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Committee Council  
Author David Benham, Chief Executive

## Proposed 2011/12 Annual Plan

### 1. Purpose

To seek approval for the Council's Proposed 2011/12 Annual Plan including the proposed 2011/12 rates and levies, which is a statement of proposal under the Local Government Act 2002 (the Act), and the associated Summary document.

### 2. Significance of the decision

The subject matter of this report is part of a decision making process that will lead to the Council making a "significant" decision within the meaning of the Act. The decision making process for the annual plan is explicitly prescribed for by sections 85 and 87 of the Act. This process includes the use of the special consultative process.

This report also considers whether a decision by Council to accept assets under the proposed Regional Rail Package will trigger section 97 (1) (a) or (b) of the Act. This is addressed more fully in this report.

### 3. Background

Over the last four months management has been developing the Council's 2011/12 Annual Plan. Councillors were taken through the first draft budget in December. Prior to Christmas the detailed business plans for each Group were circulated to Councillors.

Over this period significant work has been undertaken to secure a more certain operating environment for passenger rail in the region, details of this are noted below.

This proposed Annual Plan comprises year three of the 2009-19 Ten Year Plan (LTCCP) and variations to that Ten Year Plan. Also printed with the document (but technically falling outside the Annual Plan) are:

- The statement of proposal to participate in the establishment of the New Zealand Local Government Funding Agency; a Council Controlled

Organisation. This is an amendment to the *10-Year Plan 2009-19* (LTCCP). This was approved for consultation by the Council on 3 March 2011.

- The summary of information on the proposed Dangerous Dams Policy. The statement of proposal was approved for consultation by the Council on 16 February 2011.
- The summary of information on the proposed Resource Management Charging Policy (2011). The statement of proposal was approved for consultation by the Council on 16 February 2011.

Submissions received on the above proposals will be considered by Councillors concurrently with annual plan submissions, with separate recommendations coming to the Council.

#### **4. Proposed Regional Rail Package**

A key element of this year's Annual Plan is the proposed introduction of a new approach to the ownership, funding and operating of passenger rail services in the Wellington Region.

Councillors will be aware negotiations have been underway for some time with the Government to achieve an efficient, reliable and sustainable passenger rail service for the region for the foreseeable future. Councillors will also be aware that the Matangi Fleet, the SW Fleet and the SE Fleet (which represent some but not all of the metro rolling stock) are currently owned by Council via the WRC Holdings Group and Greater Wellington Rail Limited (GWRL). Council also currently owns some, but not all of the stations and car parks.

Agreement in principle (subject to final approval by Council) has been reached with the Government on the key aspects of a proposed Regional Rail Package.

- Greater Wellington (via GWRL) will acquire the remaining metro rail rolling stock, ie, the Ganz Mavag units.
- Greater Wellington will borrow to fund the refurbishment of the Ganz Mavag units.
- Greater Wellington will fund heavy maintenance of rolling stock.
- Greater Wellington (or GWRL) will acquire and be responsible for the remaining stations (other than Wellington Station) station car parks, stabling and the electric train depot.
- The Government will support the new arrangements financially through the New Zealand Transport Agency but with a phased reduction of the Financial Assistance Rate from 60% to 50%.
- The Government will continue, through KiwiRail, to own the Wellington metro rail network and fund upgrades to the network as well as deferred track renewals.

- Greater Wellington, GWRL and KiwiRail plan to sign new performance-based maintenance, operating and track access contracts this year.
- Further consideration will be given to whether all the metro rail assets (rolling stock , stations , car parks and stabling and electric train depot) are held by Council, GWRL or a combination of the two (as is currently the case ).
- Greater Wellington and GWRL will in the future have the right to test the market for an alternative operator and maintainer of the metro rail network.

In the past, Council has funded much of the work undertaken on the rail system, but Council has had minimal control over the assets. We believe that the proposal has the following benefits:

- Local permanent and public ownership of the trains and most of the stations on a regional basis will give the people of Wellington region control over the long-term future of these assets, regardless of the operator. It means that they won't be neglected and allowed to run down as happened previously.
- Even when all the Matangi units are in use, there won't be enough of them for peak hour services, so the rail package will enable the 30-year-old Ganz Mavag fleet to be refurbished. Up until now we have secured funding only for the prototype refurbishment of one of the 43-unit fleet.
- The current \$550 million programme of rail improvements (including new trains, extension of services to Waikanae, a stronger power supply, new signalling system and a third line into Wellington Railway Station) will make a huge difference to our rail services, but more significant work is needed, such as replacing wooden poles, signals and overhead wires. This work will now be able to be programmed with secured funding.
- When there are sufficient numbers of new Matangi trains available, the Wairarapa fleet can be supplemented by six SE carriages that currently run on the Upper Hutt and Kapiti lines.
- The package also enables us in the future to consider introducing competition into the provision of rail services in Wellington, providing greater incentive to perform and better value for money for rate payers, tax payers and, importantly, rail passengers.

The proposed Regional Rail Package will add 2.6% in 2011/12 to the finally agreed rate for our other general activities.

The principal alternative option for the Council to consider is not to accept the proposed Package. The likely consequences of not accepting the Package are that funding will not be available to refurbish the Ganz Mavag fleet or to undertake deferred track renewals. Failure to refurbish the Ganz Mavag fleet or to undertake deferred track renewals will lead to ongoing and increasing rolling stock and track failures and decreasing reliability of services. The

Council would not be able to meet its objective of providing an efficient, reliable and sustainable passenger rail service for the region for the foreseeable future.

### **Decision making**

Before making a decision about whether or not to accept the proposed Wellington Rail Package, Council must follow the decision making requirements imposed by Part 6, subpart 1 of the Act. This requires Council to establish the objective of its decision, assess the options to achieve that objective, assess the degree of significance of the proposed decision including whether the decision will trigger sections 97 (1) (a) or (b) of the Act. Council must also give consideration to views of persons likely to be affected or who have an interest in the decision and identify any inconsistency with any existing policies or plans.

If section 97(1)(a) or (b) is triggered Council must not make the decision unless the decision is explicitly provided for in the Council's LTCCP and a detailed statement of proposal is prepared in accordance with section 84 of the Act and a special consultative procedure is carried out.

Section 97(1)(a) of the Act applies if Council considers that the decision to accept the Regional Rail Package will 'significantly alter the intended level of service provision of any significant activity undertaken by or on behalf of [Council], including a decision to commence or cease such activity'.

Council already has a significant role in the provision of metro rail services including an existing ownership interest in rolling stock (via GWRL) and various stations and car parks. Council is already funding the operational aspects of the additional assets that would be acquired. Officers consider that a decision to accept the Regional Rail Package will not result in Council commencing or ceasing any significant activity or in any significant alteration to the intend level of service provision for any significant activity . For this reason officers consider that section 97(1)(a) of the Act does not apply.

The application of section 97(1)(b) requires a decision about whether acquiring the ownership of the Ganz Mavag fleet and the other assets results in the transfer to Council of a strategic asset.

The Council's significance policy lists the assets that Council considers to be strategic assets. This list includes:

“Greater Wellington's ownership, via the WRC Holdings Group, of rail rolling stock and other rail infrastructure required for the operation of the passenger rail system in the region (taken as a whole).”

The policy also records:

“Acquisition or disposal of a small component of a strategic asset will not trigger this provision, unless it is considered that the component is an integral part of the strategic asset and that its acquisition or disposal could substantially affect the operation of the strategic asset.”

Officers consider that the proposed acquisition of the Ganz Mavag fleet and the remaining stations and carparks, the depot and stabling assets by Council or GWRL will not substantially affect the operation of Council's existing rolling stock and metro rail infrastructure assets. Irrespective of ownership, Greater Wellington will continue to be responsible for funding the operation of both the existing assets and the transferred assets. Services and assets used in the delivery of the metro rail operation will still be available for use and the transfer of ownership should be seamless from a customer perspective.

If Council makes the decision that the operation of the existing assets will not be substantially affected, then the Ganz Mavag Fleet and the other rail assets to be transferred are not strategic assets under the significance policy. This conclusion means that section 97(1)(b) of the Act does not apply.

## **5. Proposed Rates and Water Levy changes for 2011/12**

Excluding the impact of future contractual and committed items, Greater Wellington rates for 2011/12 will decrease by 1.17%, when compared with 2010/11 (See table 1).

Including previously contracted and committed items for 2011/12 the overall rate increase before inclusion of the Regional Rail Package outlines in paragraph 4 is 1.98% (See table 1).

Including the Regional Rail Package the increase is 4.58% which compares with the rate increase signalled in the 2009-19 Long Term Council Community Plan (LTCCP) for 2011/12 of 11.06% (See table 1).

Further details on the changes from the LTCCP are included in section 6. There is a proposed increase of 3.00% in the water levy. Overall, the increase in rates and water levy is 4.23%, as detailed in table 1.

The major assumptions used to prepare the budget are attached (refer **Attachment 1**). It should be noted that all numbers in this report exclude GST unless otherwise stated.

## Rates and Levy Summary including the Regional Rail Package:

<b>Table 1</b>	<b>2010/11 Budget \$000<sup>s</sup></b>	<b>2011/12 Plan \$000<sup>s</sup></b>	<b>% Change</b>
Transport rates	41,392	41,533	
Non transport rates	39,469	38,383	
	<b>80,861</b>	<b>79,916</b>	<b>(1.17%)</b>
<b>Contractual or committed expenditure</b>			
Debt servicing transport projects		1844	
Debt servicing flood protection		660	
Other debt servicing		221	
Rail contracted services and access		239	
Bus contracted services and projects		(576)	
Real time information system		142	
Masterton building		128	
Wairarapa irrigation project		75	
Investment Management		(1,100)	
Other contracts - transport		152	
Other contracts		768	
<b>Proposed rates required before Regional Rail Package</b>	<b>80,861</b>	<b>82,469</b>	<b>1.98%</b>
Regional Rail Package		2,102	<b>2.60%</b>
<b>Proposed rates</b>	<b>80,861</b>	<b>84,571</b>	<b>4.58%</b>
Transport	41,392	45,436	<b>9.77%</b>
Non Transport	39,469	39,135	<b>(0.85%)</b>
<b>Proposed rates</b>	<b>80,861</b>	<b>84,571</b>	<b>4.58%</b>
Water levy	23,460	24,164	<b>3.00%</b>
<b>Proposed rates and levy</b>	<b>104,321</b>	<b>108,735</b>	<b>4.23%</b>

All figures in this report exclude GST

The proposed allocation between general and targeted rates is detailed below:

### Rates and Levies:

<b>Table 2</b>	<b>2010/11 Budget \$000<sup>s</sup></b>	<b>2011/12 Plan \$000<sup>s</sup></b>	<b>Change \$000<sup>s</sup></b>	<b>Change %</b>
General rates	26,803	25,983	(820)	(3.06%)
<b>Targeted rates:</b>				
River management rates	3,976	4,459	483	12.15%
Transport rates	41,392	45,437	4,045	9.77%
Stadium rates	2,676	2,676	-	-
EDA rates	4,500	4,500	-	-
Bovine Tb rates	143	143	-	-
South Wairarapa District - river rates	83	83	-	-
Wairarapa scheme and stopbank rates	1,288	1,290	2	0.16%
<b>Total targeted rates</b>	<b>54,058</b>	<b>58,588</b>	<b>4,530</b>	<b>8.38%</b>
<b>Total regional rates</b>	<b>80,861</b>	<b>84,571</b>	<b>3,710</b>	<b>4.58%</b>
Water levy	23,460	24,164	704	3.00%
<b>Total rates and levies</b>	<b>104,321</b>	<b>108,735</b>	<b>4,414</b>	<b>4.23%</b>

These figures exclude GST

## 6. The major changes in rates from 2010/11 budget including the Proposed Regional Rail Package are:

### 6.1 Debt servicing costs, an increase of \$3,466,000

The debt servicing costs (which consist of principal and interest payments) in 2011/12 are expected to increase by \$3,466,000. This is due mainly to the increased capital expenditure and investment programmes in Public Transport (\$1,844,000 existing committed projects plus \$741,000 associated with the proposed Regional Rail Package) and Catchment Management (flood protection, \$660,000).

The Public Transport increase includes debt funding the council's share of the new Matangi trains; the start of the refurbishment of the Ganz Mavag trains and other associated rail support infrastructure, as planned in the LTCCP and now updated to reflect the new Regional Rail Package.

A summary of capital expenditure is detailed in section 9.

### 6.2 Rail contract, track access and renewals, increase of \$1,600,000

The latest budget estimates including the proposed Regional Rail Package show increased rates requirements of \$1.6 million (\$239,000 existing contract plus \$1,361,000 associated with the proposed regional rail package) to allow

the rail network and rolling stock to be appropriately managed and maintained after the rail upgrade. This change reflects the inclusion of the proposed Regional Rail Package.

**6.3 Trolley and diesel buses, decrease of \$576,000**

Savings of \$1,152,000 have been identified in diesel bus and trolley bus operations. Greater Wellington's share is a rates reduction of \$576,000.

**6.4 Real time information, increase of \$142,000**

This is the rates impact of the introduction of the real time information system in 2011/12.

**6.5 Transport reserves**

The budget includes \$2,000,000 use of transport reserves.

**6.6 Masterton building, increase of \$128,000**

The 2011/12 budget includes an update to the expected 2011/12 costs of the Masterton building. Final approval will be sought from Council once detailed design is completed and final estimated costs known.

**6.7 Investment Management, decrease in rates required of \$1,100,000**

Improved investment returns from Greater Wellington's subsidiaries saves an additional \$1,100,000 in rates.

**7. Water Levy**

The water levy is proposed to increase by 3% to \$24,164,000. The increase is to cover the increased capital works programme including the strengthening of the Stuart Macaskill lakes at Te Marua.

**8. Changes from the LTCCP provisions for 2011/12, including the proposed Regional Rail Package**

The 2009-19 LTCCP had a rate increase for 2011/12 of 11.06%; the proposed increase is now 4.58%. The increase in the water levy in the LTCCP was 6.49%; the proposed increase is now 3.00%.

The majority of the changes in rates requirement from the LTCCP are related to lower financial costs; principal among these are the changed timing of capital projects and the transport improvement programme and increased returns from investments when compared to LTCCP projections.



## Rates and Levies:

<b>Table 2</b>	<b>2010/11 Budget \$000<sup>s</sup></b>	<b>2011/12 Plan \$000<sup>s</sup></b>	<b>Change %</b>	<b>2011/12 LTCCP \$000<sup>s</sup></b>	<b>LTCCP Change %</b>
General rates	26,803	25,983	(3.06%)	28,682	1.50%
<b>Targeted rates:</b>					
River management rates	3,976	4,459	12.15%	4,534	7.72%
Transport rates	41,392	45,437	9.77%	55,050	19.41%
Stadium rates	2,676	2,676	-	2,673	-
EDA rates	4,500	4,500	-	5,000	-
Bovine Tb rates	143	143	-	143	-
South Wairarapa District - river rates	83	83	-	88	2.33%
Wairarapa scheme and stopbank rates	1,288	1,290	0.16%	1,265	0.32%
<b>Total targeted rates</b>	<b>54,058</b>	<b>58,588</b>	<b>8.38%</b>	<b>68,753</b>	<b>15.60%</b>
<b>Total regional rates</b>	<b>80,861</b>	<b>84,571</b>	<b>4.58%</b>	<b>97,435</b>	<b>11.06%</b>
Water levy	23,460	24,164	3.00%	26,350	6.49%
<b>Total rates and levies</b>	<b>104,321</b>	<b>108,735</b>	<b>4.23%</b>	<b>123,785</b>	<b>10.06%</b>

## Warm Greater Wellington

Warm Greater Wellington is the programme to assist ratepayers insulate and install clean heating in their homes. The programme started in April 2010 and only ratepayers that participate in the scheme are charged rates to recover the costs of the scheme.

	<b>2010/11 Budget \$000<sup>s</sup></b>	<b>2011/12 Plan \$000<sup>s</sup></b>	<b>2011/12 LTCCP \$000<sup>s</sup></b>
Warm Wellington Rates	31	532	-

## 9. Capital Expenditure

<b>Table 4</b>	<b>Budget 2010/11 \$000<sup>s</sup></b>	<b>Plan 2011/12 \$000<sup>s</sup></b>	<b>LTCCP 2011/12 \$000<sup>s</sup></b>
Transport	6,676	3,830	3,108
Catchment Management	7,540	4,828	4,976
Parks and Forests	246	353	317
Property	494	2,762	3,643
Corporate	825	1,050	1,403
<b>Rates funded capital expenditure</b>	<b>15,781</b>	<b>12,823</b>	<b>13,447</b>
Water Supply	9,700	16,392	12,826
<b>Total capital expenditure</b>	<b>25,481</b>	<b>29,215</b>	<b>26,273</b>

Detailed capital expenditure programmes are included in the Group business plans.

In addition to the capital expenditure noted above, Greater Wellington will also be funding part of the following improvement projects:

- \$4.1 million on trolley bus infrastructure renewals, 50% funded by Greater Wellington
- \$118.7 million on the new Matangi trains (owned by Greater Wellington Rail Limited), 10% funded by Greater Wellington
- \$11.9 million on the Ganz Mavag refurbishment project, 40% funded by Greater Wellington (to be owned by Greater Wellington Rail Limited) if the proposed Regional Rail Package is approved
- \$2.5 million on heavy maintenance, 40% funded by Greater Wellington.

## 10. Financial Risks

As in previous years, there are a number of risks surrounding this year's budget. The major ones are:

- Increases in the oil price and/or decreases in the NZ dollar/US dollar exchange rate impacting the NZTA index
- A decrease in central government funding of public transport subsidised services, proposals and projects
- Higher interest rates

- Lower consents revenue
- Inflation higher than expected.

## **11. Impact on ratepayers**

The calculations to give the proposed cents in the dollar of capital value that will be charged to ratepayers are included in the attached annual plan.

It is important to note that the rate increase in each Territorial Authority varies from the average increase of 4.58%. This is dependant on the relative movements in capital values between the Territorial Authorities and the specific work programme, and services being undertaken in each Territorial Authority area each year.

## **12. Proposed 2011/12 Annual Plan and Summary document**

The Council is now being asked to approve the Proposed 2011/12 Annual Plan document and the summary document.

The Proposed 2011/12 Annual Plan (**Attachment 2**) and the summary document (**Attachment 3**) are attached to this report.

The documents will be printed and distributed at the start of the consultation process on 28 March 2011 (see timetable below).

## **13. Additional items**

As noted above, the Proposed Annual Plan and summary also contains:

- the statement of proposal to participate in the establishment of the Local Government Funding Agency, a Council Controlled Organisation
- the summary of information on the proposed Dangerous Dams Policy
- the summary of information on the proposed Resource Management Charging Policy (2011).

## **14. Proposed rates and water levy**

The proposed rate increase is 4.58% and the proposed water levy increase is 3.00%. This makes a total increase (rates and levies) of 4.23%.

## **15. Balanced budget**

The Act requires a council to project a balanced budget in the Annual Plan. This is defined as operating revenues being set at a level to meet planned operating expenditure.

In 2011/12 the Council is projecting an operating deficit after transport improvements of \$9.3 million. This net deficit includes the proposed Regional Rail Package and arises from the accounting treatment for the purchase of the new Matangi trains, the start of the Ganz Mavag refurbishment project and other passenger rail infrastructure upgrades which will be owned by Greater

Wellington Rail Ltd (GWRL). These projects are funded by way of government grants as expenses are incurred, government grants over time as debt servicing costs are incurred, and by the Council. The Council's debt funded share creates an accounting loss in the annual plan.

The Council is permitted under the Act to plan for a deficit as long as it meets the following criteria:

- it is financially prudent
- service levels are maintained
- the integrity of assets are maintained through their useful life
- the Council resolves to plan for a non balanced budget.

The Council will meet the criteria above, including the appropriate resolution in the recommendations.

## 16. Timetable

The timetable for the Annual Plan consultation is as follows:

15 March	Council approves the Proposed 2011/12 rates and levies and the Annual Plan and summary document, to be released for public consultation.
28 March – 28 April	Document released to public. Submission period starts.
19 - 20 May	Hearing of public submissions.
8 June	Council approves the rates and levies for inclusion in the final 2011/12 Annual Plan.
29 June	Council adopts the final 2011/12 Annual Plan and sets its rates and water levy for 2011/12.

## 17. Community Engagement

The Proposed Communications & Community Engagement Plan (**Attachment 4**) is attached to this report. Together with other engagement tools, the summary document (**Attachment 3**) will be distributed to all households in the region. It contains a submission form to allow the public to make a short submission relatively easily. The main document will be distributed widely and will be available on our website and in all council offices and libraries in the region.

## 18. Communications

A press release will be prepared and available at the Council meeting.

## 19. Recommendations

*That the Council:*

1. **Receives** the report.
2. **Notes** the content of the report.
3. **Notes** that the proposed rates have been prepared on the assumption of including the Regional Rail Package outlined in section 4.
4. **Agrees** that a decision by Council to accept or decline the proposed Wellington Rail Package including the proposed transfer of rolling stock and other assets to Council as part of the proposed Regional Rail Package does not trigger the requirements of section 97(1)(a) or (b) of the Local Government Act 2002.
5. **Having regard to** the proposed Regional Rail Package as incorporated in the draft Annual Plan and Summary, the significance of the matters for decision in the Officer's report and the matters in section 79(2) of the Local Government Act 2002:
  - a. **Agrees** that the extent to which different options have been identified and assessed is appropriate
  - b. **Agrees** that the degree to which benefits and costs have been quantified is appropriate
  - c. **Agrees** that the extent and detail of the information about the proposed Regional Rail Package as outlined in the draft Annual Plan and before Council is appropriate
  - d. **Notes** that community views including the views of those likely to be affected by the proposed Wellington Rail Package will be considered in the course of the Annual Plan consultation process
  - e. **Notes** that a decision about whether or not to accept the proposed Wellington Rail Package will not be made until the Annual Plan consultation process has occurred.
6. **Notes** that the proposed rates have been prepared on the assumption that there will be a 3% fare revenue increase for Public Transport services.
7. **Resolves** to operate a non balanced budget having given consideration to matters raised in section 100 of the Act.
8. **Approves** for inclusion in the Council's Proposed 2011/12 Annual Plan, the rates and levies included in Section 8.
9. **Approves** the Council's Proposed 2011/12 Annual Plan and summary document being released for public consultation.

10. *Notes the summary document will also include information on the proposal to participate in the establishment of the Local Government Funding Agency, the proposed Dangerous Dams Policy and the proposed Resource Management Charging Policy (2011).*
11. *Approves the Proposed Communications & Community Engagement Plan in Attachment 4.*
12. *Notes that a hearing will be held to consider submissions on the proposed Annual Plan, proposal to participate in the establishment of the Local Government Funding Agency, the proposed Dangerous Dam Policy and the proposed Resource Management Charging Policy (2011) on 19-20 May 2011.*

Report prepared by:

**David Benham**  
Chief Executive

**Attachment 1:** Major assumptions

**Attachment 2:** Proposed 2011/12 Annual Plan

**Attachment 3:** Proposed 2011/12 Annual Plan Summary document

**Attachment 4:** Proposed Communications & Community Engagement Plan