



Report 08.366
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Committee Council
Author David Benham, Chief Executive

Finalisation of the 2008/09 Annual Plan

1. Purpose

- To seek approval for new items and other adjustments to be made to the 2008/09 Annual Plan arising from the public consultation process or as a result of changes in circumstances since the proposed document was adopted.
- To seek approval to re-budget expenditure from 2007/08 to the 2008/09 Annual Plan.
- To seek approval for the level of regional rates and the bulk water levy to be incorporated into the final version of the 2008/09 Annual Plan.

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 2008/09 Annual Plan. The formal submission processes 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

In December 2007, Councillors received draft divisional business plans. Councillors reviewed these business plans in January 2008.

The Proposed Annual Plan contained a rate increase of 6.77%, with a nil increase in the bulk water levy. The Proposed Plan was approved for public consultation by Council on 19 March 2008. The consultation period ran from 3 April to 5 May, although late submissions were received. A total of 125 submissions were received.

The Annual Plan Hearings Committee heard 32 oral submissions and considered all submissions on 21 and 22 May 2008. Some submissions had

budgetary implications whilst others raised operational issues. A summary of submissions was prepared for the Hearings Committee and is attached to this report (*Attachment 1*).

The Committee asked the Chief Executive to further report on the rating impact of the funding requested by Ara Tahi in its submission on the Proposed Annual Plan, and on the impact of a number of other new items of expenditure and other adjustments which have arisen since the Proposed Annual Plan was prepared. All items discussed at the Hearings Committee meeting are considered in this report.

In addition to the Proposed Annual Plan document, it has been our normal practice each year, before the final Annual Plan is adopted, for officers to recommend to Council those items that are required to be re-budgeted from the previous year. The general principle followed is that if expenditure on a project cannot be completed in a given year, it can be re-budgeted in another year (normally the following year), provided it is still a Council priority and there is sufficient funding available.

After the regional rates and bulk water levy have been approved by Council, they will be incorporated into the final version of the 2008/09 Annual Plan for adoption by Council on 30 June 2008, subject to any final amendments requested by Council.

4. Results of the Public Consultation process on the 2008/09 Annual Plan

One additional budget item has been included in the final 2008/09 Annual Plan as a result of the public consultation process, namely \$11,000 for meeting fees and travel costs for Maori appointees attending Ara Tahi meetings and technical workshops and \$6,000 for the hui-a-Ara Tahi.

Other issues resulting from the public consultation process relate to matters of an operational nature and will not affect the final 2008/09 Annual Plan.

5. Proposed Adjustments to the 2008/09 Annual Plan

It is proposed that the following adjustments be made to the 2008/09 Annual Plan budget as a result of new information and changed assumptions.

5.1 Diesel inflation, additional rates of \$1,646,000

The table below shows the recent history of oil price increases.

	US \$	NZ \$
June 2006	66.66	107.17
December 2006	56.88	72.92
June 2007	66.37	88.73
December 2007	89.75	115.06
May 2008	132.99	168.34

The continuing rise in the world oil price will significantly increase the Land Transport Index that calculates the contractual inflation payments to bus operators. The Proposed 2008/09 Annual Plan assumed an oil price of US\$110 per barrel (NZ \$139).

The table below shows three different scenarios for how oil price increases would impact on rates. For the purposes of this report an oil price of US \$145 a barrel has been assumed (NZ \$183). The rates below include GST.

Total residential rates per average residential property including EDA rate					
		US \$110.00	US \$130.00	US \$145.00	US \$160.00
		Proposed			
		Annual Plan			
	2007/08	2008/09	2008/09	2008/09	2008/09
Wellington City	\$313.68	\$332.47	\$333.88	\$336.95	\$340.02
Lower Hutt City	\$334.51	\$359.55	\$361.29	\$365.07	\$368.85
Upper Hutt City	\$284.64	\$304.79	\$305.87	\$308.22	\$310.58
Porirua City	\$326.42	\$345.08	\$346.80	\$350.54	\$354.27
Kapiti Coast District	\$238.38	\$251.86	\$252.37	\$253.47	\$254.57
Masterton District	\$96.64	\$102.75	\$102.85	\$103.06	\$103.28
Carterton District	\$114.16	\$122.59	\$122.78	\$123.20	\$123.62
South Wairarapa District	\$137.87	\$145.46	\$145.80	\$146.55	\$147.29
Residential increase over 2007/08 district wide rates					
		US \$110.00	US \$130.00	US \$145.00	US \$160.00
		Proposed			
		Annual Plan			
		2008/09	2008/09	2008/09	2008/09
Wellington City		5.99%	6.44%	7.42%	8.40%
Lower Hutt City		7.49%	8.01%	9.14%	10.27%
Upper Hutt City		7.08%	7.46%	8.29%	9.11%
Porirua City		5.72%	6.24%	7.39%	8.53%
Kapiti Coast District		5.66%	5.87%	6.33%	6.79%
Masterton District		6.33%	6.43%	6.65%	6.87%
Carterton District		7.38%	7.55%	7.92%	8.29%
South Wairarapa District		5.50%	5.75%	6.29%	6.83%

The rates per average residential property are based on property valuations as at December 2007. The final rate numbers will be calculated on valuations as at June 2008. As a result there will be some small changes to the final numbers.

5.2 Trolley bus wires-maintenance, additional rates \$182,000

Wellington Cable Car Ltd (WCCL) - the trolley bus infrastructure owner - has tendered out infrastructure maintenance and the cost of this work has increased. In addition, expenditure on Trolley Bus infrastructure renewals has increased significantly as a result of items identified in WCCL's draft asset management plan. Approximately \$2.3 million of renewal work is planned for 2008/09. This will be funded by debt. The net effect is an increase in 2008/09 rates of \$182,000.

5.3 Public transport capital expenditure, savings \$317,000

Changes to the expected timing of a number of passenger rail infrastructure improvements have reduced 2008/09 rates by \$317,000. In particular, there have been changes to work that ONTRACK is completing on the Johnsonville

Tunnels, Waikanae electrification and double tracking, and signal and electrical work required for the new passenger trains.

5.4 Rail contract, additional rates \$148,000

Rail contract operating expenditure has increased by \$370,000, resulting in additional rates of \$148,000. The projected charge for tranz loggers (safety devices on trains) has increased following a requirement by Land Transport NZ to put a second device on each train. Toll NZ has also advised us of increased charges for train maintenance so this has also been provided for.

5.5 Environment, no change

The funding required for the development of the regional sustainable energy strategy is \$50,000.

Savings in finance costs and debt repayments (resulting from re-budgets) have reduced Environment's rate requirements by \$50,000, giving a "no change" position.

5.6 Transport policy, savings \$167,000

Reduction in the budget for a number of Travel Demand Management projects has provided savings of \$77,000.

In addition, there will be a carry forward of expenditure from 2007/08 to 2008/09 in respect of the Ngauranga to Airport plan. This reduces the budget requirements for 2008/09. Further, a delay in the Hutt Corridor review is forecast for 2008/09. Together, these two studies will reduce the rate requirement for 2008/09 by \$90,000.

5.7 Investment management, savings of \$159,000

The Council's opening debt position for 2008/09 is forecast to be lower than first estimated. This will reduce finance costs for 2008/09 by \$461,000. However, increases in the margins, commitment fees and borrowings in 2008/09 have reduced the benefit to \$159,000.

5.8 Provision for additional peak bus services, no change

There is evidence of significant capacity problems on some peak hour bus services. Additional funding sources are currently being explored. If successful this funding could be used to provide extra services to alleviate some of these problems.

5.9 Regional water strategy, additional rates \$50,000

A total of \$100,000 has been provided for the development of a regional water strategy. It is proposed that half of this will be funded by rates and half by the bulk water levy.

5.10 Regional disability forum, additional rates \$34,000

A total of \$34,000 has been included to cover the costs of running a regional disability forum.

5.11 Wairarapa drainage schemes, additional rates \$37,000

A number of drainage schemes require additional funding. This increase does not impact on the general rate as it is paid by members of these schemes.

6. Total changes required to proposed 2008/09 rates

The table below shows the impact that the adjustments outlined in Section 5 above have on the 2008/09 rates.

The rates below exclude GST.

	%	\$' 000
Proposed Rates 2008/09	6.77%	74,729
Adjustments		
Public Transport		
Diesel inflation	2.35%	1,646
Trolley bus wires maintenance	0.26%	182
Savings capital expenditure	(0.45%)	(317)
Rail Contract	0.21%	148
Total	2.37%	1,659
Other		
Transport policy projects	(0.23%)	(167)
Investment management	(0.23%)	(159)
Regional water strategy	0.07%	50
Regional disability forum	0.05%	34
Iwi appointees	0.02%	17
Rates (excluding drainage scheme rates)	8.82%	76,163
Wairarapa drainage scheme rates	0.05%	37
Recommended rates 2008/09	8.87%	76,200

7. Rates required in 2008/09 compared to 2007/08

If the above changes are approved by Council, the breakdown of rates will be as shown in the table below.

By Rate and Levy type:	2007/08	2008/09		
	Budget	Plan	Change	Change
	\$000s	\$000s	\$000s	%
General Rates				
Flood protection	6,702	7,017	315	4.70%
Environment, Parks and Council costs	19,543	20,365	822	4.21%
Biosecurity and Land Management	4,302	4,581	279	6.48%
Investment management	(8,743)	(8,273)	470	5.38%
Total General rates	21,804	23,690	1,886	8.65%
Targeted rates:				
River management rates	3,379	3,627	248	7.34%
Regional transport rates	36,760	40,773	4,013	10.92%
Stadium rates	2,676	2,676	-	0.00%
EDA rates	4,000	4,000	-	0.00%
Total targeted rates	46,815	51,076	4,261	9.10%
Total district wide rates	68,619	74,766	6,147	8.96%
Bovine Tb rates	143	143	-	0.00%
South Wairarapa District - river rates	141	124	(17)	-12.06%
Wairarapa scheme and stopbank rates	1,086	1,166	80	7.41%
Total targeted rates	1,370	1,433	63	4.63%
Total regional rates	69,989	76,200	6,211	8.87%
Water levy	23,460	23,460	-	0.00%
Total rates and levies	93,449	99,660	6,211	6.65%
<i>All numbers exclude GST</i>				

It should be noted that if the impact of increased oil prices on bus contracts was excluded from the rate calculation, the rate increase would be 4.09%. The table below provides a breakdown of the rate increases.

	\$'000'	%
Higher oil price	3,348	4.78
Public Transport (excluding the impact of oil prices)	708	1.01
Catchment management (flood protection and biosecurity)	905	1.29
	4,961	7.08
Other	1,250	1.79
Total	6,211	8.87

8. Potential increases for 2009/10

8.1 Oil prices

There is uncertainty about future oil prices. We have assumed a price of US\$145 per barrel (NZ\$183) for the 2008/09 Annual Plan. If that assumption proves incorrect, there could be an impact on the 2009/10 budget.

8.2 Renewal of trolley bus overhead wires

As noted in section 5.2, Greater Wellington is funding renewal expenditure from debt. The increase in the funding costs will be \$600,000.

8.3 New rail rolling stock and upgrade of infrastructure

The funding impact of these items is forecast to increase by \$1.6 million as Greater Wellington's debt increases to fund its share of these items.

8.4 Flood protection capital works programme

The continuation of the flood protection capital works programme will have a funding impact of \$500,000 in 2009/10.

8.5 Vector management and “maintain the gains”

Greater Wellington's contract with the Animal Health Board to provide Bovine Tb vector management terminates in June 2009. The Animal Health Board has decided to undertake vector contract management itself. This programme funds some elements of the operating costs in Catchment Management. Termination of the contract means that we will be unable to recover operating costs of \$450,000.

Currently, Greater Wellington funds a portion of the Animal Health Board vector management programme from rates. Greater Wellington will need to decide whether or not to continue this funding as it will not be involved in contract management work from 2009.

In addition, Greater Wellington will have to decide whether or not to continue with pest control in Bovine Tb free areas in order to “maintain the gains” which have already been made.

The rates contribution to the Animal Health Board programme is currently \$610,000. We anticipate the “maintain the gains” programme will cost \$850,000.

8.6 Hill country erosion

This issue is outlined in Report 08.367 to this Council meeting. If this programme proceeds the funding impact for 2009/10 will be \$100,000.

8.7 Wairarapa building

The proposal to upgrade Greater Wellington's offices in Masterton will be considered by Council on 30 June 2008. The 2008/09 budget provides for the design work. However, the funding impact for 2009/10 is likely to be around \$500,000.

8.8 Funding of Grow Wellington

The decision to rate for a regional economic development agency was taken after consultation with the public in 2007. The funding arrangement assumed an annual increase of \$500,000 in 2008/09 and 2009/10. The 2008/09 Annual Plan does not include this increase as expenditure has been re-budgeted from 2007/08 (see section 10 below).

9. Rating bow wave for 2009/10

The impact of the above items is shown in the table below.

	\$'000'
Oil prices	?
Renewal of trolley bus overhead wires	600
New rail rolling stock and upgrade of infrastructure	1,600
Flood protection capital works programme	500
Vector management and "maintain the gains"	450 - 1,300
Hill country erosion	100
Wairarapa building	500
Funding of Grow Wellington	500
	4,250 - 5,100
Rate increase (excluding any oil price impact)	5.6% - 6.7%

10. Re-budgets of 2007/08 Expenditure

The list of projects which the divisions are seeking to re-budget by transferring unspent monies to 2008/09 are detailed in **Attachment 2** (operating expenditure) and **Attachment 3** (capital expenditure).

The proposed re-budgets are given to Council at this stage for consideration to enable the completion of the 2008/09 Annual Plan.

Re-budgets total some \$21.6 million in respect of operating expenditure and \$23.9 million for capital expenditure. In respect of operating expenditure, public transport accounts for \$19.4 million of the re-budgeted amounts.

In terms of capital expenditure, public transport accounts for \$20.3 million of the re-budgeted amounts and Catchment (flood protection) accounts for \$1.4 million.

The delays in a number of transport projects have been reported to Council on a number of occasions. In respect of capital expenditure the major reasons for the re-budgets are the delays in upgrading the rail infrastructure and the changed payment schedules for the new EMUs.

The re-budgets have been reviewed by the Chief Executive and Chief Financial Officer to ensure that the projects will be completed in 2008/09. Management is satisfied that the projects are still required.

11. Bulk Water levy

There is no increase in the bulk water levy.

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 Council:

- (1) ***Receives the report.***
- (2) ***Notes its contents.***
- (3) ***Approves the operating expenditure items listed in Attachment 2 of this report to be re-budgeted for the 2008/09 Annual Plan.***
- (4) ***Approves the capital expenditure items listed in Attachment 3 of this report to be re-budgeted for the 2008/09 Annual Plan.***
- (5) ***Approves the additional items of operating expenditure within this report for inclusion within the 2008/09 Annual Plan.***
- (6) ***Notes that the impacts of the re-budgeting and other adjustments, as approved in recommendations 3-5 above, have been reflected in Section 7 of this report.***
- (7) ***Assumes an oil price of US \$145 a barrel (NZ \$183) for inclusion in the 2008/09 Annual Plan.***
- (8) ***Notes the items listed in section 8 of this report that may impact on rates for 2009/10.***

- (8) ***Approves the nil increase in the bulk water levy for 2008/09.***
- (9) ***Approves an increase in district wide rates of 8.96% and an increase of 8.87% in regional rates for the 2008/09 year.***

Report prepared by:

David Benham
Chief Executive

Attachment 1: Summary of submissions received on the Proposed 2008/09 Annual Plan

Attachment 2: Operating Expenditure Rebudgets

Attachment 3: Capital Expenditure Rebudgets