Quay Boat Harbour is an historic 0.42ha boat harbour located in Oriental Bay, with 50 boat sheds and moorings owned by license holders (no visitor berths). It was constructed between 1905 – 1922.

Evans Bay Marina is located at the south end of Evans Bay in Wellington Harbour and consists of fixed piers with 141 associated berths and boat sheds. There are 3 buildings containing 44 boatsheds, 37 dinghy lockers, and office accommodation. Other infrastructure includes car parks, paths, and paved areas with the total land area developed for the marina amounting to 3.37ha.

Parks, land, and open space

WCC wholly owns, manages, maintains, and services:

- Local parks, open spaces, botanical gardens, beaches, coast operations, town belts, community environmental initiatives, walkways, and biodiversity.
- This includes 4,221 hectares of open space, 213 parks, and 357.2km of tracks. One-eighth of Wellington's area is reserves.

Ownership is from a mixture of vesting, acquiring, and gifting.

Ownership of these assets is linked to environmental protection, mitigating climate change effects, and public health benefits. Increasing ownership has occurred, and is actively pursued, to implement open space and recreation opportunities to cater for future growth and demand. 181 hectares has been acquired over the last three years.[101]

[101] Wellington City Council (2019) Annual Report 2018/19. Accessed through: https://wellington.govt.nz/your-council/plans-policies-and-bylaws/plans-and-reports/annual-report/annual-report-2018-19

8.1.1.2 Out of scope

Arts and cultural assets

Arts and cultural assets (artworks, sculptures and statues) have high social and cultural value, and complex ownership arrangements. These are not within the scope of this Review, and instead require bespoke evaluation due to the unique asset characteristics.

Waterfront public space

Waterfront public space is included by WCC under parks, land, and open space. However, all waterfront assets have been examined in the waterfront category under Section 7 (Income Generating Property) of this Review.

Infrastructure assets

Infrastructure assets include the roading network, water, waste, and drainage reticulation networks. Service concession arrangement assets and infrastructure land (including land under roads) are out of scope.

Infrastructure assets are integral to the functioning of any city, and as a result alternative suggestions and opportunities to realise value are unlikely but not non-existent. However, these are out of scope because:

- Roading assets are generally not currently income generating assets, and Waka Kotahi NZ Transport Agency will contribute approximately 55% towards the restoration of qualifying roading assets. [102] As such, opportunities to realise further value from roading assets have been considered out of scope.
- Although WCC has significant input and influence over Three Waters decisions as an asset owner, any assessment of Three Waters infrastructure opportunities have been considered out of scope due to the ongoing work of the current Three Waters Reform Programme.

[102] Wellington City Council (2019) Annual Report 2018/19. Accessed through: https://wellington.govt.nz/your-council/plans-policies-and-bylaws/plans-and-reports/annual-report/annual-report-2018-19

8.2 Pools and recreational facilities

8.2.1 Summary

Assessment Criteria	Rating
Strategic alignment	Moderate
Risk exposure	Low
Size of asset / income / interest	Medium
Barriers to change	High

8.2.2 Assessment

8.2.2.1 Strategic Alignment

Section 11A under the LGA outlines libraries, museums, reserves, and other recreational facilities and community amenities as core services for councils to consider when performing their role.

Pools and recreation centres provide access to, and opportunities for, participation in recreation and leisure. This includes participation in sporting and other group activities, as well as opportunities for social cohesion and connectedness. It is common for pools and recreational facilities to be managed by local authorities and the value of the asset holdings themselves are not the main strategic driver.

8.2.2.2 Risk Exposure

Financial

Risks exist to preserve naming right sponsorship given marketing and sponsorship budgets for corporates are tight following COVID-19.

Declining and at-risk income streams raise uncertainty about future continual investment to retain levels of service. Net operating expenditure is budgeted at $19.349m for pools and $8.421m for recreation centres in 2020/21. The operating cost for the ASB Sports Centre is $6.9m, which exceeds the combined operating expenditure of other recreation centres ($3.5m).[103]

Natural hazard

Seismic risk, which has already led to current closures and costs and seismic liquefaction on reclaimed land and resilience issues with buildings.[104]

Asset management

Pools and recreation facilities have been historically underfunded, and asbestos problems have been identified in some facilities. As a result, figures from the LTP indicate the following capital expenditure is required over the next 10 years: $21.406M for aquatic facility upgrades and $3.109M for recreation centres.

8.2.2.3 Size of the asset / income / interest

Pool sites were acquired at a cost of $8.78m, not including buildings, pools, fixtures etc.[105]

Pool fees and memberships are broadly in line with all other councils in the Wellington region however pool and gym memberships are significantly less than private memberships for the same services.

[103] Wellington City Council (2020) Annual Plan 2020/21. Accessed through: https://www.letstalk.wellington.govt.nz/annualplan2020-21
[104] Wellington Lifelines Project (2019) Protecting Wellington's Economy Through Accelerated Infrastructure Investment Programme Business Case. Accessed through: https://wremo.nz/assets/Uploads/Wellington-Lifelines-PBC-MAIN-Combined-20191009.pdf

[105] Wellington City Council (2020) Asset Book Values. Accessed through: Internal information request.

- Net operating cost per resident for Wellington City Council pools is $95.44, compared to Porirua City Council's which is around $103. [106]
- Private pool and gym memberships range between $50-$70, whereas private gym memberships only range between $10-$50; although this is dependent on terms and chosen features. [107]

8.2.2.4 Barriers to change

Legislative expectations under Section 11A of the LGA outlines libraries, museums, reserves, and other recreational facilities and community amenities as core services. This provides a basis for public ownership.

Any increases to fees and charges will require stakeholder consultation. However, examples at Waitohi have shown that asset amalgamation is possible when done in partnership with the community, and when community access to services is within reasonable limits.

8.2.3 Potential Opportunities

Cumulative opportunity rating	Medium

1. **Carry out a review on Levels of Service:** To ensure equity of access is achieved, a review to identify under- and over-served areas could be conducted. This would allow WCC to effectively adjust the level of services and facilities provided. This could lead to amalgamation of similar facilities in the same area to improve operational efficiency and reduce expenses.

Case Study: Waitohi

Waitohi is Johnsonville's community hub which is home to a new larger library and café and the Whānau Manaaki Kindergarten. These connect with the Keith Spry Pool, Johnsonville Community Centre through to Memorial Park through a new landscaped outdoor area.

This facility has been designed to provide for future population growth and demand, and serve a range of functions, while making the most efficient use of space. [108]

2. **Increase rent:** Ground and premise leases are currently subsidised by approximately 87%. [109] There is no indication of the reasoning behind rental determination rates used in the leases policy for community and recreation groups. Auckland Council bases its rates on subsidised maintenance fees only, with no rents charged at all.

Rental rate per m^2 per annum		
Size	WCC[110]	Auckland Council[111]
Less than $100m^2$	$1.60	$2.50
$100m^2$ - $500m^2$	$1.20 - $1.60	$1.00 - $2.00
Greater than $500m^2$	$0.20 - $0.60	Less than $2.00 (area dependent)

[106] Wellington City Council (2020) Annual Plan 2020/21. Accessed through: https://www.letstalk.wellington.govt.nz/annualplan2020-21 Calculation: (Operating Costs – Income) / Population of 202,737; Porirua City Council (2020) Annual Plan 2020/21. Accessed through: https://poriruacity.govt.nz/your-council/city-planning-and-reporting/annual-plan/

[107] Private fees obtained from the following sources: https://www.synergyfitness.co.nz/synergy-memberships/; http://www.jetts.co.nz/membership; https://www.habit.co.nz/gym/membership

[108] Wellington City Council (2020) Waitohi named as one of Wellington's best spaces. Accessed through: https://wellington.govt.nz/your-council/news/2020/04/waitohi-named-as-one-of-wellington-best-spaces.

[109] Wellington City Council (2012) Lease Policy for Community and Recreation Groups. Accessed through: https://wellington.govt.nz/your-council/plans-policies-and-bylaws/policies/leases-policy-for-community-and-recreational-groups

[110] Wellington City Council (2012) Lease Policy for Community and Recreation Groups. Accessed through: https://wellington.govt.nz/your-council/plans-policies-and-bylaws/policies/leases-policy-for-community-and-recreational-groups

[111] Auckland Council (2012) Community Occupancy Guidelines. Accessed through: https://www.aucklandcouncil.govt.nz/grants-community-support-housing/docsleasingbuildings/community-occupancy-guidelines.pdf

3. **Explore sponsorship or advertising opportunities:** Consideration of sponsorship or advertising opportunities to increase revenue streams and reduce cost dependency on ratepayer fees. This would be a longer-term solution, taking into account the impacts of Covid-19 on this form of funding in the short to medium term.

4. **Take up applicable energy efficiency grants:** The Energy Efficiency and Conservation Authority (EECA) provides grants and Crown loans for energy efficiency projects in the public sector.[112] Seeing as pools and recreational facilities are high energy usage assets, energy grants would reduce operational costs, as well as encourage investment in energy efficient items such as solar panels.

[112] Wellington City Council (2020) Energy efficiency grants. Accessed through: https://wellington.govt.nz/services/environment-and-waste/sustainability/businesses/energy-efficiency-grants

8.3 Community centres and libraries

8.3.1 Summary

Assessment Criteria	Rating
Strategic alignment	Very High
Risk exposure	Moderate
Size of asset / income / interest	Very Large
Barriers to change	High

8.3.2 Assessment

8.3.2.1 Strategic Alignment

Section 11A under the LGA outlines libraries, museums, reserves, and other recreational facilities and community amenities as core services. Section 142 of the LGA also outlines an obligation for local authorities to provide free library membership.

Libraries provide access to information and entertainment and facilitate the improvement of literacy and reading by providing free access to resources. Community centres provide spaces for communities to congregate for subsidised rates, which allows equitable access of gatherings.

Wellington has highest number of libraries per thousand people in New Zealand at 0.07,[113] followed by Christchurch[114] and Dunedin[115] with 0.05. Auckland has 0.03[116] libraries per capita.

8.3.2.2 Risk Exposure

Financial

WCC recorded an impairment of $30.21m on the Central Library, which results in a zero-dollar book value. WCC is considering options with the Central Library as part of a review of the whole Civic Precinct. The likely cost to rectify Central Library structural issues has been estimated between $96m to $205m.[117]

Over the next 10 years, $19.3m has been budgeted to address ageing facilities and required capital expenditure investments – this excludes Central Library rectification costs.

Natural hazard

The Central Library has been flagged as earthquake prone and has been subsequently closed. Redevelopment and / or strengthening will be required to return the library to full operation. Seismic concerns will persist given the structural integrity of the building.

Five libraries are outside the insurance policy (Wadestown, Newtown, Miramar, Karori and Cummings Park)[118]. There has been no indication on NBS ratings, but there could be potential for damage risk in the event of an earthquake.

[113] Wellington City Libraries (2020) Branches. Accessed through: https://www.wcl.govt.nz/about/branches/

[114] Christchurch City Council (2018) Long Term Plan 2018/28. Accessed through: https://ccc.govt.nz/assets/Documents/The-Council/Plans-Strategies-Policies-Bylaws/Plans/Long-Term-Plan/2018-2028/LTP-201828-Volume2.pdf#page=157

[115] Dunedin City Council (2020) Locations and hours. Accessed through: https://www.dunedinlibraries.govt.nz/locationhours. Note: Mobile libraries have been excluded.

[116] Auckland Council Libraries (2020) Locations and Hours. Accessed through: https://www.aucklandlibraries.govt.nz/Pages/locations-and-hours.aspx

[117] Wellington Scoop (2020) Strengthening the Central Library could cost $96m or $205m. Accessed through: http://wellington.scoop.co.nz/?p=126579

[118] Wellington City Council (2020) NBS Ratings for WCC Properties. Accessed through: Internal information request.

8.3.2.3 Size of the asset / income / interest

The asset valuation of all community centres is $17.8m (per asset cost values and all libraries is $93.9M (per asset cost values).

Income generated from WCC libraries was estimated to be $0.63m in 2020 on a cost base of $27.19m. This is a significant operating deficit but is similar on an absolute and comparative basis with other council library holdings in the Wellington region. For example, Porirua City Council forecast income to cover 4% of operating costs compared to 2% for WCC.

Council	No. of libraries	Income	Operating Costs	Income / Op. Costs
Wellington City Council[119]	14	$0.63m	$27.19m	2.3%
Porirua City Council [120]	5	$0.11m	$2.736m	4.1%

8.3.2.4 Barriers to change

Legislative expectation under Section 11A of the LGA outlines libraries, museums, reserves, and other recreational facilities and community amenities as core services. This provides a strong basis for public ownership. Moreover, any increases to fees and charges will require stakeholder consultation.

Examples at Waitohi have shown that asset amalgamation is possible when done in partnership with the community, and when community access to services is within reasonable limits. Providing fewer, but better-quality facilities, can impact on patronage, with data obtained from WCC showing visitor numbers at the Johnsonville Library (Waitohi Hub) approximately doubling post amalgamation.

There is a current proposal to make Central Library a Category 1 Historic Place. If successful, this would present considerable barriers to demolition.[121]

8.3.3 Potential Opportunities

Cumulative opportunity rating	Medium

1. **Amalgamate sites or rationalise stock:** A marginal opportunity to amalgamate some sites and/or rationalise stock where there is overprovision of services and earthquake coverage exposure exists.
2. **Consider leasing rather than ownership:** Community centres could be leased from private owners and provided to the public at subsidised rates, instead of being wholly owned by the Council.
3. **Joint ownership or lease-buy-back:** Community centres could be owned jointly or on a lease-buy-back model with community trusts/entities in the area.
4. **Explore sponsorship or advertising opportunities:** In the longer-term, consider sponsorship/advertising opportunities to increase revenue streams and reduce cost dependency on ratepayer fees.
5. **Library-specific operational review:** Conduct a library specific review to identify operational inefficiencies and potential cost savings given significant operating cost differentials to comparable Wellington region jurisdictions.

[119] Wellington City Council (2020) Annual Plan 2020/21. Accessed through: https://www.letstalk.wellington.govt.nz/annualplan2020-21 Summed: library network – wide operation, branch libraries and CBD library services network.
[120] Porirua City Council (2020) Annual Plan 2020/21. Accessed through: https://poriruacity.govt.nz/your-council/city-planning-and-reporting/annual-plan/

[121] NZ Herald (2020) Heritage New Zealand proposes listing Wellington's Central Library, built in 1991. Accessed through: https://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=12363847

8.4 Marinas

8.4.1 Summary

Assessment Criteria	Rating
Strategic alignment	Low
Risk exposure	High
Size of asset / income / interest	Medium
Barriers to change	Moderate

8.4.2 Assessment

8.4.2.1 Strategic Alignment

Clyde Quay marina makes up part of the broader Wellington Waterfront area in the central city. The marina exhibits locational qualities that provide a level of strategic value when combined with the overall waterfront portfolio. The marina has heritage status, therefore constraining redevelopment potential and negatively impacting market interest.

From a financial standpoint, there is little strategic rationale for WCC to maintain ownership of Evans Bay and Clyde Quay marinas. The current operating/funding models rely on 100% of user charges. However, the marinas are currently operating at a net deficit and potential further income loss based on WCC projections. Forecast operating expenditure and depreciation to 2021 are forecast to outweigh any income generation.

When considering the risks associated with the funding requirements for this group of assets, and the key challenges around maintenance and depreciation, there does not appear to be an obvious benefit to WCC's ownership of Evans Bay marina.

Clyde Quay marina does provide relative strategic value within the overall waterfront portfolio, and its heritage status would limit disposal opportunities.

8.4.2.2 Risk Exposure

Natural hazard

External factors such as seismic events and climate change. Sea-level rise and storm surge pose an increased risk and vulnerability to marinas infrastructure.

The natural environment also presents challenges to a marina's physical conditions. Wind and ocean tides cause corrosion and decay, leading to asset failure. These challenges in combination with the age of Evans Bay Marina will require the piers to be raised or rebuilt to an appropriate standard for continued marina over the next 30-50 years.

Asset management

Significant future capex requirements will continue to inhibit the marinas' profitability. According to asset management plans provided by WCC, the two marinas are forecasting operating expenditure and depreciation expenses between $800k to $1.0m p.a. from 2022 to 2028. Annual income for the same period is forecast at approximately $600k p.a.

Evans Bay Marina is approaching the end of its economic life and is at high risk due to sea level rise. As such WCC have been reconsidering their options and the renewal strategy for the marina.

Any increased growth or demand for new berths across the region is likely to be met by increased provision at Seaview Marina. Seaview Marina is a new, privately owned marine service centre with retail shops and showrooms. Seaview Marina also offers marina-specific workshops, which provide a service and recreational hub for the local marine and boating industry, and the public.

8.4.2.3 Size of the asset / income / interest

According to the asset register provided by WCC officials, Evans Bay marina and Clyde Quay marina have a current book value of $14.2m and $2.2m, respectively. These values reflect the most recent revaluations, which were conducted in 2018.

8.4.2.4 Barriers to change

Reinvestment and/or redevelopment in the marinas would need to be evaluated against WCC's other spending activities. Reassessment of the current operating model is required; the marinas are meant to be 100% user funded and are currently recording a net deficit.

Any renewal or upgrades (and the associated costs) will need to be balanced with the demand for marina berths in the Wellington region. They must also fall within boundaries affordable to marina tenants.

8.4.3 Potential Opportunities

Cumulative opportunity rating	Medium

1. **Divest Evan's Bay marina:** Divesting Evans Bay marina would enable WCC to realise value of approximately $14.2m, pending a property revaluation and buyer interest.

2. **Explore development opportunities at Evan's Bay:** With a land area of 3.37 hectares, opportunities might also exist to undertake development opportunities at Evans Bay marina. Developments could include larger building facilities with more aquatic service offerings, storage facilities, or partnership opportunities with ride sharing operators for use of the parking infrastructure.

3. **Contract out marina usage:** Contracting marina usage to other aquatic organisations able to extract greater value from the site through additional service offerings. Additionally, consider future partnerships for funding and shared facilities.

8.5 Parks, land, and open space

8.5.1 Summary

Assessment Criteria	Rating
Strategic alignment	Very High
Risk exposure	Moderate
Size of asset / income / interest	Small
Barriers to change	Very High

8.5.2 Assessment

WCC has classified parks following NZ Recreation Association guidelines.[122] These have been consolidated into the following three categories to provide wider groupings for the purpose of this Review.

1. **Town Belt/Restricted Land:** Wellington Town Belt, Outer Green Belt, Cultural Heritage and Ecological Linkages
2. **Parks:** Sport and Recreation
3. **Open Space/Other:** Neighbourhood, Natural

Assessments have been done on the above grouped basis only where specifically stated.

8.5.2.1 Strategic Alignment

The provision and operations of these assets are outlined as one of the purposes of Local Authorities in the LGA. Section 11A under the LGA outlines reserves, and other recreational facilities and community amenities as core services.

One-eighth of Wellington's area is reserve and has been protected for current and future generations. It provides a wide range of recreational benefits and is held in high regard as an iconic part of Wellington's landscape.

Environmentally, park space supports the city's response to climate change by acting as a carbon sink.[123] Additionally, park space contributes to city resilience as green open spaces and natural environments can adapt to climate change e.g., helping manage stormwater while enhancing and protecting biodiversity.

For access to open green spaces, there is no other suitable alternative. It is highly unlikely the private sector would provide this, unless certain areas are already earmarked in legislation (e.g., the District Plan) or provisions are regulated.

To maintain the assets, ensure public safety and accountability, it is best for this type of asset to broadly remain in WCC ownership.

8.5.2.2 Risk Exposure

Natural hazard

Documents received from WCC suggest climate change challenges pose high natural hazard risks through increasingly frequent extreme weather events and changes in rainfall patterns and rainfall intensity. Parks, open space and other assets pose greater impacts from these risks due to their varied locations and public usage of these assets/built facilities e.g., playgrounds.

122 Wellington City Council (2015) Suburban Reserves Management Plan. Accessed through: https://wellington.govt.nz/your-council/plans-policies-and-bylaws/policies/suburban-reserves-management-plan

Town belt and restricted land is at greater risk from extreme weather events and the accompanying costs of managing these assets e.g., higher tree management costs.

Environmental

Pest management upkeep and further investments are required concurrent to existing investments in Predator Free Wellington and plant biosecurity.

Asset management

Increasing political pressure, community pressure, and expectations from shifting and growing recreational trends to provide additional assets and facilities.

Declining or at-risk income streams and uncertainty over continual future investment to retain levels of service. According to the LTP, only 5% of total expenses (operating and capital) are funded by fees and user charges.

Future cost implications, which may involve the gradual replacement of all Pōhutukawa trees from the threat of Myrtle Rust. As an illustrative example, removing a single large Pōhutukawa tree could cost up to $2,500. In Wellington City alone there are 19,000 – 24,000 Pōhutukawa, of which 4,000 are located on streets.

8.5.2.3 Size of the asset / income / interest

Parks and reserves, and the Town Belt are valued at $213.219m and $89.232m respectively. This is a total of $302.451m.[124]

Revenue from parks and recreational leases was $2.5m – after the application of rent abatements due to Covid-19. Note: this figure also increases ground leases on the Waterfront.

WCC has budgeted $44.5m of net operating expenditure within the 2020/2021 Annual Plan. Comparatively Christchurch City Council has budgeted $71.5m for parks, heritage, and coastal environment in their 2020/2021 Annual Plan. Christchurch's allocation sits well above Wellington's budget allocation due to the inclusion of heritage operating expenses.

8.5.2.4 Barriers to change

Town Belt/Restricted Land

Legislation which specifically allows, manages and prohibits activities including the Town Belt Act and the Reserves Act.

Parks and Open Space/Other

Zoning classifications in the District Plan, limiting and prohibiting activities. Zoning reclassifications can be approved by WCC as the administering body.

All Categories

Unavailability of good quality flat land to provide usable public spaces. This limits asset recycling opportunities.

Any divestment would require considerable stakeholder and community consultation.

[124] Wellington City Council (2019) Annual Report 2018/19. Accessed through: https://wellington.govt.nz/your-council/plans-policies-and-bylaws/plans-and-reports/annual-report/annual-report-2018-19

8.5.3 Potential Opportunities

Cumulative opportunity rating	Small

Open Space/Other

1. **Review WCC land holdings, parks and reserves:** Particularly in urban confines – with a view to providing equitable access to greenspace. Selected one off monetary value could then be realised by marginally reconfiguring the portfolio.

2. **Reserve classification / purpose / revocation review:** Consider changing the classification / purpose / revocation of underutilised reserves to allow for permitted activities such as recreation and/or community use. This can be done under Section 24 of the Reserves Act 1977.

3. **Repurpose underutilised open spaces for other community/recreational activities:** For example, 102 Hazelwood Avenue is an open corner space of land, in a residential area, zoned Open Space A. It has been earmarked as better suited to urban agriculture or to support the nearby Makara Peak Mountain Bike Park Activities. However, this could also be divested/developed for residential purposes.

Parks

1. **Continue to convert parks into other facilities:** Converting suitable parks and open spaces to sports facilities e.g., courts with AstroTurf/artificial grass/synthetic turf. Although Astroturf requires greater upfront costs, they require significantly less maintenance than natural grass. Additionally, their durability and reliability in different weather conditions have resulted in greater capacity and usage of sporting facilities. The implementation of Astroturf has already seen great success at Nairnville Park and Wellington Showgrounds.[125]

2. **Develop a land acquisition and disposal strategy:** This would provide the principles behind the decision to acquire, retain, or divest landholdings. Developing such a policy would make decisions transparent.

Case Study: Park Access in New York City

A 2007 NYC report highlighted that New Yorkers had fewer acres of green public space per person than any other major American city. As part of a wider project called PlaNYC, the city committed to ensuring that 85% of New Yorkers live within a 10-minute walk (1/4 mile) of a park by 2030.

From 2007 to 2013 an additional 250,000 people had improved access to parks due to the project. This improvement was facilitated by opening underutilised spaces such as playgrounds, creating and upgrading current parks.[126]

[125] Sport New Zealand (2014) Wellington sport gets a boost with artificial turf. Accessed through: https://sportnz.org.nz/resources/wellington-sport-gets-a-boost-with-artificial-turf/

[126] The City of New York (2007) A Greener, Greater New York. Accessed through: https://www.sallan.org/pdf-docs/plaNYC-full_report-2007.pdf

9 Alternative Funding and Financing

9.1 Overview

While this Review is fundamentally focussed on assets that are present on the WCC balance sheet, there are a number of other opportunities that have arisen through research and interviews with WCC officers. These opportunities look to increase revenues, or reduce expenditure, and are related to 'new' activities and funding sources. In this context, a slightly different presentational approach for the analysis has been adopted.

9.1.1.1 In scope

Insurance

WCC has considerable exposure to natural hazard risks. While coverage has been sought through a range of measures (private market provision, self-insurance, maintenance of appropriate debt headroom), opportunities to increase WCC's ability to access insurance or to establish an insurance/resilience fund with annual annuity potential exist.

Expanding the rating base

WCC has a comparatively high reliance of residential and commercial rates, and this poses risks for ongoing financial flexibility. It is proposed that WCC explore amending the definition of land parcels that are currently 'non-rated'. Additionally, it is proposed that WCC advocate for greater use of 'regional rates' or national support to fund regionally and nationally significant investments.

Tax health-check

Other TLA experience has demonstrated there could be areas where WCC is overpaying tax. A high-level tax health check could assess whether WCC is overpaying tax, how to remedy this, and highlight any obvious compliance risks.

Development contributions

The specific appropriateness of the Development Contributions (DCs) policy is out of scope, but some general commentary on DCs and challenges in using DCs in Wellington City follow.

9.1.1.2 Out of scope

Comment on the appropriateness of specific rates

Specific commentary on rate apportionment was not possible in the timeframe of this analysis. Moreover, due to how local government finance plans are set, rating apportionments are typically focused on equity considerations rather than revenue generating opportunities.

Comment on specific levels of fees and charges

Detailed analysis to optimise user fee and charge rates (considering elasticities etc.) was not possible within the timeframe of this Review.

Opportunities for organisational efficiency

Opportunities to streamline operational and decision-making processes, and service amalgamation, etc. are fundamentally not in scope.

Finally, a 2019 Productivity Commission report illustrates numerous methods to access alternative sources of funding and financing.[127] These have not been revisited in this report but are generally supported (such as the appropriate use of value capture and Special Purpose Vehicles).

[127] New Zealand Productivity Commission (2019) Local Government Funding and Financing. Accessed through: https://www.productivity.govt.nz/assets/Documents/a40d80048d/Final-report_Local-government-funding-and-financing.pdf

9.2 Insurance

As noted extensively through this report, WCC is facing material challenges in both access to, and affordability of, insurance. Premiums are likely to continue to increase, with asset types becoming more difficult to insure, and market capacity continues to reduce.

In addition to the general observation of increasing insurance premiums, it is noticeable that:

- The WCC asset base continues to grow as a result of new assets and the increasing costs to replace existing assets. Therefore, the sum of insured values increases.
- The GNS risk assessment and loss estimates have increased to accommodate lessons learned from earthquakes in the last 5 years and more recently Kaikoura.
- Storm, wind, and landslip damage to assets is becoming more frequent and often falls below insurance triggers (self-insured risks).
- Government funding for below ground assets is likely to reduce from the previous assumption of 60% of all damage.
- Pressure on rates and debt levels (headroom) as WCC invest in the city's growth is impacting the ability to carry more risk (self-insure) and fund high premium increases.

Opportunities to reduce this risk exposure or capitalise on strong market demand for insurance services should be explored.

9.2.1.1 Opportunities

Local government has a unique role in managing natural hazard risk. Not only do TLAs demand insurance for their own assets, but they are also incentivised to encourage and support residents to have sufficient coverage. This is because uninsured general population assets post-event present a risk to the attractiveness of a city in the long-term. For example, the longer it takes to return private assets to (a new) normal following a natural hazard event, the longer it takes for community and business confidence to return, which can undermine the success of a city.

Three primary opportunities to respond to WCC's unique role and circumstances have been explored through this analysis:

- **Expand risk pool through partnership.** Look to pool assets/interests with other like-minded parties (for example central government). In theory, this would enable greater access to insurance or should result in lower premiums.
- **Encourage market participants to self-insure.** Wellington is the seat of government, and it is possible several government departments / buildings could be covered through government self-insurance, thus freeing up market capacity.
- **Develop an insurance fund.** WCC could work with insurers and central government to develop a ringfenced levy and pool system. All homeowners in Wellington would be additionally levied on their insurance, with funds going into a natural hazard risk pool to cover any major natural hazard event over and above a certain probability.

The rationale for the three proposals, inherent risks, size of potential opportunity, and barriers to change have been briefly described below but require considerably more investigation and discussion with affected parties before being 'market ready'.

9.2.1.2 Expand risk pool through partnership

In theory, WCC could look to partner with parties with similar risk profiles to increase scale and potentially improve access and affordability concerns. Two potential candidates could be:

- Central government, given the presence of similar asset classes and natural synergies in looking to promote and protect public assets.

Examples of these can include property and buildings (social housing stock, Wellington Hospital, and publicly owned schools).

- Building owners related to WCC-owned ground leases.

Additionally, WCC could look to partner with similar TLAs to insure common land-based assets collectively, as can be seen through the Local Government Mutual Services (LGMS) model employed in Queensland.[128]

Strategic alignment is **very high** given TLAs explicitly seek to minimise natural hazard risk and improve the efficiency of expenditure.

Risk exposure is **moderate**. WCC already insures assets through private market provision, explicit and ringfenced self-insurance, and maintenance of appropriate debt headroom. However, because this opportunity is looking at explicitly expanding the risk pool beyond WCC assets this increases risk exposure by definition.

Experiences in LGMS have shown that concerns also exist in terms of cross subsidisation between assets, local authorities and over time, treatment and management of data, and governance.

The **barriers to change** are assumed to be **moderate** and appear to be related to market appetite - which has not been tested through this Review.

The **size of the opportunity** is **unknown** and was untested through this Review. However, it is reasonable to expect a small reduction in premiums could be observed. This would support a benefit assessment of <$250k p.a.

This theoretical benefit would need to be considered against the theoretical increase in risk exposure, which may manifest in higher premiums or payment of excesses when an event occurs outside of WCC assets. It is also likely that administrative and oversight costs would be incurred.

9.2.1.3 Encourage market participants to self-insure

As noted in Section 4.1.1 (Current State), there are concerns about the accessibility of insurance to WCC (and the wider market) – particularly given the movement towards risk-based pricing.

A potential method of alleviating market capacity could be to work with relevant stakeholders to explore greater use of private self-insurance. This would make the most sense for central government asset holdings given the size of the balance sheet.

Strategic alignment is **very high** as this would theoretically increase insurance accessibility for WCC. This would then reduce coverage risks and could also impact on the affordability of insurance premiums.

The **risk** exposure is **very low**. WCC already insures assets through private market provision and an extension to this coverage would be beneficial to reducing exposure risks.

The **barriers to change** are assumed to be **high.** If this was in the public interest, then central government would presumably have pursued this course of action already.

The **size of the opportunity** is **unknown** and has been untested through this Review. However, the main opportunity is about freeing up greater access to insurance, and less about reduced insurance premiums.

9.2.1.4 Develop an insurance/resilience fund

One way to potentially mitigate insurance access concerns (for both WCC and Wellington residents) and diversify income streams would be establishing an insurance/resilience fund. This fund could cover natural hazard risk appetite currently unavailable in the market and could be capitalised through contributions from market participants (e.g., building owners) and/or through sector levies imposed on insurers.

This approach is similar to what occurs in Australia through the Australian Reinsurance Pool Corporation (ARPC), in London through Flood RE, and has

[128] https://lgms.jlta.com.au/

also contemplated in the Productivity Commission review of local government funding and financing options (where a Local Government Resilience Fund was proposed). In all three instances, market accessibility issues and public good arguments justify public sector intervention.

Strategic alignment is **high** given the desire to improve insurance access for all residents and asset owners in Wellington and the desire to diversify revenue streams.

The **risk** exposure is **very high**. WCC already seeks to insure assets through private market provision, explicit and ringfenced self-insurance, and maintenance of appropriate debt headroom. However, this opportunity would involve pricing in the risk of disruption to private market asset owners.

The extent to which this could be managed through reinsurance, and confidence around retrocession, might mitigate this risk. The importance of access to reinsurance cannot be understated.[129]

The **barriers to change** are assumed to be **very high**, and there are specific risks to the proposal if Wellington City seeks to insure assets only within the Wellington City Region.

Currently insurance companies partially subsidise risk across New Zealand. There are regional variations in insurance cost reflecting some level of differential risk, but it does not appear that insurance companies are fully pricing in risk for places like Wellington.

If WCC was to insure assets within the Wellington region, it would expose itself to geographic concentration risk, and may find it challenging to find a reinsurance provider to cover extreme events. It is also likely that the premium that WCC would need to charge would be *higher* than that currently offered by mainstream providers, at least for residential risk.

If WCC were to consider diversifying its risk away from Wellington – perhaps partnering with other Councils to provide insurance – the re-insurability and premium risks might reduce, but the barriers to implementation would still be high.

WCC would also need to meet the regulatory standards expected of an insurer as defined by the Reserve Bank and the Insurance Act (which is under review).

The **size of the opportunity** is **unknown** and untested through this review. However, it is noted that this would:

- Represent a potential annuity opportunity with ongoing revenue from the insured, which could be used – subject to prudential limits – to fund Council operations.

  Would support a further diversification of income streams, although for this to be a significant risk mitigation measure geographic diversification is recommended.

[129] As noted in the Public Inquiry into the Earthquake Commission "EQC and other insurers rely on reinsurance purchased from overseas reinsurers. Without the reinsurance provided by the global reinsurance market, New Zealand would be unable to provide affordable cover to New Zealand property owners for losses from natural disasters." Accessed through: https://www.interest.co.nz/sites/default/files/embedded_images/Report%20of%20the%20Public%20Inquiry%20into%20the%20Earthquake%20Commission.pdf

9.3 Tax health-check

As with all elements of local government financial management, there are always areas of improvement. Tax is no exception, and there is a real difference between being tax compliant and ensuring WCC is not overpaying its tax obligations.

9.3.1.1 Opportunity

The main area that is often overlooked is income tax. This area can have the most impact and could be valuable to explore as WCC does have profitable and taxable CCOs, such as Wellington Cable Car, within the group.

A formal tax health check has not been completed as part of this Review. However, experiences with other TLAs has shown that identifying and adopting opportunities could realise both one-off and annualised improvements in WCC's financial position.

9.3.1.2 Analysis

The **strategic alignment** of this initiative is **very high** – ensuring the correct tax is being paid to both meet obligations and avoid overpayment meets the expectations for a financially responsible TLA.

The **risk** of undertaking a technical review of this nature is **limited.** In a 'worst case' scenario, WCC would both meet compliance obligations and not overprovide tax, which should be considered a positive result. In a 'best case' scenario, there are clear and obvious cases of overpayment that could be remedied.

There are no obvious barriers to change.

The potential **size of the opportunity** is difficult to assess in lieu of full investigation of necessary information. Experiences with other TLAs have shown that, in some scenarios, a combination of one-off and ongoing improvements can result in material savings. In one instance, an outcome of over $4m in tax savings was achieved. To retain conservatism, it has been assumed WCC has not generally overpaid its tax obligations, and the potential size of this opportunity is < $250k p.a.

9.4 Alternate rates

WCC has a high reliance on general rating income when compared to other comparable jurisdictions. A wide range of reasons for this may exist, including:

- Comparably high-income per capita means that Wellingtonians generally have a greater ability to absorb rate increases than other jurisdictions
- Comparably low levels of income generating assets, which necessitates a focus on general rates

Another hypothesis developed through this Review is based around the relationship of Wellington City to the Wellington Region.

Arguably more so than any other region in New Zealand, a higher proportion of significant national and regional assets are located in Wellington City (rather than across other parts of the Wellington Region). Moreover, a high proportion of regional commuter's travel to the city every working day yet the residential population of Wellington City is comparably small.

This situation places a significant (and potentially unfair) burden on WCC, and Wellington City ratepayers to invest, maintain and provide necessary services and infrastructure.

9.4.1.1 Opportunities

Two main opportunities have been identified that could reduce the rating burden for residents:

- Removing the classification of non-rateable land; and
- Increasing the provision of regional rates to fund region-wide infrastructure.

9.4.1.2 Analysis

Non-rateable land

Most Crown land is currently exempt from general rates. This includes land occupied by institutions such as schools, universities, and hospitals, as well as the conservation estate.[130],[131] In Wellington, it is estimated that around 5-10% of total land is classified as 'Crown Land'.[132]

Some of this land, and the activities atop, are consumers of council services in the same way that a retail, commercial or industrial occupant might be. In these cases, there does not appear to be a strong rationale why Crown-owned land should be exempt from paying for access to these services (potable water, wastewater, storm water, roads etc).

In other instances, particularly conservation land, or undeveloped crown land, there appears to be a more compelling reason for exemption given that on a per hectare basis, the demand for council services would be low.

Exploring the potential to address this imbalance could increase the size of rateable properties which could generate new income or could be used to reduce rates rises across all residents.

The **strategic alignment** of this initiative is **very high**. This concords with the benefits principle outlined in the Approach section (Section 2) of this Review and which forms a core feature of decision making when local authorities look to align funding approaches to expenditure).

[130] Exemptions from rates also include land used for airports, railways and ports, some of which may be owned by the Crown and some by other entities such as regional councils.
[131] Productivity Commission (2019) Inquiry into Local Government Funding and Financing. Accessed through: https://www.productivity.govt.nz/assets/Documents/a40d80048d/Final-report_Local-government-funding-and-financing.pdf

[132] Land Information New Zealand (LINZ), (2019) Central Record of State Land (CRoSL). Accessed through: https://www.linz.govt.nz/data/linz-data/central-record-state-land#:~:text=The%20Central%20Record%20of%20State,how%20it%20is%20being%20used

The **risk** associated with this initiative is **very low**. In a 'worst case' central government is not receptive to the concept. In a best case, there is agreement that a fraction or all land should be rateable.

Barriers to change are assumed to be **high**. There appears to be moderate legislative barriers to change as the LGA sets out classes of land that should be rates exempt, but simultaneously permits the use of targeted rates to recoup the cost of water, sewerage and refuse collection.

The main barrier appears to be one of resistance to change from central government for undisclosed reasons.

The **size of the opportunity** is difficult to predict given uncertainty about the design of such a system (should it be successful) – i.e. which land typologies would remain exempt, what rate would be applied, over what time horizon etc. For the purposes of this analysis a conservative estimate is applied, and the size of opportunity is < $250k p.a.

Regional rates

As noted earlier, Wellington City is home to a wide range of national and regional assets. Examples include: Sky Stadium, Town Hall, Central Library, Art Gallery, Basin Reserve, Michael Fowler Centre, Convention Centre, Zoo, and Zealandia. These assets undoubtedly improve the amenity value for Wellington City residents but are also used by residents from across the region, and surrounding TLAs will also benefit from proximity.

To a greater or lesser degree, WCC has financial responsibilities to the provision of these assets (ranging from full ownership, incurrence of operating costs, provision of loan facilities, to provision of grants).

While user fees and charges make up an important component of the revenue for these assets there is still an implicit subsidy that is being provided by the ratepayers of Wellington City to the continued provision of these assets, and the services that support and surround them.

In instances where there are limited opportunities for revenue collection, wide public amenity gained, and there is a truly 'regional' component to an asset it is reasonable to explore the potential for regional rate contributions. In particular, this should apply to:

- **Current and forecast investments in Civic Square:** Civic Square itself, and the surrounding assets, all have public good characteristics and are representative of truly regional assets (for example the Art Gallery, Town Hall, Library).

- **Current subsidies and grants that are paid to cultural and recreational entities:** This is particularly relevant for the Zoo and Zealandia where visitors attend from across the region (and internationally) and activities are undertaken to provide care to native wildlife from across the region.

The **strategic alignment** of this initiative is **very high**. This concords with the benefits principle outlined in the Approach Section (Section 2) and which forms a core feature of decision making when local authorities look to align funding approaches to expenditure.

The **risk** associated with this initiative is **very low.** In a 'worst case' the regional council is not receptive to the concept. In a best case, there is agreement to a greater level of support.

Barriers to change are assumed to be **moderate**. There appears to no obvious legislative barriers in the LGA however it is assumed that there would be resistance from GWRC, and other parties given their own financial pressures.

The **size of the opportunity** is difficult to predict given uncertainty about the design of such a system (should it be successful) – i.e. how much support would be provided, for which activities, what additional conditions might be attached to financial support, over what time horizon etc. For the purposes of this analysis a conservative estimate is applied, and the size of opportunity is < $250k p.a.

9.5 Development Contributions

WCCs Development Contributions policy is similar to that of the other major local authorities. WCC, however, generates considerably less revenue per capita from DCs than the other two major local authorities.

	Wellington	Christchurch	Auckland
Forecasted DC[133]	$2m	$21.874m	$137m
DC per capita[134]	$9.86	$59.28	$87.17
Population[135]	202,737	369,006	1,571,718

WCC's DC policy is not unusual in any particular way. Its key features are similar to that in Christchurch, Auckland, and Hamilton in terms of the:

- nature and approximate size and scale of the DC catchments;
- the activities for which DCs can be levied,
- policies and procedures surrounding development contribution credits, remissions, etc.

The tentative conclusion that can be drawn is that DC revenue in Wellington is low for two main reasons:

1. A lack of significant, new Greenfield development requiring growth infrastructure or attracting development contribution
2. A lack of sophisticated historical record-keeping making it difficult or impossible to accurately calculate DCs on growth in brownfield areas, especially for commercial growth in the CBD

DCs are intended to pay for growth (Brownfield or Greenfield), the growth must be additional to the activity already on site for it to attract a levy. In practice, DCs are often accurately collected on new growth (i.e. new residential subdivisions) where the growth is obvious and the attribution clear, but it is not collected on growth in built-up areas where spotty records may exist about the size of the pre-existing structure, credits attached to the land, and the size and nature of the new construction.

9.5.1.1 Opportunities

There are some opportunities to increase DC revenue for WCC:

1. **Review the proportion of growth infrastructure funded through DCs:** High DCs can discourage growth but placing the burden on existing ratepayers for new activity may not be equitable.
2. **Rebalance growth infrastructure funding:** A rebalancing of funding for growth infrastructure, or infrastructure that can reasonably classified as infrastructure needed to support growth, could help to lift the DC levy.
3. **Catchment review:** Wider catchments capture more growth and spread the cost of that growth across a wider area. Smaller catchments may more accurately represent the 'true' financial cost of growth for a development but raise less revenue and may discourage development in areas with high DCs.
4. **Record-keeping and policy application review:** It is worth reviewing the record-keeping for, and policy application of, DCs to urban development, particularly commercial development. An accounting exercise could be commissioned to determine the DC credits already 'owed' to each site, could simplify the application – and enable the collection – of the appropriate DC charges in the future.

[133] Accessed through: Respective 2020/21 Annual Budgets/Plans
[134] Calculation: Forecasted DC / Population
[135] Stats NZ (2018) 2018 Census Place Summaries: Wellington City, Auckland Region, Christchurch City. Accessed through: https://www.stats.govt.nz/tools/2018-census-place-summaries/

10 Conclusion and Next Steps

This Review has demonstrated that WCC's current financial position appears strong. Council management is sound, incomes are stable, debt is within prescribed debt covenants and is comparable to similar urban Territorial Local Authorities (TLAs).[136]

Despite this finding, several portfolio-level observations can be drawn:

- **WCC residents pay a high price for council services:** Almost 60% of WCC's income is from rates, significantly more than similar urban TLAs (53%).
- **WCC's income generating asset base is concentrated and heavily reliant on CBD performance:** Income generating asset holdings are either directly (e.g., CBD Ground Lease) or indirectly (e.g., WIAL shares) related to the performance of the CBD.
- **Natural hazard and climate change risks present a significant financial burden:** WCC's income generating properties are exposed to significant natural hazard and climate change risk and extensive investment (current and planned) is required over the next 10 years.
- **The lack of strategic asset management plans perpetuates non income generating asset accumulation:** The lack of transparent plans, strategies, and policies outlining the acquisition, retention, and divestment of asset holdings has led to ad-hoc or strategically unaligned decision-making. This is a drag on WCCs financial performance.

Moreover, several related and additional pressures exist:

- Natural hazards, earthquake strengthening, and insurance risk
- Three Waters regulatory reform
- Significant investment programmes (e.g., LGWM)
- Climate change and zero carbon emissions

Without action, these pressures could jeopardise WCC's ability to maintain a strong financial position over the medium- to long-term.

Through an assessment of the WCC Balance Sheet, as well as a consideration of alternative sources of funding and finance, 54 opportunities have been identified to improve WCC's financial position. This includes optimising processes, increasing revenue generation, reducing financial exposure, and divesting strategically unaligned asset classes.

To aid with prioritisation, a 'Now', 'Next', and 'Beyond' frame has been employed. A summary of all opportunities is summarised in Table 7. These opportunities are presented as a 'first step' and require further validation and appropriate consultation before they can be implemented.

Finally, it is worth highlighting the importance of maintaining a prudent rateable to non-rateable income balance following any divestment activity or implementation of new sources of funding and finance. This specifically responds to a key portfolio level observation about concentration risk.

Consideration should be given to the use of mechanisms to improve the likelihood of maintaining/improving this balance, and improving the transparency of decision making for Wellington ratepayers:

- Implementing rateable to non-rateable income ratios/thresholds
- Ringfencing proceeds of divestment for specific purposes
- Hypothecating alternative funding sources for specific purposes
- Reporting on risk concentrations present on the Balance Sheet

By taking decisive and concerted action now, WCC can ensure it retains its strong financial position into the future.

[136] Comparable urban TLAs include Christchurch City Council, Hamilton City Council, Dunedin City Council and Tauranga City Council.

Figure 13: Initial assessment of focus areas for assets and interests

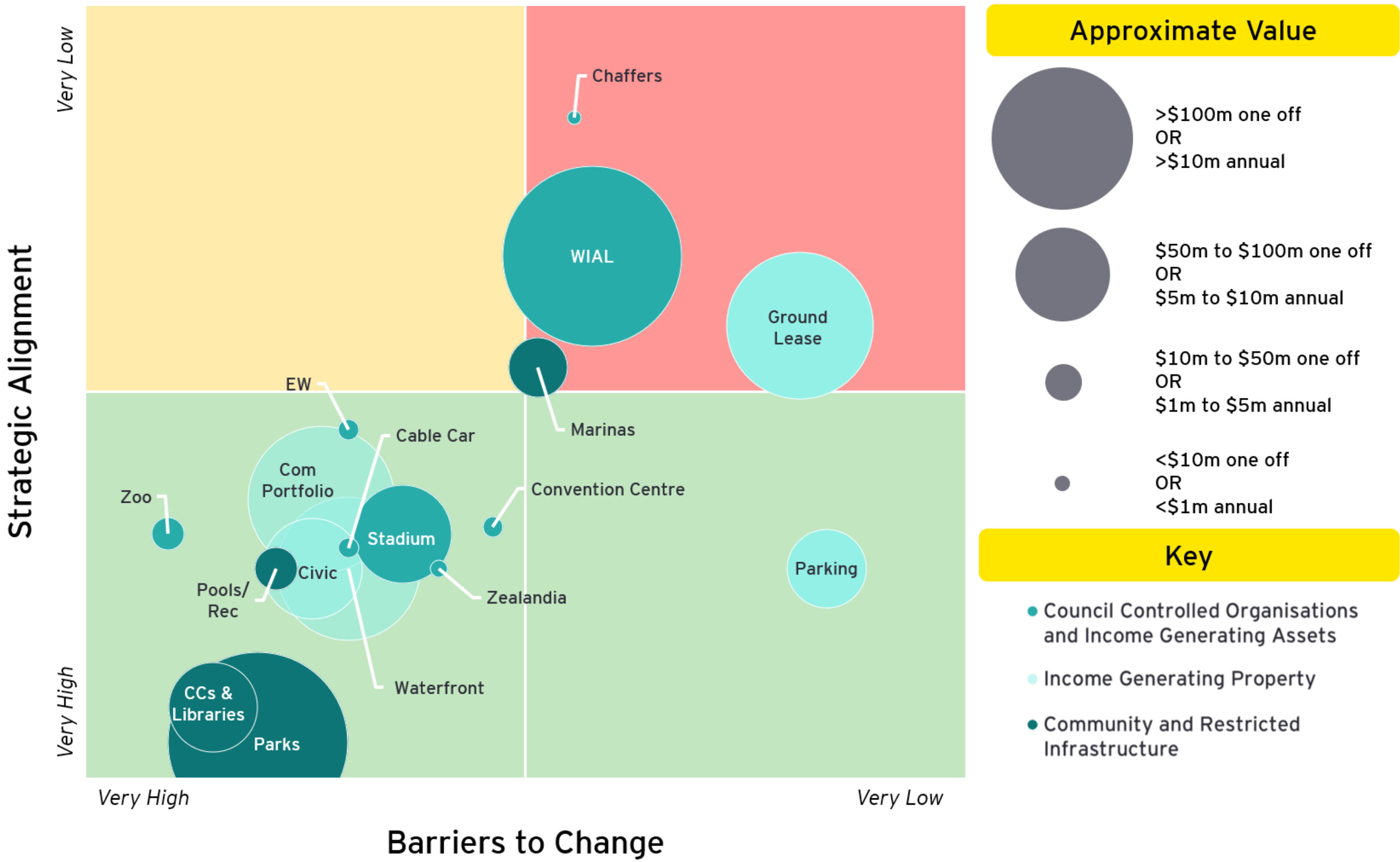


Table 7: Summary of menu of initiatives to improve value across WCC balance sheet (Low Strategic Alignment, Low Barriers to Change)

Asset class	Fair value assessment	Risk score	Summary of option(s)	Size of opp.	Timing
WIAL	Below market: The airport generated a dividend of $13.9m in FY 2019, but its return of 4-4.5% was below that of other highly regulated assets (5-9%).	Moderate: Throughput risks and the potential for a call on capital to support the runway extension are the primary risks WCC is facing.	**Full asset divestment:** Pursue a full divestment programme and reinvest receipts in a higher returning asset class with commensurate or lower risk profile.	Very Large	Beyond
			Reduction of existing shareholding: Pursue a partial divestment programme and reinvest receipts in a higher returning asset class with commensurate or lower risk profile.	Large	Next
			Advocate for increased dividends: Take a more active role at the Board table in driving higher dividends.	Small	Next
Ground Lease	Near market. In 2019 investment property revenues totalled $11.5m. On an asset base of >$200m this represents a yield of ~6%.	Moderate: Revenue risk is low given the 21-year length of leases. Risks exist about the forecast demand for office space in lieu of increasing insurance premiums and changing preferences towards working from home.	**Carry out a strategic review:** Conduct a strategic review to identify individual sites that hold less long-term strategic value surrounding income potential, risk level, and opportunity costs.	N/A	Now
			Gauge interest in freehold acquisition: Consider freeholding (disposing) specific non-strategic assets within the portfolio to free up capital that can be reinvested into other urban development initiatives across the city (or repurposed for other income generating assets).	Very Large	Next
			Ground lease terms and conditions: Identify if opportunities exist to alter current ground lease terms and conditions, for example increasing the frequency in rent reviews or reduced term structures.	Small	Now
Marinas	Below market: The current operating/financial model is 100% reliant on user fee funding, however current and future capex requirements are exceeding revenue generation from fees. Additional capital funding from WCC is required to continue the operation and sustainability of marina assets.	High: Natural hazard risk and operational risk due to environmental factors and competition from private operators (Seaview). Moreover, the marinas are operating a net deficit and require future capex inhibiting future viability of the assets.	**Divest Evans Bay Marina:** Consider a full or partial divestment of the Evans Bay marina asset.	Medium	Next
			Explore development opportunities: Consider development opportunities at Evans Bay marina. Developments could include larger building facilities offering more aquatic service offerings, storage facilities, or partnership opportunities with ride sharing operators for use of the parking infrastructure.	Small	Beyond
			Contract out marina usage: Contracting out the Marina to other aquatic organisations could support greater value generation from the site through additional service offerings. Additionally, consider future partnerships for funding and shared facilities.	Small	Next

Asset class	Fair value assessment	Risk score	Summary of option(s)	Size of opp.	Timing
Chaffers Marina	Below market. WCC holds 16 berths that it receives no income from because they are not market desirable.	Low: There is likely to be a call on capital in the future to upgrade assets.	**Re-explore divestment of the asset:** This always remains an option albeit, it is noted that previous attempts have not met with success.	Small	Now
			Abandon the asset: This would have the medium-long term effect of limiting WCC's ongoing risk and maintenance obligations.	Small	Beyond
Landfill assets	Below market: The gate rate for waste is low relative to other landfills at $132.30/tonne (clean fill).	Low: While regulatory risks exist, particularly through increased waste levies, this exists regardless of WCC ownership.	**Complete a targeted review of commercial strategy**: In spite of these barriers, there are opportunities to increase revenue from the two landfills either directly through more aggressive gate pricing, or by selling them for private operation.	Medium	Now

Table 8: Summary of menu of initiatives to improve value across WCC balance sheet (High strategic alignment, Low barriers to change; High strategic alignment, high barriers to change)

Asset class	Fair value assessment	Risk score	Summary of option(s)	Size of opp.	Timing
Wellington Regional Stadium	N/a – Loan facility provided.	Moderate: The stadium doesn't require a contribution from WCC but may require contributions towards future asset maintenance.	**Regional rate or levy increase:** WCC could evaluate whether a regional rate or increase to the existing ticket levy would sufficiently increase revenue to allow the Trust to repay its loans more efficiently.	Small	Next
Wellington Zoo	Near market: Entry fees charged by the Zoo are similar to that charged by other publicly owned or controlled Zoos (Auckland) but are lower than for those facilities that are primarily or completely privately owned / funded.	Moderate: WCC is exposed to patronage/demand risk, particularly near-term risks from a reduction in international tourism could affect the Zoo's ability to generate revenue and increase its call on WCC funding.	**Review entry fees:** Wellington Zoo should examine its pricing structure and consider whether there is value in bringing its admission fees into line with privately owned zoos to limit WCC contributions.	Small	Next
			Shared funding structure: Consider a shared funding structure with GWRC for this asset given the regional tourism benefits it generates.	Medium	Next

Asset class	Fair value assessment	Risk score	Summary of option(s)	Size of opp.	Timing
Zealandia	Below market: WCC provides an operating grant to the trust each year, which has increased over the past few years. The grant has increased from $350,000 in FY 2013 to just over $1m in FY 2019.	Low: There is limited patronage risk, due to changes in international tourism.	**Strategic Partnership and shared funding:** Commence discussions with central government partners, and other tertiary institutions, about a rebalancing of contributions and lessen its dependence on WCC funding	Small	Now
Wellington Cable Car	Near market: Until COVID-19 the Cable Car made a modest return: $785k in FY 2019.	Low: The largest risk to the Cable Car is COVID-19. In its current form, the Cable Car relies heavily on tourism in particular cruise passengers.	**Explore options to increase ridership:** Examine pricing structures and timetables to increase ridership and revenue with an aim to offset near-term losses.	Small	Now
			Integration into the public transport network: Investigate whether the Cable Car should be integrated into the public transit network to partially defray the cost using GWRC funding.	Medium	Beyond
Experience Wellington	Below market: WCC provides $9m in grants to Experience Wellington every year which is comparable to Christchurch Museum alone.	Moderate: The yearly grant provided to Experience Wellington is significant and combined with asset and patronage demand risk suggests moderate exposure to WCC.	**Review pricing, admission and revenue structures:** Conduct a review of the pricing and admission structure for museums, galleries, and its revenue strategy for Space Place.	Medium	Now
			Review scope of services and offering: Conduct a review of Experience Wellington to determine whether the suite of assets offer value for money across the portfolio.	Small	Now
Basin Reserve	Near market: In the 2020 financial year total grants and public funding totalled $1.4m, making up 87% of the Basin Reserve's total revenue. This includes a funding from WCC of $680k.	Moderate: The Basin is not a profitable enterprise, relying heavily on WCC and other grants for operational funding. Land at the Basin Reserve is prone to liquefaction.	**Explore regional funding model:** Consider regional funding for the basin reserve, given the regional social, recreational, and tourism benefits it generates.	Small	Next
Parking	Near market. WCC generates 12% of non-rates revenue from	Low: Some policy initiatives are actively seeking to reduce the number of parks in the	**Invest in technology:** Invest in enforcement and technological advancement to improve operational efficiency and enhance fee collection.	Medium	Next

Asset class	Fair value assessment	Risk score	Summary of option(s)	Size of opp.	Timing
	parking income. Parking fees and charges are slightly lower than Auckland (despite having a considerably lower parking space per job ratio).	central city. Moreover, risks exist about the forecast demand for office space in lieu of increasing insurance premiums and changing preferences towards working from home.	**Review revenue sharing policies:** Negotiate with NZTA to increase revenue receipts from the operation and enforcement of Clifton carparks.	Small	Now
			Park and ride opportunities: Partner with a developer owned car park with spaces allocated for park and ride. Limited opportunities exist in areas such as Johnsonville where there is a network PT infrastructure in place and comparatively high throughputs.	Small	Beyond
			Inhouse carpark enforcement: Consider bringing the enforcement of the waterfront car parks in-house, instead of contracting the service out.	Small	Now
			Review encroachment fees: Review encroachment fees for licenses that are needed to build a structure on, over, or under the land between a property's front boundary and the road or footpath.	Small	Now
			Acquire central city carpark buildings: Explore the opportunity of taking over the leases of three carparking facilities from Wilson Parking as an additional revenue source.	Medium	Now
			Divest car parks: Consider disposing of the eight carparks in the Victoria Street Carparking Centre.	Small	Now
Alternative rates	Below market. By definition, there are a range of additional rates revenues (non-rateable land and regional rates) that should be captured in accordance with the benefits principle.	Low: In a 'worst case' central and regional government is not receptive to an amendment. In a best case, there is agreement that increases rates income.	**Shrink the definition of non-rateable land:** Capture rates from Crown assets that are currently exempt from general rates. This includes land occupied by institutions such as schools, universities and hospitals.	Small	Beyond
			Regional rates: WCC should explore opportunities for greater use of regional funding models (including regional rates) to fund region-wide infrastructure. This could apply to Civic Square assets, as well as cultural icons such as the Basin Reserve, the Wellington Zoo and Zealandia.	Medium	Next

Asset class	Fair value assessment	Risk score	Summary of option(s)	Size of opp.	Timing
Tax Health Check	Unknown: Initial indication is that there will be opportunities to avoid overprovision of tax given the presence of income generating CCOs and a reasonably sized income tax contribution.	Low: A 'worse case', is WCC is meeting compliance obligations and is not overproviding tax - which should be considered a positive result.	**Conduct a tax health check:** Conduct a formal 'tax health check' to identify opportunities to realise both one-off and annualised improvements in the WCC financial position.	Small	Now
Insurance	N/A: Although it is noted that WCC is increasingly not able to access insurance (and insurance it buys on market is increasingly unaffordable.	Low - Very High: Depending on what initiative is pursued.	**Expand risk pool through partnership:** Investigate the merits of pooling assets/interests with other like-minded parties (central government entities for instance) to enable greater access to insurance or result in lower premiums.	Small	Next
			Encourage greater self-insurance: Explore the potential for several government departments / buildings to be covered through government self-insurance (thus freeing up market capacity for WCC).	Small	Now
			Work with insurers and central government to develop a ringfenced levy and pool system for an insurance/resilience fund.	Large	Beyond
Waterfront	Below market: In FY 2020 total income from waterfront operations totalled $3.7m. On an asset base in excess of 100m this represents a yield of ~3.7%.	Very High: The waterfront is bound by governing legislative and regulatory policies that influence long-term planning and development strategies. Moreover, the area is subject to significant risks from environmental factors and heritage protection.	**Engage with development community to identify leasehold opportunities:** Work with the development community on future opportunities and partnerships to potentially provide leasehold developable land.	Medium	Next
			Consider waterfront site divestment: Divest small sections of land sites on the waterfront for freehold development to suitable investors and developers.	Medium	Next
			Frank Kitts car park disposal: Consider disposing of the Frank Kitts underground car park asset.	Medium	Next

Asset class	Fair value assessment	Risk score	Summary of option(s)	Size of opp.	Timing
Commercial portfolio	N/A: Generally undesirable assets held by WCC to accommodate operational activities or held for strategic and compliance reasons such as roading or heritage.	High: Little to no market demand for various operational assets. Heritage sites present limited development/redevelopment potential due to regulatory requirements and strict heritage protection.	**Assess whether specific property ownership is necessary across the portfolio:** Identify divestment potential of individual assets and/or groups of specific commercial portfolio assets.	Small	Next
Pools and Recreational Facilities	The service provisions these assets provide result in direct public benefit and equity of access for the community. Near market: Fees are broadly in line with all other Councils in the Wellington region.	Low: Aging assets and resiliency concerns require future capital expenditure. Operational inefficiency due to the disparity and lack of amalgamation of facilities.	**Level of service review:** Conduct a review to identify underserved and overserved areas and adjust the level of services and facilities provided. Consider amalgamation opportunities of similar facilities in the same area to improve operational efficiency and reduce expenses.	Medium	Beyond
			Pursue sponsorship or advertising opportunities: Consider sponsorship/advertising opportunities to increase revenue streams.	Small	Next
			Review current rents: Consider the basis on which ground leases and rents are set.	Small	Now
			Explore applicable energy efficiency grants: Explore opportunities to secure energy efficiency grants.	Small	Now
Community Centres and Libraries	The service provisions these assets provide result in direct public benefit and equity of access for the community.	Moderate: Legislative and regulatory factors are impacting operations and funding structures of community centres. Natural hazard risk from seismic	**Consider leasing rather than owning:** Community centres could be leased from private owners or community trusts and provided to the public at subsidised rates, instead of being wholly owned by the Council.	Small	Next

Asset class	Fair value assessment	Risk score	Summary of option(s)	Size of opp.	Timing
	Below market: Income generated from WCC libraries is similar on an absolute and comparative basis with other council library holdings in the Wellington region.	resiliency has resulted in the closure of the Central Library with redevelopment options of up to $20m.	**Amalgamate sites or rationalise stock:** Marginal opportunity to amalgamate some sites (Karori) and/or rationalise stock where there is overprovision of services and there is earthquake coverage exposure.	Medium	Next
			Operational review: Conduct a library specific review to identify operational inefficiencies and potential cost savings.	Medium	Now
			Pursue sponsorship or advertising opportunities: Consider sponsorship/advertising opportunities to increase revenue streams and reduce cost dependency on ratepayer fees.	Small	Next
Civic Precinct	N/a – most assets are civic in nature and do not generate income.	Very High: Natural hazard risks are present, there are significant heritage overlays, and significant asset management issues to navigate.	**Masterplan:** Engage in a Master Planning activity that considers the entire Civic Precinct as a whole – rather than planning based on a building-by-building approach.	N/A	Next
			Regional Rates: Advocate for use of regional rates to support and fund the Civic Precinct assets and activities.	Medium	Now
			Divesting or developing underutilised or underperforming sites: Sites such as the Michael Fowler Centre carpark and the site to the West of Capital E provide good development opportunities for WCC, the private market or both.	Medium	Beyond
Parks, Land and Open Space	N/a - The service provisions these assets provide result in direct public benefit and equity of access for the community.	Moderate: Natural hazard risk and environmental factors present the largest risk to these assets and result in perpetual cost implications.	**Landholding review:** Review WCC land holdings, parks and reserves.	Medium	Now
			Reserve classification / purpose / revocation review: Consider changing the classification / purpose / revocation of underutilised reserves to allow for permitted activities such as recreation and/or community use.	Medium	Now
			Repurpose underutilised open spaces for other community/recreational activities: Repurpose underutilised open spaces for other community/recreational activities.	Small	Now
			Park conversions: Continue to convert suitable parks and open spaces to sports facilities.	Small	Next
			Acquisition and disposals strategy: Implement an acquisition and disposal strategy. Look for opportunities to cluster/partner in provision of services (including development opportunities).	Large	Now

Appendix A. Interview schedule

Over the period of this Review, 10 interviews were undertaken with WCC Officers. Specific names and titles have been withheld for confidentiality however a description of the representative teams is provided in the table below.

Date	Department
22/09/2020 and 01/09/2020	Finance Team
25/08/2020 and 01/09/2020	Property Team
25/08/2020 and 24/09/2020	Parks and Rec Team
26/08/2020	Build Wellington Team
27/08/2020	Commercial Engagements and CCOs
08/09/2020	Parking Team
22/09/2020	Infrastructure Team

Appendix B. Comparative performance

Key performance measures have been collected across a range of TLAs in New Zealand to benchmark WCC performance. 'Comparative TLAs include Auckland Council, Tauranga City Council, Hamilton City Council, Dunedin City Council and Christchurch City Council.

The output of this can be seen in in Table 9. Data presented in this table has been collected from each council's published final 2018 LTP. It is noted that the data has not been adjusted for the impact of COVID-19 and therefore is used purely for comparative purposes between TLAs. As the councils' annual reports, annual plans, and LTPs are often presented differently, the Department of Internal Affairs has interpreted the data from the LTP statements against a consistent framework. This presents the best available data set to use for the purposes of comparing TLAs.

While these comparisons are useful, caution must be exercised in drawing conclusions as each TLA has unique circumstances. For example, Auckland Council is a Unitary Authority, and it would be expected to have a higher asset base and a higher expenditure profile on environmental and transport issues, for instance, given the differing roles between and an urban council and a regional council.

Table 9: Key comparative performance measures of multiple City Councils from LTP's for year 2020/21 (000's)[137]

	Wellington City Council	Auckland Council Group	Tauranga City Council	Hamilton City Council	Dunedin City Council	Christchurch City Council
Total Assets (000's)	$8,067,050	$58,661,777	$4,696,296	$5,107,788	$3,431,699	$14,206,785
Rates Revenue (000's)	$347,623	$1,965,237	$181,893	$194,825	$163,119	$552,071
Operating Expenditure (000's)	$559,131	$4,346,701	$281,073	$289,050	$269,788	$851,676
Capital Expenditure (000's)	$261,848	$774,944	$245,571	$228,912	$104,224	$509,985
Population[138] (000's)	203	1,572	137	161	126	369
Total debt to revenue	156%	212%	197%	215%	96%	262%
Non-rates revenue (000's)	$209,747	$3,060,703	$155,288	$148,250	$113,150	$307,345
Non-Rates Revenue per person per day	$2.83	$5.34	$3.11	$2.52	$2.46	$2.28
Rates Revenue per person per day	$4.70	$3.43	$3.65	$3.32	$3.54	$4.10

[137] Local Councils (2018) Local Authority Long-Term plans. Accessed from: http://www.localcouncils.govt.nz/lgip.nsf/wpg_URL/Resources-Download-Data-Local-Authority-Long-Term-Plans?OpenDocument

[138] StatsNZ (2018) Accessed from: https://www.stats.govt.nz/tools/2018-census-place-summaries/?gclid=Cj0KCQjwnqH7BRDdARIsACTSAdvOm6ewbx6aPIPJpv4VvWbAE0m5ZUIuUH42bMx0CtMIbcb1eqfDGIAaAggOEALw_wcB&fbclid=IwAR2IQbtdttGmxLuEDkyX6mGGEmvZvr8YFAk2kVlewVa3K4Afow9hn0vQijc?gclid=Cj0KCQjwnqH7BRDdARIsACTSAdvOm6ewbx6aPIPJpv4VvWbAE0m5ZUIuUH42bMx0CtMIbcb1eqfDGIAaAggOEALw_wcB&fbclid=IwAR2IQbtdttGmxLuEDkyX6mGGEmvZvr8YFAk2kVlewVa3K4Afow9hn0vQijc

	Wellington City Council	Auckland Council Group	Tauranga City Council	Hamilton City Council	Dunedin City Council	Christchurch City Council
Operating expenditure per person per day	$7.56	$7.58	$5.63	$4.92	$5.87	$6.32
Capital expenditure per person per day	$3.54	$1.35	$4.92	$3.90	$2.26	$3.79

Table 10: Key comparative performance measures for WCC and the TLA Average (excluding Auckland)

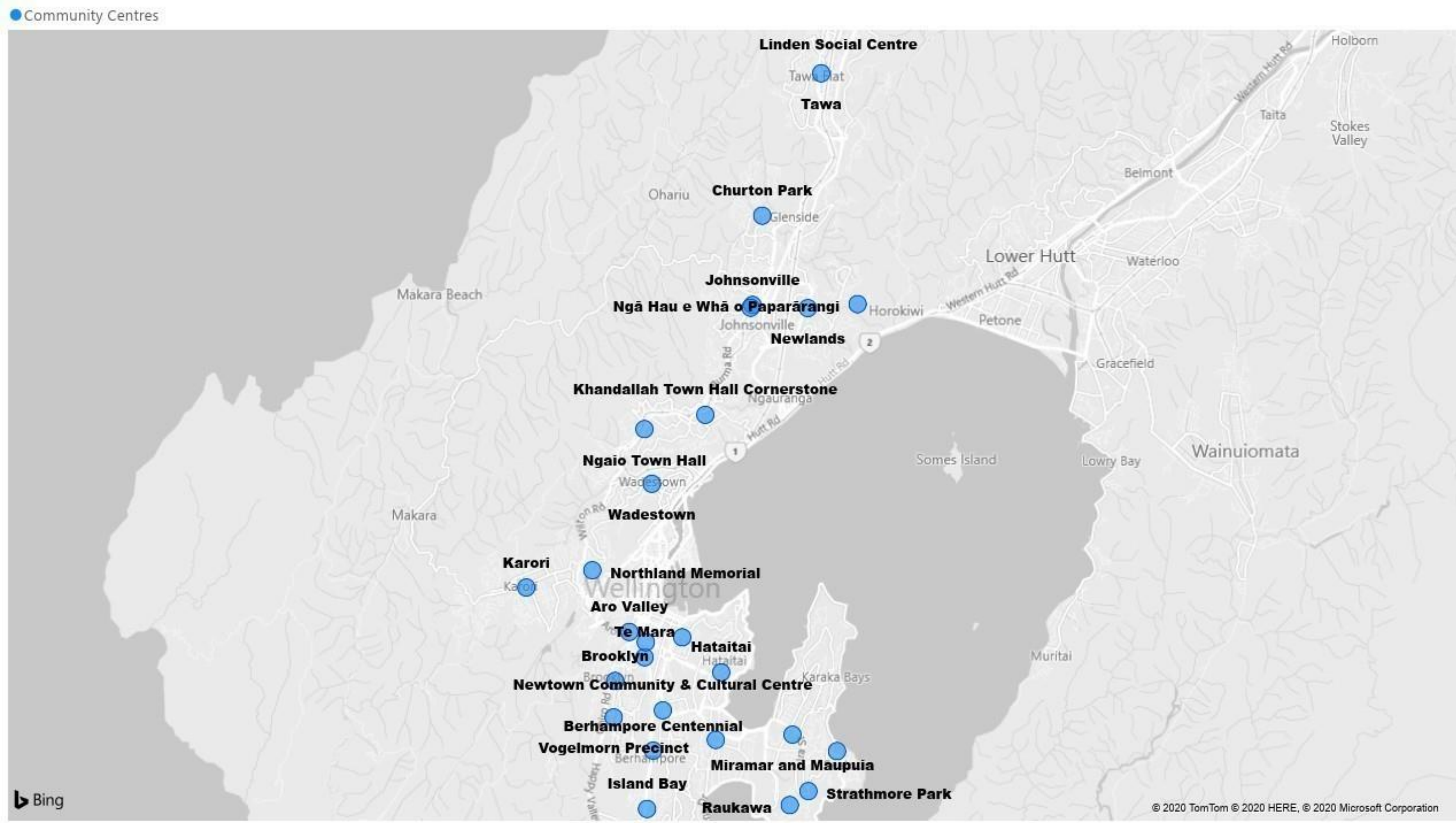
Metrics	WCC	TLA Average (excluding Auckland)	Percentage difference between WCC and the TLA average excluding Auckland
Total Assets (000's)	$8,067,050	$6,860,642	18%
Rates Revenue (000's)	$347,623	$272,977	27%
Operating Expenditure (000's)	$559,131	$422,897	32%
Capital Expenditure (000's)	$261,848	$272,173	-4%
Population (000's)	203	198	2%
Total debt to revenue	156%	192%	-19%
Non-rates revenue (000's)	$209,747	$181,008	16%
Non-Rates Revenue per person per day	$2.83	$2.59	9%
Rates Revenue per person per day	$4.70	$3.65	29%
Operating expenditure per person per day	$7.56	$5.68	33%
Capital expenditure per person per day	$3.54	$3.72	-5%

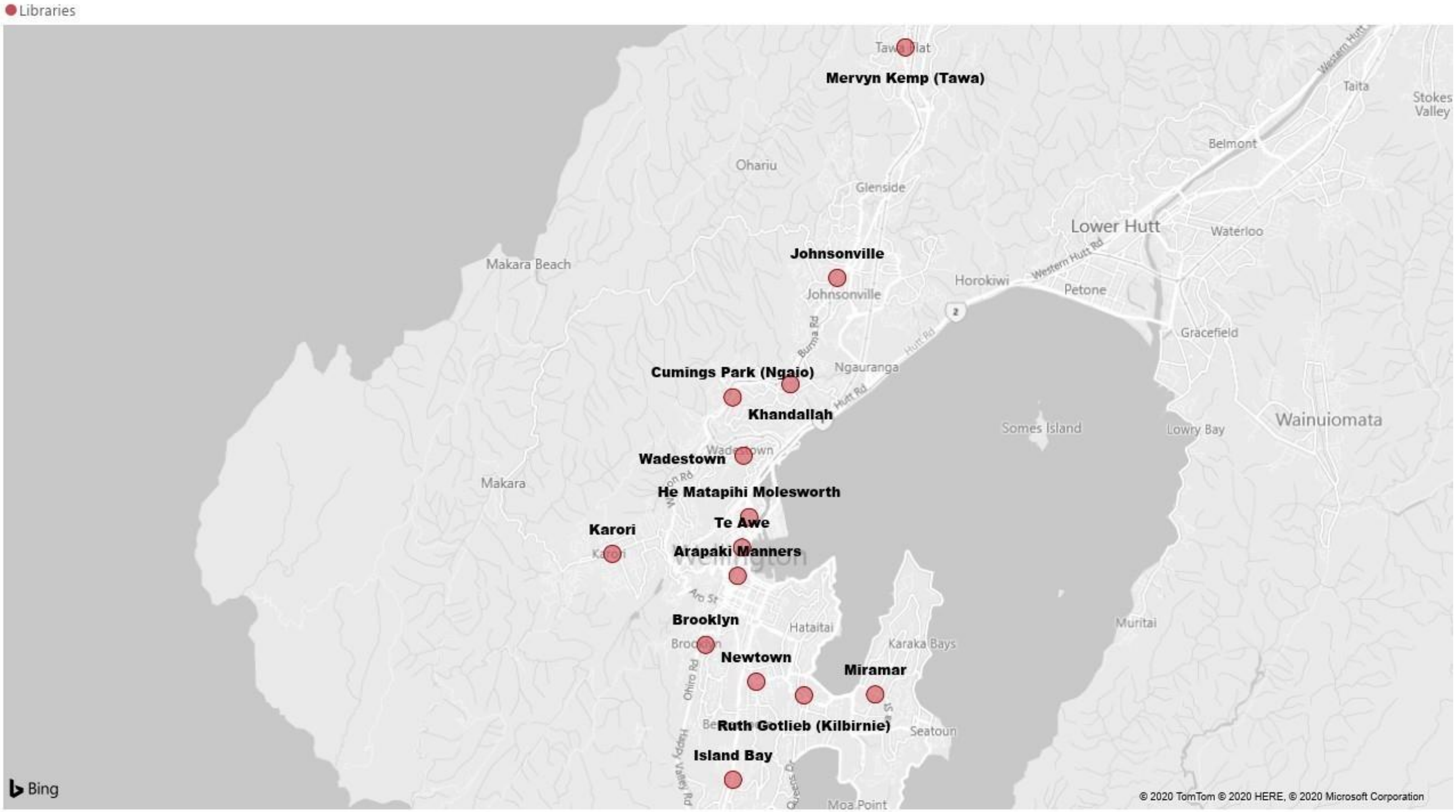
Appendix C. Glossary of terms

Term	Definition
ANZ	Australia and New Zealand Banking Group
AP	Annual Plan
AR	Annual Report
ASB	Auckland Savings Bank
b	Billion
CAB	Civic Administrative Building
capex	Capital Expenditure
CBD	Central Business District
CBRE	Coldwell Banker Richard Ellis
CCC	Christchurch City Council
CCO	Council Controlled Organisation
DoC	Department of Conservation
EY	Ernst and Young
FY	Financial Year (ending)
GDP	Gross Domestic Product
GWRC	Greater Wellington Regional Council
Ha	Hectare
HBRC	Hawke's Bay Regional Council
IPO	Initial Public Offering
LGA	Local Government Act 2002
LGFA	Local Government Finance Authority
LGWM	Let's Get Wellington Moving
LTP	Long Term Plan
m	Million
MOB	Municipal Office Building
NZD	New Zealand Dollar
NZTA	New Zealand Transport Agency

Term	Definition
opex	Operating Expenditure
PPE	Property, Plant and Equipment
ROE	Return on Equity
TLA	Territorial Local Authority
VSPC	Victoria Street Parking Centre
WCC	Wellington City Council
WellingtonNZ	Wellington Regional Economic Development Agency (also same as WREDA)
WREDA	Wellington Regional Economic Development Agency (also same as WellingtonNZ)

Appendix D. Asset maps




Libraries
Mervyn Kemp (Tawa)
Tawa Flat
Ohariu
Glenside
Johnsonville
Johnsonville
Lower Hutt
Waterloo
Belmont
Taita
Stokes Valley
Horokiwi
Petone
Gracefield
Makara Beach
Cumings Park (Ngaio)
Ngauranga
Khandallah
Somes Island
Lowry Bay
Wainuiomata
Wadestown
Makara
He Matapihi Molesworth
Te Awe
Karori
Arapaki Manners
Wellington
Brooklyn
Hataitai
Karaka Bays
Newtown
Miramar
Muritai
Ruth Gotlieb (Kilbirnie)
Seatoun
Island Bay
Moa Point
Bing
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Swimming pool
Plimmerton
Mana Island
Titahi Bay
Porirua
Judgeford
Upper Hutt
Mangaroa
Kaitoke
Tawa
Tawa Flat
Stokes Valley
Ohariu
Keith Spry
Johnsonville
Khandallah
Lower Hutt
Wainuiomata
Thorndon
Karori
Freyberg Pool
Wellington
Eastbourne
Wellington Regional
PENCARROW HEAD
Pirinoa
Lake Onoke
Bing
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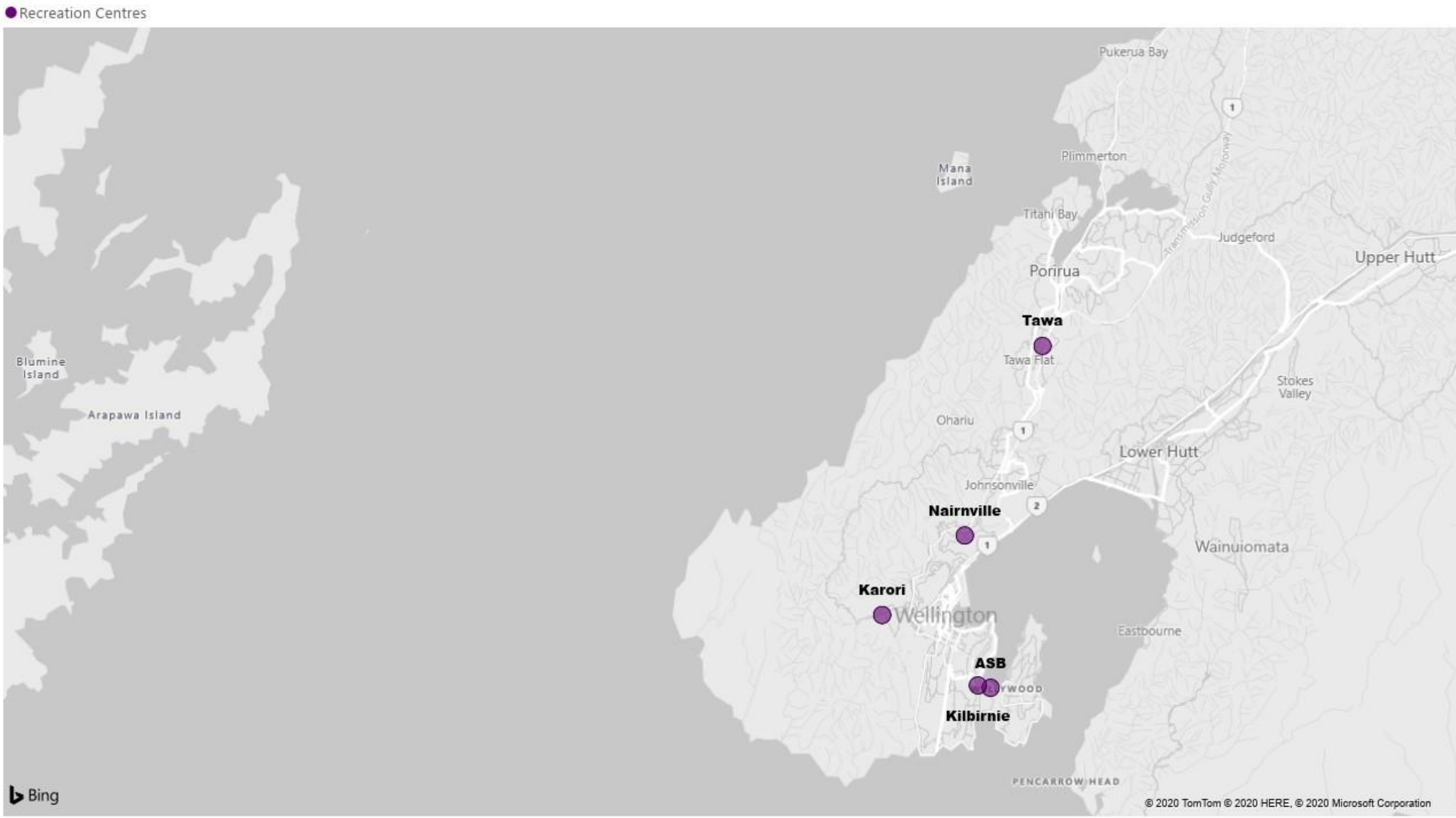
Recreation Centres
Pukerua Bay
Plimmerton
Mana Island
Titahi Bay
Judgeford
Upper Hutt
Porirua
Tawa
Tawa Flat
Blumine Island
Arapawa Island
Stokes Valley
Ohariu
Lower Hutt
Johnsonville
Nairnville
Wainuiomata
Karori
Wellington
Eastbourne
ASB
Kilbirnie
PENCARROW HEAD
Bing
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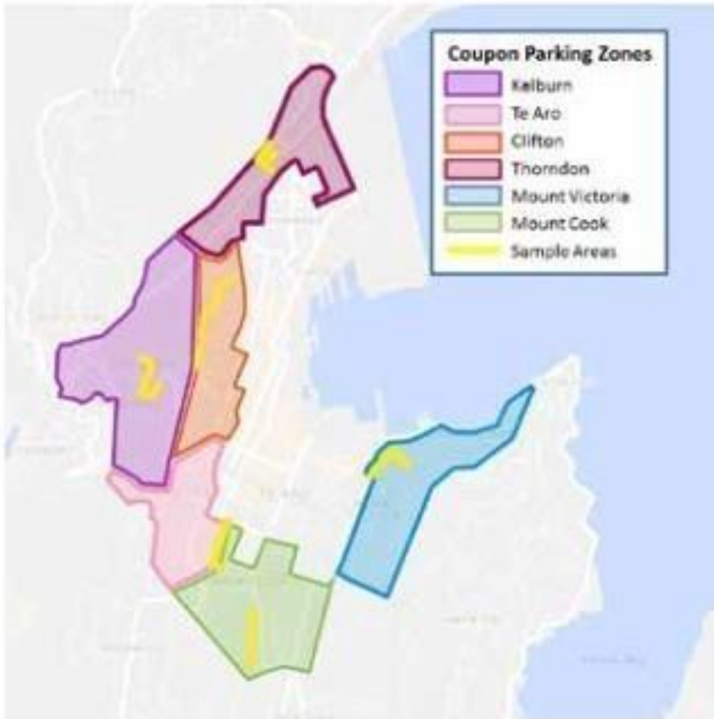
Appendix E. Resident and coupon parking zones[139]

Figure 31: Map of residents parking zones

Figure 14 Map of residents parking zones

Figure 33: Map of coupon parking zones



[139] Wellington City Council (2020) Parking policy review; Background information and issues report. Accessed through: https://www.letstalk.wellington.govt.nz/41514/widgets/235013/documents/142020

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