

Report 11.232
Date 31 May 2011
File SP/04/01/01

Committee Council
Author Bruce Simpson, Chief Financial Officer

Finalisation of the 2011/12 Annual Plan (the Plan)

1. Purpose

- To seek approval for adjustments to be made to the proposed Plan arising from the public consultation process or as a result of changes in circumstances since the proposed Plan was adopted.
- To seek approval to rebudget expenditure from 2010/11 to the 2011/12 annual Plan.
- To seek approval for the level of regional rates and the bulk water levy for 2011/12.

2. Significance of Decision

The content of this report is the result of the Council's consultation with the public which took the form of submissions being made on the proposed Annual Plan 2011/12. The proposed Annual Plan 2011/12 triggered section 76 (3)(b) of the Local Government Act 2002 and triggered the Council's own policy on significance. The formal submission process undertaken by the Council complied with the decision-making and special consultative procedures set out in sections 76 to 79 and 83 to 85 of the Local Government Act 2002.

3. Background

The increase in rates for 2011/12 was forecast in the LTCCP to be 11.1%. Due to this large rate increase, the process to prepare the Plan commenced in mid 2010. The result was that the rate increase was reduced from 11.1% to 4.58%. Councillors were presented with the resulting detailed financial numbers in December 2010.

During February and March significant progress was made on the new Rail Operating model for the Wellington region which enabled these proposed changes to be included in the proposed plan. Final decisions around the exact

nature of the plans have not been made, however, allowances have been made as previously advised.

On 15 March 2011 Council approved the rate and water levy numbers for inclusion in the proposed Plan 2011/12, with a rates increase of 4.58% and a 3% increase in the bulk water levy proposed.

This year, concurrent with consultation on the proposed Annual Plan 2011/12, Greater Wellington also consulted on:

- Proposal to amend the Treasury Risk Management Policy contained in the Regional Council's 2009-2019 Long Term Council Community Plan and to invest in New Zealand Local Government Funding Agency Limited (proposal to join the LGFA)
- Proposed Resource Management Charging Policy
- Proposed Dangerous Dams Policy.

The Plan was approved for public consultation by Council on 15 March 2011. The consultation period ran from 23 March to 23 April 2011.

In addition, any new items of expenditure and other adjustments which have arisen since the proposed Plan 2011/12 was prepared also need to be considered.

Once the proposed rates and bulk water levy have been approved by Council, they will be incorporated into the final Plan for adoption by Council on 29 June 2011, subject to any amendments requested by Council.

It has been our normal practice each year, before the final Plan is adopted, for officers to recommend to Council those items that are required to be rebudgeted. The general principle followed is that if expenditure on a project cannot be completed in a given year, it can be rebudgeted in another year (normally the following year), provided it is still a Council priority and there is sufficient funding available. The process ensures that ratepayers are not rated twice for the same activity. This paper also covers off those rebudgets.

4. Results of the Public Consultation process, including the Hearing Committee meeting on 19 and 20 May 2011

These were considered by Council in the previous report (number 11.329). No amendments to the rates or levies have been recommended by the Hearing Committee at this stage.

5. Recommended changes to the proposed 2011/12 Plan

Changes to the proposed Plan, as a result of new information and changed assumptions, are as follows:

5.1 Investment management and debt

A lower opening debt position and a review of expected finance costs have reduced forecast external finance costs for 2011/12 by \$109,000 in Council and \$426,000 in WRC Holdings. The latter flows through the WRC Holdings dividend to council.

The lower debt position arises from lower capital expenditure and lower transport improvements during 2010/11 since the proposed Plan was prepared. The lower capital and transport improvement expenditure position is largely a result of timing changes.

Increased dividends and revenue from CentrePort of \$289,000 are offset by increased insurance costs in Pringle House limited (\$80,000). These changes flow through the expected dividend from WRC Holdings.

The internal interest rate charged to the individual groups within Greater Wellington remains at 7% which compares with Greater Wellington's expected weighted average cost of debt of 6.52% excluding the interest free crown debt.

The overall impact of the above, plus other sundry adjustments, increases the contribution Investment Management makes to reducing rates by \$744,000. (0.92% of total rates)

5.2 Insurance

A forecast increase in insurance premiums of \$1,600,000 has occurred since the second earthquake in Christchurch and the Japanese earthquake and Tsunami. It should be noted that part of these estimated increases (\$860,000) was included in the proposed annual plan. \$420,000 increase has been included in Water Supply, which left rates requirements for insurances detailed below:

Catchment Management	\$20,000
Parks	\$50,000
Transport	\$171,000 in GW Rail Limited
WRC Holdings	\$80,000 in Pringle House Limited

5.3 Public Transport

5.3.1 Rail operations, an increase in rates of \$527,000

On-going reviews with Tranz Metro have indicated that additional funds are required over the proposed increase to enable the required service improvements to be made.

5.3.2 Public Transport contingency \$250,000

A contingency of \$250,000 has been included to cover the uncertainty that remains around rail operational budgets and other public transport projects that have not been fully specified.

5.3.3 Insurance, an increase (noted above) in rates of \$171,000

A further increase in insurance premiums is anticipated due to the new rail rolling stock coming into service and the rail infrastructure assets being transferred from KiwiRail to Greater Wellington Rail Limited.

5.4 Catchment Management, a net increase in rates of \$70,000

The timing of the Boulcott / Hutt, Lower and South Waitohu and Edbentown projects have been revised saving external debt costs. (Note the cost decreases in Catchment Management is offset by an increase in Investment Management, leaving a net saving of \$50,000).

Increased insurance costs as noted in 5.2 and an increase in operational costs to enable a review of hazard maps to be started earlier than planned

6. Public Transport Reserve

Changes in the Public Transport Reserve arise from unbudgeted funding surpluses or deficits in Transport during the year. For example, if Transport achieves an unbudgeted funding surplus of \$1,000,000, this is added to the balance in the Reserve. Similarly a funding deficit will reduce the balance in the Reserve.

Currently, it is estimated that there will be \$4,300,000 in the Reserve at 30 June 2011.

Currently, the surplus in the Reserve has been allocated against rates as follows:

	Forecast	Plan	Proposed Plan	LTCCP
	2010/11	2011/12	2011/12	2011/12
	\$000 ^s	\$000 ^s	\$000 ^s	\$000 ^s
Opening balance ⁽¹⁾	5,300	4,300	3,300	500
Reserve used	(2,000)	(2,000)	(2,000)	(500)
Surplus estimated	1,000	0	0	0
Closing balance	4,300	2,300	1,300	0

⁽¹⁾ including interest

The amounts of Reserve to be used were agreed by Council as part of the 2009-19 LTCCP. This assumed that the Reserve would be close to zero by the end of 2011/12. However, with a surplus in Public Transport for 2009/10 and a forecast surplus in 2010/11 the surplus is expected to remain for longer.

It should be noted that there is no guarantee that there will be funds available in the Reserve to offset rates in the future. Movements in the oil price and exchange rate could easily eliminate (or increase) the balance in the Reserve. It is important to note that future transfers from the Reserve should be seen as estimates at this point in time.

The use of the Reserve will lower the rates requirement in the year it is used, but will increase rates the following year if reserves are not available to apply at the same level in the following year. GW expects this to be fiscally neutral over its life.

7. Warm Greater Wellington (WGW)

Greater Wellington commenced the Warm Greater Wellington scheme under the auspices of the EECA insulation scheme in April 2010. At the date of this report 1,883 applicants have been approved with a total amount of \$3,403,000 loaned. The WGW rate will be charged to those ratepayers who have been approved and paid prior to 30 June 2011. It will be set at 15.349 cents per dollar of the funding received from Greater Wellington.

8. Total changes required to the proposed 2011/12 rates

The changes outlined above have the following impact on the 2011/12 rates:

	\$000 ^s	% Change
Rates in proposed Plan 2011/12	80,570	4.58
Investment Management	(744)	(0.92)
Public Transport	935	1.16
Catchment Management	70	0.09
Parks & Forests	50	0.06
Other sundry adjustments	(28)	(0.03)
Proposed final rates	80,853	4.94

The above figures exclude the Warm Greater Wellington rate of \$531,000.

9. Rate Increase 2011/12

The LTCCP had a rate increase in 2011/12 of 11.0%. The final proposed rate increase is 4.94%.

10. Water levy

The proposed Plan assumed a 3% increase in the water levy. This compares with a forecast increase in the 2009-19 LTCCP of 6.5% for 2011/12.

Water is forecasting a further \$420,000 increase in their insurance premium since the proposed plan. It is recommended that the 3% increase is maintained for the final Plan. This number has not been finalised at this point. Once a final number is known levies will be adjusted from 2012/13 onward.

11. Rebudgets of 2010/11 Expenditure

The list of projects which the divisions are seeking to rebudget by transferring the unspent funds to 2011/12 are detailed in **Attachment 1** (operating expenditure) and **Attachment 2** (transport improvements and capital expenditure).

Rebudgets total \$1,407,500 in respect of operating expenditure, \$101,477,059 for Transport capital improvements and \$5,650,510 for other capital expenditure.

The rebudgets have been reviewed by senior management to ensure that the projects will be completed in 2011/12. Management are satisfied that the projects are still required.

12. Communications

The Council's final position in respect of rates and levies will be reported by way of a media release.

13. Recommendations

That the Council:

- (1) ***Receives the report.***
- (2) ***Notes its contents.***
- (3) ***Approves the operating expenditure items listed within Attachment 1 of this report (or as amended by the Council) to be rebudgeted within the 2011/12 Annual Plan.***
- (4) ***Approves the capital expenditure items listed within Attachment 2 of this report (or as amended by the Council) to be rebudgeted within the 2011/12 Annual Plan.***
- (5) ***Approves the operating expenditure adjustments within this report (or as amended by the Council) for inclusion within the 2011/12 Annual Plan.***

- (6) *Notes that the impacts of the rebudgeting and other adjustments, as approved in recommendations 3-5 above, have been reflected in this report.*
- (7) *Approves the rate increase of 4.94% and a 3% increase in the bulk water levy for the 2011/12 year (or as amended by the Council) for inclusion in the Annual Plan 2011/12, to be considered by the Council on 29 June.*

Report prepared by:

Report approved by:

Bruce Simpson

David Benham

Chief Financial Officer

Chief Executive

Attachment 1: Operating Expenditure Rebudgets

Attachment 2: Capital Expenditure Rebudgets