greater WELLINGTON
REGIONAL COUNCIL

Report 10.272
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Committee Council
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Finalisation of the 2010/11 Annual Plan (the Plan)

1. Purpose

- To seek approval for new items and other 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 2009/10 to the 2010/11 proposed Plan.

- To seek approval for the level of regional rates and the bulk water levy for 2010/11.

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 2010/11. The proposed Annual Plan 2010/11 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 2010/11 was forecast in the LTCCP to be 10.9%. Due to this large rate increase, the process to prepare the Plan commenced in mid 2009. The result was that the rate increase was reduced from 10.9% to 2.20%. Councillors were presented with the resulting detailed financial numbers in October 2009.

On 4 February 2010 Council approved the rate and water levy numbers for inclusion in the proposed Plan 2010/11, with a rates increase of 2.20% and no increase in the bulk water levy.

The Plan was approved for public consultation by Council on 4 March 2010. The consultation period ran from 23 March to 23 April 2010. A total of 122 submissions were received. The Annual Plan Hearings Committee heard 27 oral submissions and considered all submissions on 12 and 13 May 2010.

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.

In addition, any new items of expenditure and other adjustments which have arisen since the proposed Plan 2010/11 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 2010, subject to any amendments requested by Council.

4. Results of the Public Consultation process, including the Hearing Committee meeting on 12 and 13 May 2010

There were no amendments recommended by the Hearing Committee to the proposed Plan arising from the public submissions on the Plan.

5. Recommended changes to the proposed 2010/11 Plan

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

5.1 Lower opening debt position and lower interest expense

A lower opening debt position and some adjustment to interest rates have reduced forecast external finance costs for 2010/11 by $1,000,000.

The lower debt position arises from lower capital expenditure, lower Transport improvements, lower working capital and an improved funding surplus in 2009/10 since the proposed Plan was prepared in 2009. The lower capital expenditure position is largely a result of timing changes.

The reduction in the external funding costs for 2010/11 has allowed the internal interest rate charged to the individual groups within Greater Wellington to be lowered from 7.0% to 6.0%.

The 6.0% interest rate compares with Greater Wellington’s current weighted average cost of debt of 4.7%. However, this rate will rise for 2010/11 due to increasing margins on our facilities and the impact of interest rate swaps coming into effect during the year.

A 6.0% internal interest rate is expected to be very close to Greater Wellington's weighted average cost of debt for 2010/11.

The overall impact of the above, plus other sundry adjustments, lowers the contribution Investment Management makes to reducing rates by $64,000.

5.2 Public Transport

5.2.1 Rail operations, an increase in rates of $229,000 (0.28% of total rates)

Lower rail patronage is expected to increase the costs of the rail contract by $607,000. This has been partly offset by decreases in the costs of rail maintenance (later arrival of the Matangi units) and insurance.

5.2.2 Debt servicing, a decrease in rates of $369,000 (0.45% of total rates)

The reduction in the internal interest rate to 6.0% has reduced the rate requirement by $160,000.

The deferral in funding some capital projects is forecast to save an additional $209,000.

5.2.3 Overhead charges, an increase in rates of $61,000 (0.07% of total rates)

There has been a reallocation of corporate charges, increasing rates by $61,000. A number of these increases have been offset by a number of reductions elsewhere in Greater Wellington as noted below.

5.2.4 Diesel bus inflation, an increase in rates of $109,000 (0.13% of total rates)

The proposed Plan used an oil price of USD85 per barrel and an exchange rate of NZD/USD $0.70.

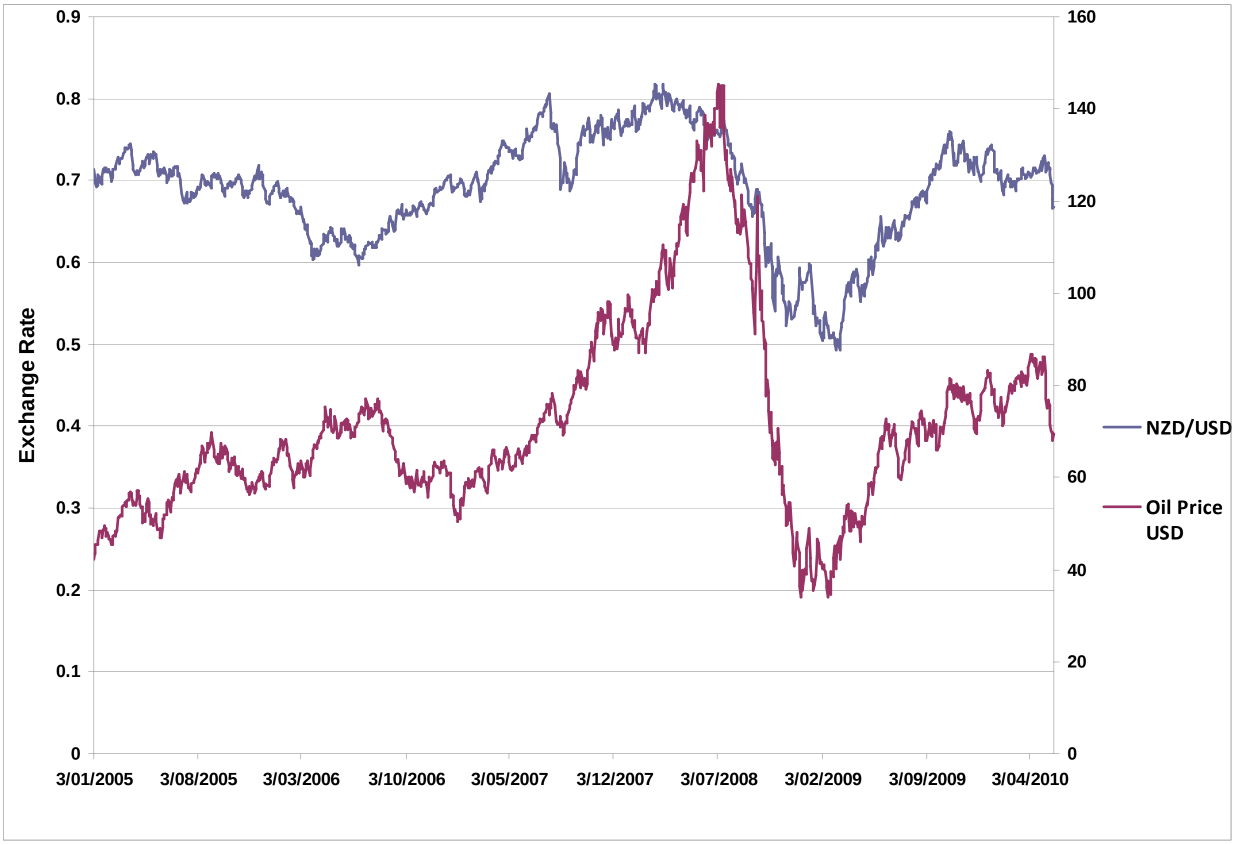
The current oil price is USD74 per barrel, with an exchange rate of $0.68.

It is proposed that this be amended to a cost per barrel of USD75, and an exchange rate of $0.65. This adds $109,000 to rates.

While the current oil price is slightly below this amount, the impact of the emissions trading scheme on fuel prices and the New Zealand Transport Authority index also has to be considered. At the present time there is no separate allowance for this included in the Plan.

In addition, the futures market is expecting, at the date of this report, for the oil price in a year to be USD78 per barrel.

The graph below plots the oil price in USD and the exchange rate for the 5 years.



5.2.5 Other changes decreasing rates by $66,000 (0.08% on total rates)

There are a number of other small adjustments to Public Transport which decrease rates by $66,000, including a reduction in the Trolley Bus costs of $46,000.

5.3 Environment Management, a saving in rates of $71,000 (0.09% of total rates)

Reduction in corporate overheads, $45,000 and finance costs, $16,000.

5.4 Parks, a saving in rates of $30,000 (0.4% of total rates)

Lower finance costs, $23,000 and reductions in corporate overheads, $7,000.

5.5 Catchment Management, a saving in rates of $137,000 (0.17% of total rates)

The lower internal interest rate has decreased finance costs by $231,000; this has been partly offset by increases in overheads, IT costs and river schemes.

5.6 Forestry dividend, an increase in rates of $225,000 (0.28% of total rates)

Greater Wellington's forestry operations budget for a dividend to Greater Wellington of $225,000. This dividend reduces the rate requirement but has not been paid for a number of years and with the current level of debt it is unlikely to be paid in the future. It is recommended that this be deleted from the Plan.

The reduction in the internal interest rate from 7% to 6% reduces the finance costs by approximately $308,000. Despite this, Forestry is still forecast to be in a funding deficit for 2010/11.

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 $1.0 million, 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 $5.1 million in the Reserve at 30 June 2010. Approximately $2.0 million of this has arisen this year due to the budget estimate for the oil price and exchange rate being higher than the actual New Zealand Transport Authority index to date. The remainder of the balance has arisen from surpluses in prior years.

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

	Forecast	Plan	Projected Plan	LTCCP
	2009/10	2010/11	2011/12	2011/12
	$000	$000	$000	$000
Opening balance(1)	4,600	5,100	3,100	500
Reserve used	(1,500)	(2,000)	(2,000)	(500)
Surplus estimated	2,000	0	0	0
Closing balance	5,100	3,100	1,100	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 the surplus in Public Transport for 2009/10 increasing the Reserve by $2.0 million there is some ability to change the above allocations. If it is assumed that additional funds from the Reserve are available, namely $2.0m, this will improve the projected position for the 2011/12 rates

Councillors should note 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.

7. Goods and Services Tax (GST)

The Government announced in the Budget on 20 May, a rise in GST from 12.5% to 15% on 1 October 2010.

Rates invoices with a date of 30 September or prior, will be charged GST at 12.5%. Subsequent invoices will be charged GST at 15.0%.

It is proposed that Greater Wellington will strike its rates on a GST exclusive basis. GST, at the appropriate rate, will then be charged as the rates instalments are sent out.

8. Warm Greater Wellington (WGW)

Greater Wellington commenced the Warm Greater Wellington scheme under the auspices of the EECA insulation scheme in April of this year. At the date of this report a 136 applicants have been approved with a total amount of $281,000. The WGW rate will be charged to those ratepayers who have been approved prior to 30 June 2010. It will be set at 15.349 cents per dollar of funding from Greater Wellington.

9. Total changes required to the proposed 2010/11 rates

The changes outlined above have the following impact on the 2010/11 rates:

	$000	% Change
Rates in proposed Plan 2010/11	80,836	2.20%
Investment Management	64	0.08
Public Transport	(36)	(0.04)
Catchment Management	(137)	(0.17)
Forestry dividend	225	0.28
Parks	(31)	(0.04)
Environment	(71)	(0.09)
Other sundry adjustments	9	0.01
Proposed final rates	80,859	2.23

The above figures exclude the Warm Greater Wellington rate of $31,000.

10. Rate Increase 2011/12

The LTCCP had a rate increase in 2011/12 of 11.0%. The current estimate, and prior to any management reviews, is an increase of 7.0% assuming Public Transport Reserves are available of $2.0m.

11. Water levy

The proposed Plan assumed a zero increase in the water levy. This compares with a forecast increase in the 2009-19 LTCCP of 5.5%. It is recommended that the zero increase is maintained for the final Plan.

The reduction in the internal interest rate from 7% to 6% reduces finance costs in Water by approximately $455,000. Despite this reduction, Water is still forecasting to make an accounting deficit in 2010/11.

12. Rebudgets of 2009/10 Expenditure

The list of projects which the divisions are seeking to rebudget by transferring the unspent funds to 2010/11 are detailed in **Attachment 1** (operating expenditure) and **Attachment 2** (capital expenditure).

Rebudgets total $910,000 in respect of operating expenditure, $74,977,695 for Transport capital improvements and $3,145,000 for other capital expenditure.

The rebudgets have been reviewed by senior management to ensure that the projects will be completed in 2010/11. Management are satisfied that the projects are still required.

13. Communications

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

14. 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 2010/11 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 2010/11 Annual Plan.*

(5) ***Approves*** *the operating expenditure adjustments within this report (or as amended by the Council) for inclusion within the 2010/11 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 2.23% and no increase in the bulk water levy for the 2010/11 year (or as amended by the Council) for inclusion in the Annual Plan 2010/11, to be considered by the Council on 29 June.*

Report prepared by:

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Report approved by:

David Benham
Chief Executive

Attachment 1: Operating Expenditure Rebudgets

Attachment 2: Capital Expenditure Rebudgets