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7 September 2006

Cr Chris Laidlaw
Chairperson
Landcare Committee
Greater Wellington Regional Council
PO Box 11-646
WELLINGTON

Dear Chris

Kapiti Coast District Council's contribution towards the Chrystalls Bend Project

The Kapiti Coast District Council would like to request that the Greater Wellington Regional Council gives favourable consideration to reviewing the Kapiti Coast District Council contribution towards bringing forward the Chrystalls Bend Flood Protection Programme by three years.

This is the most significant flood protection work within the Kapiti Coast area which will be undertaken over the next ten years and it is important that our two Councils work closely together in partnership to deliver an outcome which will provide significant public benefit for the community of Otaki. For this to be achieved the funding arrangements need to be seen as a win/win situation for both Councils in terms of fairness and equity.

The key reasons for asking for a review are as follows:

- The initial letter from Barry Harris, Chief Executive Officer of the Greater Wellington Regional Council dated 20 December 2003, suggested that Kapiti Coast District Council meet the additional debt servicing costs for the Regional Council associated with bringing the Chrystall's Bend project forward three years and delaying the South Waitohu work by three years.
- The \$270,000 additional debt servicing costs was to be spread over six years and the suggested Kapiti Coast District Council contribution was \$45,000 per annum for six years.
- After the Kapiti Coast District Council decided that it did not want to delay the South Waitohu work but still wished the Chrystalls Bend work to be brought forward by three years the Regional Council recalculated Kapiti Coast District Council's contribution to be \$520,000 in relation to a total estimated projects cost of \$1.3 million.

- This \$520,000 contribution which was 40% of the total project was still understood by the Kapiti Coast District Council as only being based on the additional debt servicing costs over the first six years of bringing the Chrystalls Bend project forward three years.
- In the 2005/06 year the total project cost was estimated to increase to \$1.5million and Kapiti Coast District Council's contribution to \$576,000 based on the construction price index increases.
- With the latest estimated costs for the landward alignment now increasing to \$2.11million, the Regional Council staff have advised that the Kapiti Coast District Council contribution will need to increase by a further \$203,000. This makes a total Kapiti Coast District Council contribution of \$779,000 which is quite a substantial amount given this is just the cost of buying priority for the project by three years.

Comment

This new estimate will put additional rating pressure on the Otaki ratepayers who are struggling to meet their ongoing commitments now due to having the highest level of low fixed incomes in the District. There is some concern by several of the elected members that the cost of bringing this project forward is now becoming too much for the community of Otaki, so the finance staff were asked to investigate the additional costs that the Regional Council would be facing by bringing this project forward.

What the finance staff found was that the additional loan servicing costs faced by the Regional Council of bringing the \$2.11million project forward was an additional \$539,000 over a five year period based on an interest rate of 7% and a loan term of 20 years. The details are provided in an attached sheet. These additional costs are spread over a five year period and are the additional costs of the full \$2.1million with no contribution from the Kapiti Coast District Council.

If these additional costs, which are spread over a five year period, are met by an upfront contribution by the Kapiti Coast District Council in the first year being the 2006/07 year the net present value in 2006/07 dollars of the \$539,000 spread over five years is \$434,000.

The Kapiti Coast District Council has budgeted for a contribution of \$576,000 spread over two years: \$441,000 in the 2006/07 year and \$135,000 in the 2007/08 year. This translates to a Kapiti Coast District Council contribution of \$530,000 in 2006/07 dollars which is then compared with \$434,000 in 2006/07 dollars of additional debt servicing costs faced by the Regional Council. This means that Kapiti Coast District Council's current estimated contribution of \$530,000 in 2006/07 dollars is already almost \$100,000 in 2006/07 dollars above the additional debt servicing costs faced by the Regional Council.

A \$100,000 premium over and above the additional loan servicing costs faced by the Regional Council in bringing this project forward seems reasonable and may be required to cover any other additional costs (not specified to date) that the Regional Council may face in bringing this project forward.

The Kapiti Coast District Council finance staff also did further work to see what the net additional loan servicing costs would be for the Regional Council over the 20 year period of the loan and given that although the Regional Council would face additional loan servicing costs in the first five years of the loan the Regional Council would enjoy savings in loan servicing costs throughout the loan period but generally towards the end of the 20 year period. (The calculations are also shown in the attached papers).

As most of the savings are further out in the 20 year period they are obviously not worth as much in 2006/07 dollars.

After converting the net costs and savings in loan servicing costs into 2006/07 dollars the net overall additional loan servicing costs faced by the Regional Council over the 20 year period is \$272,000.

This 20 year net cost is for information only and the Kapiti Coast District Council is prepared to accept that the additional loan servicing costs faced by the Regional Council in the first five years is the main focus at this stage but would like to point out that there are also savings in debt servicing costs that the Regional Council will enjoy over the period of the loan although this occurs later in the period.

The current proposed Kapiti Coast District Council contribution of \$576,000 towards the \$2.11million project equates to the Kapiti Coast District Council meeting 26.4% of the total capital cost which means that the overall contribution by the local area compared to the region is 64/36 which is reasonably close to the 70/30 ratio that the Regional Council has applied to smaller private flood protection works where there is significant benefit to the private landowner whose private land would receive significant private flood protection benefits and retention of value.

The Chrystalls Bend project is not a small scheme just protecting a few private landowners but is a major public flood protection work providing 100 year flood protection work for the community of Otaki. A 64/36 ratio is significantly more than the normal 50/50 ratio applied to major capital works and seems more appropriate than the 70/30 ratio that is used for smaller private benefit schemes.

This major public flood protection work is the most significant community flood protection work which is likely to be required (according to Regional Council flood protection staff) in our District for some time into the future. There are certainly no other more significant works in this area signalled in the Greater Wellington Regional Council LTCCP.

In simple terms the Kapiti Coast District Council is quite prepared to meet the additional costs that would be incurred by the Greater Wellington Regional Council (estimated to be no more than \$576,000) in bringing this \$2.11M Chrystalls Bend project forward providing that the project is completed in the 2007/08 year as originally planned.

Conclusion

Therefore the Kapiti Coast District Council for the reasons provided would like the Greater Wellington Regional Council to give favourable consideration to the Kapiti Coast District Council contribution being approved at \$576,000 for bringing forward

the Chrystalls Bend project by three years. This is a significant contribution towards a project which is the most significant public flood protection works likely to take place in our District for some time in the foreseeable future.

By approving the Kapiti Coast District Council contribution at \$576,000 both the Regional Council and Kapiti Coast District Council would be in a win-win situation.

The benefits for both are summarised as follows:

For Kapiti Coast District Council:

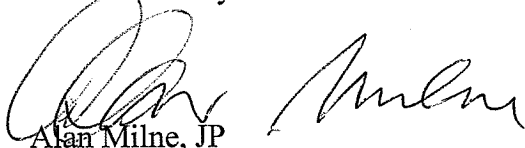
- The Chrystalls Bend project would be brought forward by three years and provide significant earlier benefits for the community of Otaki;
- Meeting its LTCCP wellbeing commitments to consider ability of people to pay – which particularly applies in Otaki which has a high proportion of residents on fixed income.

For Greater Wellington Regional Council:

- All additional loan servicing costs \$434,000 in 2006/07 dollars for the Regional Council of bringing this project forward would be met by the Kapiti Coast District Council contribution;
- In addition to the additional loan servicing costs the Kapiti Coast District Council contribution of \$576,000 would cover \$100,000 of any other costs associated (not specified to date) of bringing this project forward;
- Regional Council capital funding requirements would be \$576,000 less than if it had to fully fund the project in three years time. This means that the Regional Council share of the \$2.11million at \$1.534million would be closer to its original budget provision in the ten year LTCCP;
- By keeping the Kapiti Coast District Council contribution at \$576,000 which is currently in our *2006 Kapiti Coast- Choosing Futures – Community Plan*, this would mean that there is less opportunity for those who oppose the “buying of priority” to re-debate the issue through another approval process.

I trust that this provides you with sufficient evidence to support a favourable consideration by your Council of the Kapiti Coast District Council contribution to this significant flood protection work for the community of Otaki.

Yours sincerely



Alan Milne, JP

MAYOR
KAPITI COAST DISTRICT

KCDC contribution to GWRC Chrystalls Bend Project

Appendix 1

	06/07	07/08	08/09	09/10	10/11	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Cumulative Loan difference	300	2,110 1,810	1,785 (325)	485 (1,300)	- (485)	
Loan Interest @ 7%	11	84	136	79	17	328
Debt Repayment over 20years	-	14	95	80	22	211
Increase in Loan Servicing costs	11	98	232	159	39	539
Net Present Value (in 06/07 dollars) of Increase in Loan Servicing (over the next 5 years only)	<u>\$434</u>					
Proposed KCDC contribution	441	135				576
Net Present Value (in 06/07 dollars) of KCDC contribution (using 7%)	<u>\$530</u>					

KCDC contribution to GWRC Chrystalls Bend Project

Appendix 2

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	31/32	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Original Programme			325	1,300	485																						
Cumulative			325	1,625	2,110																						
Interest			11	23	23	23	23	23	17	17	17	17	17	11	11	11	11	6	6	6	6	6					296
				46	91	91	91	91	91	68	68	68	68	68	46	46	46	46	23	23	23	23	23				1,183
				17	34	34	34	34	34	25	25	25	25	25	17	17	17	17	8	8	8	8	8	8	8		441
Total Interest			11	68	131	148	148	148	142	119	111	111	111	105	82	74	74	74	68	45	37	37	37	31	8	-	1,920
Loan Repayment				15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15					294
					59	59	59	59	59	59	59	59	59	59	59	59	59	59	59	59	59	59	59	59			1,175
						22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22		438
Total Loan Repayment			15	73	95	95	95	95	95	95	95	95	95	95	95	95	95	95	95	95	95	95	95	81	22	-	1,907
Total Loan Servicing			11	83	204	243	243	243	237	215	206	206	206	200	178	169	169	169	164	141	132	132	132	112	30	-	3,828
Revised Programme	300	1,810																									
Cumulative		2,110	-	-	-																						
Interest	11	21	21	21	21	21	16	16	16	16	16	11	11	11	11	11	5	5	5	5	5						273
		63	127	127	127	127	127	95	95	95	95	95	63	63	63	63	63	32	32	32	32	32					1,647
Total Interest	11	84	148	148	148	148	142	111	111	111	111	106	74	74	74	74	69	37	37	37	37	32	-	-	-	-	1,920
Loan Repayment		14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14						271
			82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82					1,636
Total Loan Repayment		14	95	95	95	95	95	95	95	95	95	95	95	95	95	95	95	95	95	95	95	82	-	-	-	-	1,907
Total Loan Servicing	11	98	243	243	243	243	238	206	206	206	206	201	169	169	169	169	164	132	132	132	132	114	-	-	-	-	3,828
Difference in Loan Servicing	11	98	232	160	39	-	(5)	(37)	(31)	(8)	-	(5)	(37)	(31)	(8)	-	(5)	(37)	(31)	(8)	-	(19)	(132)	(112)	(30)	-	-
Net Present Value (in 06/07 dollars) of Increase in Loan Servicing																											
																											<u>\$272</u>