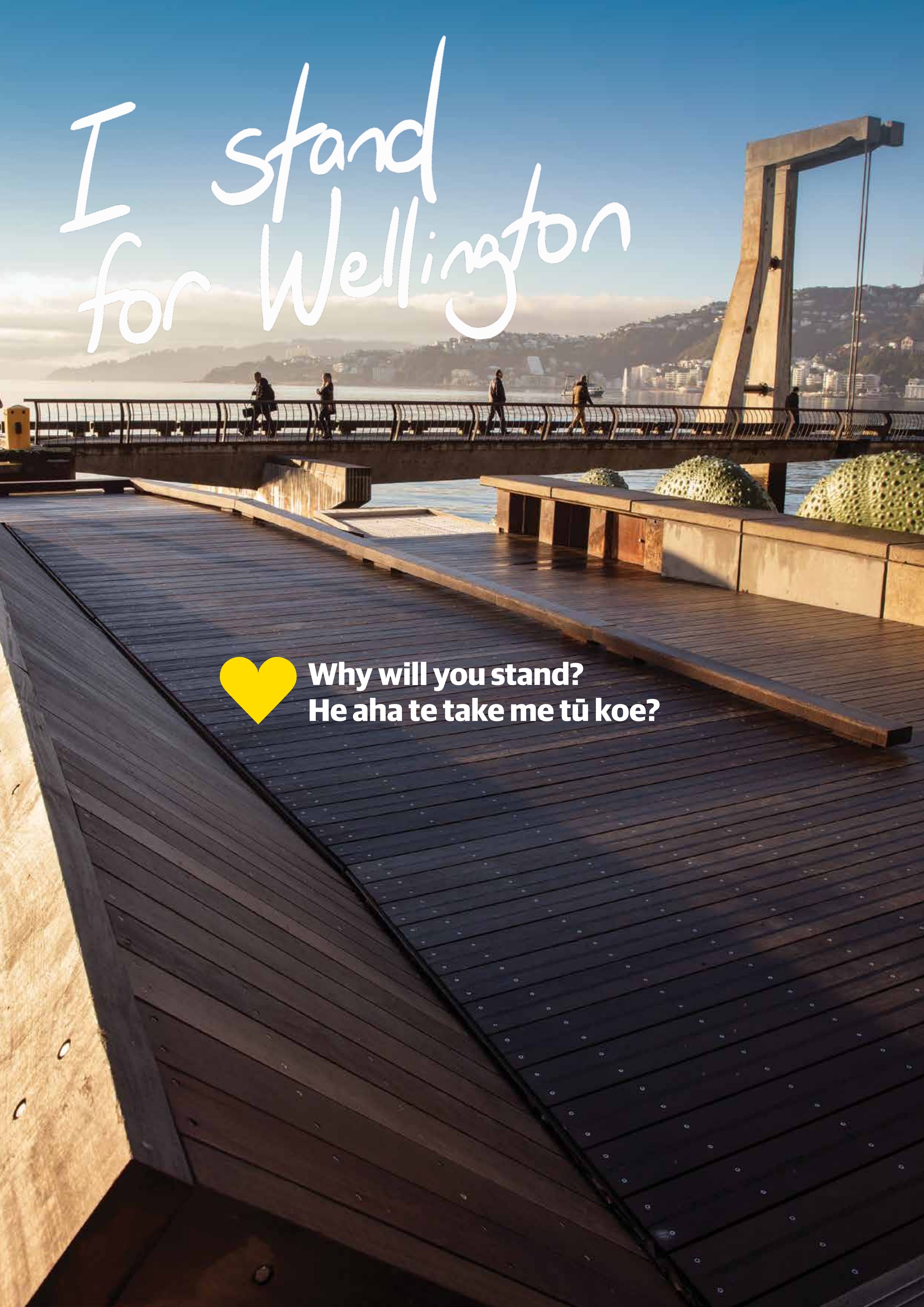
Wellington City Council

Pre-election Report 2019


I stand for Wellington
Why will you stand?
He aha te take me tū koe?

Contents

Introduction by Kevin Lavery, Chief Executive

It has been a busy three years. Wellington is thriving and growing. Large projects in development over previous years are starting to be delivered. More people are coming to enjoy the many high value attractions we have to offer: lifestyle, outstanding public spaces for our citizens to live, work and play in, a high quality of life, strong job growth, and opportunity. The residents of our city love it and more want it – Wellington City's population is expected to be up to 280,000 by 2043.

We are the home of Government and thousands of government employees. Over 80,000 people come into the central city every work day. We are home to significant players in the weightless economy, including Xero, Weta Workshop, and Weta Digital.

We're in this good position because of a lot of hard work. Shortly after the 2016 election, the Kaikoura earthquakes struck. I'm really impressed by how quickly and effectively the Council and our city responded immediately after the earthquakes: we got on and got things running again.

At the same time we continued to deliver over 400 services to the people of Wellington. The Council itself is in good shape, we're financially sound, we're cohesive and we're meeting our KPIs.

But the earthquakes have had a significant impact on our work the last three years, and we are still learning their effects. Direct costs to the Council such as temporarily moving out of the Civic Precinct, closing the Central Library, and strengthening buildings have added significantly to our budget.

Wellington's economy has been growing strongly but we are starting to see real challenges emerging. To some extent we are victims of our own success: we have labour shortages, and construction market inflation is significant as earthquake strengthening work continues and properties are developed or redeveloped. Supply market constraints are also very tight.

They could become real problems if we don't think smartly when adding in the financial and resource demands of *Let's Get Wellington Moving*, increasing the city's resilience and where and how to safely accommodate our growing population.

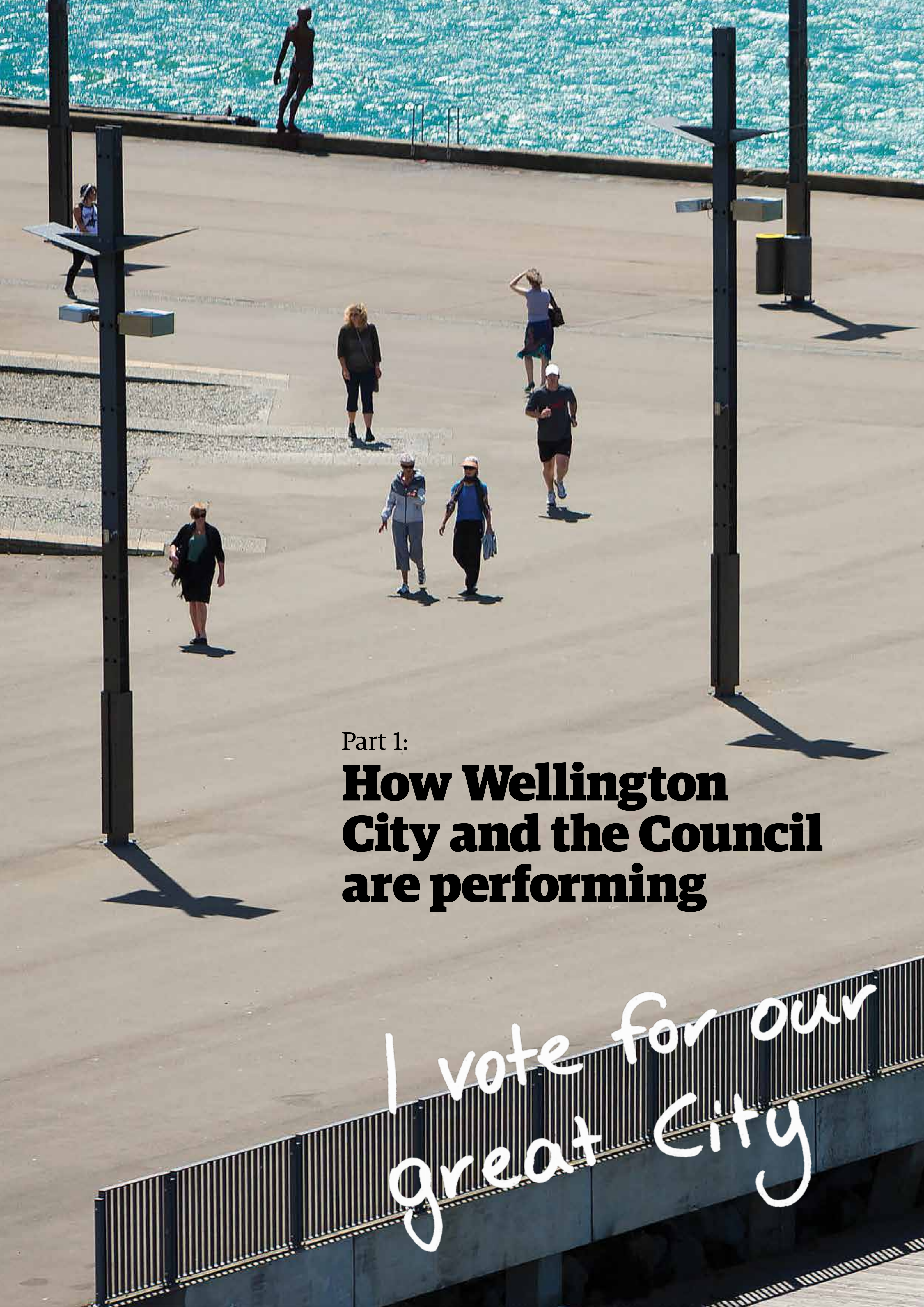
These are significant issues that will shape the city for years to come. To make sure the opportunities they present are realised we need to ensure these financing and resourcing issues are addressed. If not, they will impact on delivery.

This is what is keeping me awake at night.

We need to take a good look at our priorities, ensure there's sufficient investment in those priorities, reconsider how we are using our funding options, and whether we can do things differently to benefit our ratepayers while keeping costs down for them.

As a council we need to provide good stewardship of the city and be committed to this over multiple terms. That will ensure the Council *stays* in a good position and increases the wellbeing of communities today and for the future – a fundamental duty of councils.

There will be twists and turns on the way. This should be expected. It is not for the faint hearted. A number of Australasian cities have had problems with under-investment and changing mid-course. They're now playing catch-up. We must learn from their experiences, and approach our situation differently so we can realise the city's potential sooner.



Part 1:

How Wellington City and the Council are performing

What the Council does

Wellington City Council, like all local authorities, is responsible for enabling democratic decison-making and action by, and on behalf of, communities. We must promote the social, economic, environmental, and cultural wellbeing of communities in the present and for the future.

To do this, the Council delivers a wide range of services and activities that keep the city running, enhance the quality of life for our communities and create a vibrant experience for visitors.

We look after everything from street maintenance, footpaths, rubbish collection, libraries, festivals, museums, sportsfields, water, landfill services and animal control.

How we do that

The Council is made up of 15 elected representatives: the Mayor and 14 Councillors. Their job is to set the city's overall strategic direction, approve budgets, make bylaws, policies and plans aimed at meeting community needs. A key part of their role is to talk to the public before making decisions.

The Mayor and Councillors are supported in their role by the Tawa and Makara-Ohariu community boards.

The organisation is led by the Chief Executive Officer, supported by a team of over 1,700 council staff. Council staff provide advice to elected members, implement council decisions and look after the city's day-to-day operations.

Snapshot of what we do

Infrastructure

Roading
Transport assets
Street lighting
Kiwi Point Quarry
Urban Design
Heritage
Place Planning
Transport Network Improvements
Capital Planning
Strategic Asset Management planning
Three waters

Property

Building Inspections and Consents
Plumbing Inspections and Consents
Land Information
Resource Consents and Compliance
Urban Regeneration Projects
Housing Development
Social Housing
Libraries
Community Spaces
Earthquake-prone Buildings

How the city is performing

Cities have strengths and weaknesses based on a variety of factors including their location, proximity to markets, industry make-up, values and culture, and the skills of their populations.

Making decisions to make the most of the city's strengths to improve quality of life of all residents, and effectively managing challenges and risks facing the city is at the heart of the governance role.

By many measures Wellington is already a very successful city and is often recognised internationally for its outstanding quality of life. Over the last couple of years, Wellington has topped the Deutsche Bank's list of 50 cities as the most liveable city and many other organisations that benchmark global cities all rank Wellington highly.

Wellington also has all the key factors needed for further success in the future - an educated population, quality education institutions, a range of knowledge-based industries that are growing, a compact form with high use of public and active transport modes, low carbon emissions per person, and the city offers good job opportunities and the ability to live a very high quality of life.

But it also faces challenges - strong population growth in a constrained urban environment, an infrastructure deficit in key areas like housing and transport, and ongoing resilience issues. These are not insignificant and the need to address them will be a key feature of the next triennium.

The figures on the next pages outline some of our strengths and weaknesses in comparison to other New Zealand cities.

For more detailed information about council and city performance, please see our annual reports.

Culture, recreation and attractions

Iwi Mana Whenua Relationship Management
Iwi Investment for City Growth
Arts partnerships
Arts programmes
City events
Playgrounds, Sports Fields and Tracks
Town Belt and Reserves
Parks operations
Swimming Pools and Recreation centres
Marinas, Beaches and Boatramps
Botanic Gardens, Berhampore Nursery
Zoo
Zealandia
Museums, galleries, public art
Toi Pōneke
Basin Reserve

Services

Parking Services
Community Services
Archives
Cemeteries
Public Health
Alcohol Management
Rubbish collection and rubbish dumps
Sustainability
Public Toilets
Recycling
Waste collection and disposal

State of the city

Quality of life

Wellingtonians love where they live. We found 89 percent of Wellingtonians say they have a good, very good or extremely good quality of life. We can't rest on our laurels - we need to ensure our city remains the place of choice for our residents and remains attractive to those who are moving here.

2018	Wellington	Tauranga	Hamilton	Auckland	Christchurch
	89%	90%	86%	82%	83%

Source: Quality of life survey 2018

Unemployment rate

Wellington's unemployment rate fell from 5.1 percent in 2016 to 4.2 percent for the full 2018 year. This is good news for workers, we have a very competitive job market. However, that makes it hard to hold on to key staff, and it leads to shortages in industries such as construction.

2018	Wellington	Tauranga	Hamilton	Auckland	Christchurch
	4.2%	4.4%	5.4%	4.4%	4.5%

Source: Infometrics

Household income

Wellington has the highest mean household income of the major cities in New Zealand. Combined with low unemployment, this contributes to our high quality of life.

2018	Wellington	Tauranga	Hamilton	Auckland	Christchurch
	$143,577	$104,635	$100,529	$127,066	$110,241

Source: HES 2018 Mean Household Income

Ability to cover costs of everyday needs

Higher mean household incomes mean a higher percentage of people are able to cover the costs of their everyday needs than elsewhere. But we still have 11 percent who say they can't meet those costs - that's a concern and a motivation to keep doing our part to help improve our employment rate further, our income levels, economic performance and all the other factors that contribute.

	Wellington	Tauranga	Hamilton	Auckland	Christchurch
Enough money	58%	50%	38%	41%	52%
Not enough	11%	12%	16%	19%	13%

Source: Quality of Life Survey 2018

Population growth

Wellington's population is growing at near the rate of other major cities. In absolute numbers, the size of that growth is the same as Hamilton's but a 10th of Auckland's size.

	Wellington	Tauranga	Hamilton	Auckland	Christchurch
Average growth rate per annum	2.0%	2.6%	2.5%	2.5%	1.8%
Actual growth 2016-2018	*12,500 people*	*10,400 people*	*12,500 people*	*126,000 people*	*20,700 people*

Source: Infometrics

House price growth

Wellington's house price growth is now higher than other major cities in New Zealand. We have lagged behind Auckland and Tauranga in recent years, but are now catching up as their price growth slows.

	Wellington	Tauranga	Hamilton	Auckland	Christchurch
2018	8.4%	4.8%	3.3%	1.3%	-1.3%

Source: Infometrics

GDP growth

Our GDP growth over the last three years sits at a healthy 3.2 percent, about mid-pack compared to other major cities.

	Wellington	Tauranga	Hamilton	Auckland	Christchurch
Average growth rate per annum 2016-2018	3.2%	6.0%	2.9%	4.4%	2.8%

Source: Infometrics

Carbon emissions

Wellington's carbon emissions peaked in 2007/2008 (total net emissions = 1,271,911) and have decreased substantially since then (to 2014/15 1,084,979 net emissions) (so decreased by 15 percent).

	Wellington	Tauranga	Dunedin	Auckland	Christchurch
Gross carbon emissions per capita 2016/17	5.7t $CO2_e$/person/year	5.9t	11.4t	7.9t	6.6t

Source: Christchurch Community Carbon Footprint 2016/17

How the Council is performing

We do the basics well

The Council delivers over 400 services to support Wellington's high quality of life, and we deliver these services efficiently and effectively.

Overall we look after $7.2 billion worth of assets (roads, council pools, bridges etc) on behalf of Wellingtonians that are used to deliver services. This year we will spend $240 million of capital funding to improve or renew these assets, and a further $557 million in operational costs to run the full range of council services.

We've tackled the big issues head on

Shortly after the last election, what we were doing and how we were doing it were quite literally shaken up by the November 2016 earthquakes.

Our response was decisive – dangerous buildings were cordoned off and the Council worked with owners to remediate these in a short period of time. Where they didn't, we stepped in to control the site and removed the building ourselves.

The impacts of the earthquakes are still being felt and worked through today. The Council moved out of Civic Square to The Terrace to allow for earthquake strengthening of Council buildings, and the Central Library was closed quickly as we received advice it wasn't safe for the public and staff.

None of these were easy decisions, but our response has been quick and pragmatic. We got Arapaki, the new shared Service Centre and Library on Manners Street, up and running within 10 weeks. We've had a lot of great feedback about this new space. So far we have managed the impact on rates of the responses required to keep providing services to the city. In the next few years it is likely we will either have to reprioritise services or accept slightly higher rates increases than forecast in our Long-term Plan. *See next section for more.*

What happens next with the Library and the wider Civic Precinct is both a challenge and an opportunity for the Council and city to consider.

We're making progress on the big capital projects

The current triennium has seen a number of big projects progress. Decoupling the movie museum proposal from the convention centre has allowed the Council to move ahead and obtain a consent for the convention centre and ground works are earmarked for December this year.

Let's Get Wellington Moving has been announced by central government and a programme of transport improvements worth $6.4 billion has been agreed.

We've also made good progress in the housing area with agreements around apartment conversions in place, and transitioning some of the Arlington land to Housing New Zealand to enhance and grow their housing services in the city will also make a difference, providing 230 to 300 modern social and affordable homes.

The community tells us it's largely satisfied with the services we deliver

The next section sets out Wellington's rates and debt levels – they're not the lowest in the country, nor the highest. They are about average. But they do deliver good value for money. All up, to run the city, it costs about $7.11 per day per resident. This is good value for money considering the breadth and quality of services offered by the Council – everything from roads, water, libraries, sports fields through to museums, playgrounds, pest control and everything in between.

We track what Wellingtonians think about the services we provide. While there are always areas we need to do more work on, the community is largely positive about the services we provide. In the last annual report, we had resident or user satisfaction between 70-95 percent for key areas of council activity including recreation centres, sports fields, libraries, Toi Pōneke, quality of street cleaning, recycling services, waste collection services, maintenance of local parks, playgrounds and walkways.

The Council delivers over 400 services to support Wellington's high quality of life, and we deliver these services efficiently and effectively.

But there are also still areas we need to work on

While there is generally strong satisfaction with what we deliver, how we make decisions, communicate, and engage are still areas that all need more improvement. By way of example, community understanding of how the Council makes decisions, acknowledgment that the Council makes decisions in the best interests of the city are below 50 percent.

We have worked hard in this area over the last three years, and the trend in terms of resident satisfaction with the level of council consultation is positive compared to previous years, but there is clearly still more work to do.

And we need to get better at managing expectations

One of the key issues that we need to get better at is communicating the complexities, costs and delivery timeframes associated with some of our work - particularly larger and more complex capital projects. The desire to get projects done sometimes results in over-ambitious expectations around delivery timeframes.

We always like to engage the community early in the development of a project - a time when the scope of the project and any associated costs are draft and subject to further revision through subsequent stages.

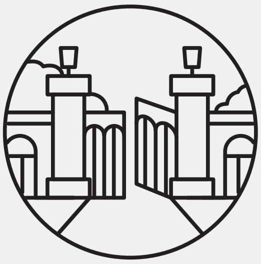
The Town Hall and Omāroro Reservoir projects are examples of that. There was strong community 'buy-in' for the work to proceed, and subsequent cost increases as more detail around the build complexities became understood were a surprise to the community.

That tells us that we need take more care to communicate that costs are often provisional - particularly when the project is a capital item and still early on in the scoping and development stages. The ongoing operational costs and funding impacts need to be clearer.

More generally, we also need to work harder at managing expectations of what can be delivered within modest rates rises. It simply is not possible to have rates increases pegged close to inflation as well as significant investment to make the city more resilient, and improve levels of service in key areas.

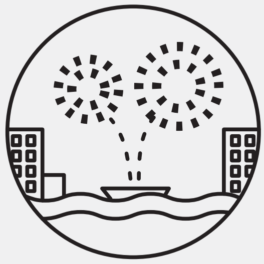
What it costs

This is how much it costs per person* to provide some of the services Wellington City Council delivers



$25.84 To enjoy the Wellington gardens

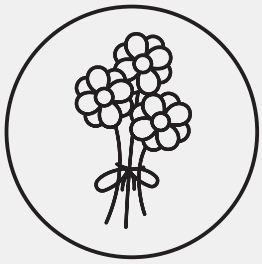
$123.95 To flush wastewater



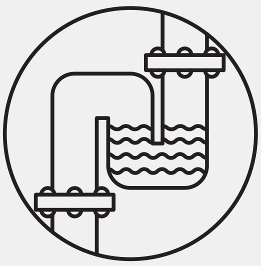
$22.41 To enjoy arts and cultural events

$112.42 To enjoy our swimming pools

$4.88 To have a play at our playgrounds



$9.11 For cemeteries and the crematorium



$86.68 For water collection and treatment

$3.91 To enjoy our walkways

$166.99 To maintain our roads

* dollar figures are an average cost per Wellington resident per year and reflect operating expenditure only.

Our financial position and outlook

The Council's financial position is strong. This is reflected in our AA credit rating from Standard and Poors', the highest rating for a Council[1].

This rating indicates the Council has very strong financial management practices and means we have a lower cost of borrowing and greater access to funds.

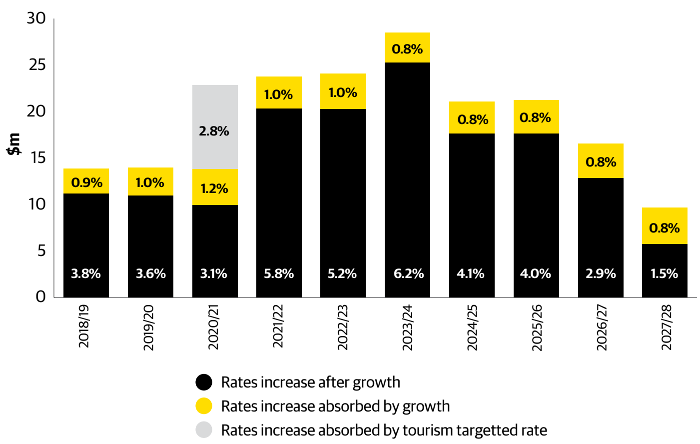
A financial snapshot is provided below, with more detailed information on our finances in section 3 of this report.

Projected rates rises

Rates are the primary source of council's income and make up 59 percent of our annual income.

Council's projected rate increases through to 2028 are presented in $ millions and percentage terms are summarised in the graph below.

Proposed year-on-year rates increase value & percentage



These are the rates increases for the current Long-term Plan. We are unlikely to be able to meet all the challenges outlined in Part 2, continuously increase levels of service to meet community demand and still hold rates increases to these levels. So decisions will be needed about prioritisation, delivery timescales, levels of service provided, and new funding tools if we are to bring rates back in line with these projections.

Limits on rates increases before emerging projects included

When we adopted Our 10-Year Plan 2018-28 (the Long-term Plan), we also agreed limits to rates increases.

The annual rates limit and rates increase limit are the equivalent of an average rates increase of 3.5 percent over the first three years and 4.0 percent over the first 10 years of the Long-term Plan.

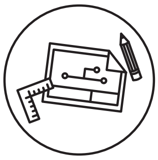
The average rates increase assumes average growth in the ratepayer base of 0.9 percent per year across the 10 years of the plan.

1. Technically we're AA+ but we can't be higher than the Crown.

What our capital investment programme looks like

As part of the Long-term Plan the Council agreed to a 10-year $2.3 billion capital expenditure programme.

Of that funding, approximately:



$1.2 billion
Will go towards core transport and three water infrastructure

$1.2 billion
Will go towards renewing existing assets

$187 million
Towards responding to the city's growth needs

$930 million
Towards improving levels of service

Budget pressures

Resilience and Kaikoura earthquakes
The resilience issues we're facing, and the Kaikoura earthquakes, brought the pressures on the Council's existing budget into sharp focus. There was:

- $257 million lost commercial rateable value mainly due to the demolition of a number of buildings and earthquake-prone status of others
- Over $200 million of capital projects adding pressure to the rates line for seismic – strengthening projects for the Town Hall and St James, contributions to strengthening of unreinforced masonry (URM), and water resilience projects such as Omāraro Reservoir
- $30m for temporary solutions from the Central Library closure, loss of parking income from Civic Square and the Michael Fowler Center and relocation of Council staff.

What's not accounted for yet
- Funding Let's Get Wellington Moving
- Climate change/*Te Atakura – First to Zero*
- 2016 earthquake impacts such as the library closure.

And others set out in Part 2 of this document.

Our current debt position

Our debt position is conservative and ranges from 120 percent to 167 percent of our annual income over the next 10 years, which is below our limit of 175 percent.

Our starting borrowing position of $546 million equates to $2,551 per person in Wellington. The Long-term Plan shows this borrowing position will move to $1.16 billion by 2028 and will equate to $5,420 per person in Wellington.

Another way of looking at our debt position is by using the analogy of a household mortgage. Our position is equivalent to a household earning $75,000 a year and having a mortgage of under $95,000, while having an investment portfolio worth $85,200.

Overall, this current level of debt is less than many local authorities, and more importantly, we have investments like shares in Wellington International Airport and a number of CBD ground leases that yield a higher dividend than the cost of borrowings. So we do have some flexibility in how we manage future capital investment requirements.

We could also divest of some of these investments and significantly reduce our debt position at any time.

While our current debt position is prudent, and there are clear options available to the Council to manage the debt, there are significant cost pressures ahead that are not budgeted within the existing Long-term Plan, and once these are added, this would push the Council over its 175 percent funding limit.

That means we have to make some tough decisions and be more innovative with our financing approach

In the next triennium, the Council will need to make some key decisions to reset the work programme and determine how it is funded. This will need to include consideration of:

Prioritisation and re-phasing of the work programme

While we look at infrastructure renewal and growth funding requirements over at least a 30-year horizon, the Long-term Plan has a distinct 10 year focus when it looks at upgrade investments or level of service changes. The capital projects in front of us will need to be prioritised if we are to maintain our debt levels within our funding limits because there is not sufficient headroom to cater for the current capital projects *and* the additional items within *current* limits.

Reviewing our delivery approach

Our approach to investment in the city and funding debt could also be considered. Do we borrow for a longer period at a lower rate and make incremental improvements in the city, or do we accelerate projects by borrowing more and accelerating repayments though targeted rates and/or general rate increase?

New innovative financing tools

Councils in New Zealand do not have a diverse income stream, and rely heavily on property rates to fund services. We believe - and have advocated strongly to government along with the rest of the sector - that it is time for a broader range of financing tools to be made available to be able to deliver transformational projects in the city.

Key areas we are looking at to support the Let's Get Wellington Moving programme of work and other projects include mechanisms to capture value uplift (from council investment in key parts of the city*) and new tools to charge for traffic congestion and user levies.

*What is value capture?

Value capture is used in Australia, Canada, the US and UK (among others) as a way of funding key infrastructure and other large projects. Value capture 'raises revenue from property owners who enjoy "windfall gains" in their property value as a result of nearby publicly-funded infrastructure investment would be required to pay a portion of this gain to the council. Such a tool, [...] gives councils sufficient means to fund growth.'

(Productivity Commission, Local Government Funding and Financing Draft Report, July 2019)

Recycling our investments into priority areas
We have a number of large investments from which the Council receives a passive income that is used to off-set rates. In the future, consideration could be given to looking at property and the ground-lease portfolio, divesting of some, and recyling the proceeds to other Council priorities.

With changing use and also mixed use of buildings and spaces, there are possibilities for the Council to deliver core services from non-council owned buildings. For example, the Council could allow some commercial use of Civic Square and use some of the income to fund the library services.

? Questions the new Council will need to consider:

With the need to earthquake strengthen council facilities and infrastructure, invest in Let's Get Wellington Moving, as well as deliver our business-as-usual services, we have a significant financial challenge ahead of us as a city.

There are a number of options that should be considered. These include:

i) **Re-prioritising the Council's work programme** - what projects could be taken out of the current Long-term Plan?

ii) **Phasing the work programme differently** - do we increase funding to deliver the work programme earlier? Or phase it over a longer period within existing funding parameters?

iii) **Looking at our property and ground-lease portfolio** - should we divest of some and recycle the proceeds into priority areas?

iv) **Looking at levels of service** - how can we meet or manage community expectations about increasing levels of service while also meeting community expectations about a low level of rates tied to inflation?

v) **Looking at using targeted rates more effectively including:**

- a targeted rate to deal with the city's resilience and climate change issues?
- a new 'value capture' targeted rate to raise revenue from property owners who enjoy 'windfall gains' in their property value as a result of nearby publicly funded infrastructure investment (ie Let's Get Wellington Moving mass transport)?

Part 2:

Key challenges and opportunities

Key challenges and opportunities

The Council is in a good position but there are always challenges to be addressed. Here, we're highlighting new and significant challenges that will need to be addressed over the next three years. Each is complex, they inter-relate and present once in a generation opportunities to transform how our city looks, where and how we live and how we move throughout it - if we take those opportunities.

Operating in a growth environment
The economic growth we've been working towards is occurring but this also poses new challenges.

Resilience, climate change and the Civic Precinct
Increasing the city's resilience to earthquakes and floods has long been a priority. The pace of this work has increased since the November 2016 earthquakes and more frequent severe weather events due to the changing climate means this needs to be a focus area.

Transport
Wellington is highly congested, but Let's Get Wellington Moving is a transformational opportunity to get the city moving.

Affordable and social housing
Ensuring there is affordable and more social housing in the city is crucial to ensure everyone is well-housed in the city. We need to partner with developers, central government and other partners to find new solutions.

Enhancing our creative city
There are opportunities to enhance the city's reputation as the cultural capital and deepen and establish new partnerships through the development of *Aho-Tini* and as we help organisations continue to perform while buildings are strengthened.

Changes from Government
The Government is also in a period of change as it considers large issues that have an impact on councils. We are keeping a close eye on changes that may affect the Council and Wellingtonians, and engaging on them. Please see page 31 for more detail on the Three Waters Review, Resource Management Act review, establishing an urban development agency, and reform of the Building System.

Operating in a growth environment

Last three years

Wellington city has had a strong period of economic growth over the last three years.

GDP growth has been solid at around 3.2 percent per year over the last three years, there has been strong new business formation (1.9 percent), unemployment is very low at 4.1 percent helped by a strong construction industry and the lifting of the government cap on FTEs, retail trends are largely positive, and there has been solid inward migration of around 2 percent per year.

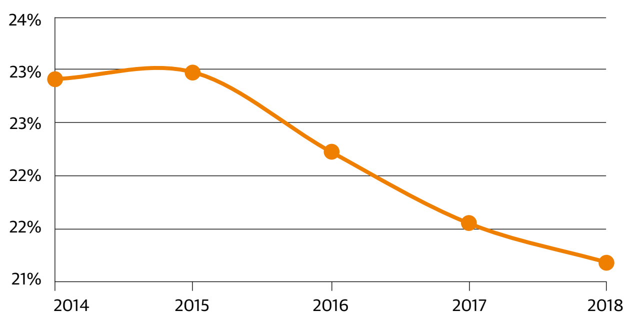
The construction sector has been very busy with housing/apartment development, major civic infrastructure works, and earthquake strengthening work. This is reflected in consenting numbers with a 19 percent increase in residential consents per year for the last three years.

The Council's own work programme reflects this increase. Five years ago capital projects such as strengthening work and construction made up 20 percent of the city's budget. Now that share of the budget has almost doubled.

House prices are also up significantly with around a 14 percent increase in value per year on average over the last three years - although we expect this to level off over time as is the current trend in Auckland and major Australian cities.

Visitor numbers to Wellington have also been growing at about 1.1 percent per year on average, although Wellington's share of the tourism market in New Zealand is actually shrinking which is an area of concern.

Visitor guest nights
Market share, Wellington city



Our support to Singapore Airlines to improve Wellington's connectivity to Australia, Asia and the rest of world, support for the airport runway, and our investment in a new convention centre have all been aimed at strengthening the city's visitor economy in the years ahead. And Singapore is doing well - bringing more people from further afield, and increasing occupancy rates.

While there are definitely areas that need further work, big picture, the city's economy is still doing well which is benefiting Wellingtonians in terms of jobs and providing them with opportunities to have a high quality of life.

Where we are now

A stronger economy and strong population growth has, however, come with its own set of challenges. A number of these will have a material impact on the city, and council operations in the years ahead. Key issues are:

Housing affordability
Housing in Wellington is unaffordable for many people. While consents are up and more affordable options exist in nearby cities, housing supply continues to be an issue and with forecast population numbers, will continue to be a material issue in the next triennium (see affordable and social housing section for more detail).

Labour/skills shortages causing market constraints
Unemployment is very low and there are significant labour and skills shortages in key industry sectors. This is particularly felt at all levels of the construction sector - everything from skilled trades, construction management through to engineers are in high demand.

Supply market constraints causing inflationary pressures
Labour and skill shortages are a key factor in supply constraints. When planning for growth and infrastructure investment, as all councils do, the standard practice is to model future investment based on demand. In most cases, population growth and interest rates considerations are used to do this, but this only works if there are no supply constraints.

With considerable supply constraints already evident in Wellington, and significant demand pressures in Auckland that will draw labour shortages from other parts of New Zealand including Wellington, it is likely that supply constraints will continue to feature strongly in the Wellington market for the near future.

Construction market inflation increasing costs and risks
Labour and supply constraints are a key factor in construction market inflation. This is sitting at 4.3 percent[2] - an increase of over 22.7 percent over the last five years. In addition to this, there has also been significant market disruption with a number of high profile large construction company collapses. The timing of these company failures has added further pressure to a strong pipeline of work in the city based around housing, earthquake strengthening and transport.

Next three years

Construction costs could impact the phasing of the capital programme
Whether the capital programme is re-phased, and if so, how that is done, will be an issue that the new Council will need to consider.

These decisions will need to be made in the context of the city's overall goals, commitments made to partners, community views and the overall budget position.

At the moment there are real constraints in the construction market and an over-supply of projects will have cost implications for the Council and consideration should also be given to making provision for investments in the 'low' end of the economic cycles.

And we need to manage large construction projects differently to reflect market changes
Changes to the construction sector are already underway, and one key area where the Council will experience this in the future is around where and how risk is apportioned for larger projects - particularly for fixed price tenders. Increasingly we are likely to see a greater proportion of the risk distributed away from lead contractors and the need for higher contingencies that better reflect risk and a volatile operating environment.

In the next triennium we need to rethink our approach to large capital projects as competitive tendering has real limitations and risks in the current market. We need to take advantage of our scale and being a customer of choice - to explore options to do things differently and consider things like long-term strategic partnerships with construction firms and tendering for a developer at the beginning of a project rather than after design work has been completed.

? Questions the new Council will need to consider:

- What delivery approaches do we adopt for larger more complex projects in the current construction environment?
- How do we use our scale and pipeline of projects to drive best value for the ratepayer?

2. Stats NZ, 12 months to June 2018

Resilience and climate change

Last three years

The Council has been proactively building the city's resilience for some decades. This progress was accelerated by the Kaikoura earthquake in November 2016. Generally, the city came through the earthquake well, however we learnt a lot about our infrastructure, our land and its vulnerability.

We have also started to see the effects of more water in and around the city; coastal inundation and high water tables are no longer abstract concepts - they are here and now.

We have responded to these vulnerabilities, and have made a substantial leap forward with our resilience.

Seismic City

Our buildings

Ultimately, no-one died in the Kaikoura earthquake in Wellington. In this regard, with a couple of exceptions the buildings performed adequately. But more than 20 buildings have been demolished, and insurers and engineers are prompting questions about the adequacy of the regulatory framework.

Further, the earthquake raised awareness of the risk of falling unreinforced masonry (URM), which killed 39 people in the Canterbury earthquake. The Government and Council responded with a policy and funding package that saw 113 of the worst URM elements secured within 18 months.

The Government also accelerated the requirement for around 600 earthquake-prone buildings to be secured; this task is currently under way, with the list of buildings constantly diminishing. Unfortunately a number of events venues are closed for strengthening, which also increases pressure for entertainment spaces.

Of course, buildings cannot function properly unless they are connected to reliable horizontal infrastructure - the three waters, transport, electricity and telecommunications. Our lifelines.

Lifelines

- **Wellington's emergency water supply is a critical issue:** We've improved the security of our emergency water supply by installing water stations throughout the city, building and strengthening reservoirs. We have also enlarged and seismically strengthened two water reservoirs on Messines Road in Karori.

  Fifty 25,000 litre water tanks are being installed throughout some suburbs, located near alternative water sources. Citizens will be able to collect drinking water from these tanks until the water pipe network is repaired.

- **Land Transport:** Much of Wellington's extensive transport network is on or around the city's steep hills, requiring substantial retaining walls below and above the road. We have responded to slope failures in recent years on Ngauranga and Ngaio Gorges, and experienced around a thousand slips across the region during a heavy rain event in winter 2017. Our roads are finely balanced and it does not take more than a minor failure in the network to cause disruption at key times.

  Key routes, along with some tunnels and bridges, are planned to be strengthened in the coming years.

- **Resilience of the electricity and telecommunications networks:** The Kaikoura earthquake showed the need for people to be able to work from another location if the CBD or parts of the CBD are inaccessible. Electricity and telecommunications are critical inputs for this capability.

  We have supported Wellington Electricity's programme to invest in resilience critical spares and the strengthening of buildings that house key electricity infrastructure. With MBIE, we reviewed the city's telecommunications risks following the Kaikoura earthquake. The rollout of broadband has helped in this regard, and MBIE continues to maintain oversight of the sector's ability to respond and recover.

Responding to and preparing for more climate change

More severe weather events

Our stormwater network is made up of 650km of pipes, 20km of tunnels and 12,500 road sumps. The average age of pipes is 51 years. With more frequent flood events, we're increasing the capacity of the stormwater system to cope. This is needed to reduce both the risks of flooding and pollution, and ensure that when the water is discharged into the harbour it is as clean as possible.

We've also planned additional funding to respond to clean-up required from more frequent and severe weather events.

In addition to storm clean-up, we're working on ways to prevent or lessen damage from severe weather events. We've devised a plan with Makara Beach residents to safeguard it from future severe weather events. We'll look to do this with other similar areas.

Sea level rise

Like other coastal cities, we now know that in time the sea and the water tables will change Wellington. Generally we accept that this change is inevitable, although we don't yet understand the detail. We need to start planning now to accommodate living with more water.

Mitigating climate change

We've developed a blueprint to make Wellington City a zero carbon capital: Te Atakura - First to Zero. This outlines key activities relating to transport, building energy, advocacy and other areas to reduce emissions that cause climate change. It balances activities that reduce emissions, like using electric cars, with others that absorb them, like planting trees, to reach its goal of zero carbon in Wellington city.

This will connect to our *Planning for Growth* work as it progresses, shaping how and where the city should grow.

Where we are now

Resilience is one of the Council's five key priorities. We're at a key juncture. Our Planning for Growth project is a rare opportunity to shape our city in a way that orientates citizens away from the effects of climate change and earthquakes. The Council itself has some key decisions to make around Civic Square; these decisions are a microcosm of the wider decisions we have to make about the future of Wellington.

The insurance sector has forced our hand on some of these issues. If we can no longer simply shift all risk onto insurers, we will need to find other mechanisms for managing risk. These are likely to be through better land use planning and building design - levers that the Council and the Government control.

Next three years

Climate change

The Council has a duty to promote the wellbeing of communities in the present and for the future. How the city prepares and adapts to climate change is a current issue that will shape the future. The Council will need to make decisions about how that is done. They are big issues, difficult problems, but they need to be addressed. It is an issue faced by councils around the country, with measures such as Contributory Funds funding the cost of coastal works for the public good and contributions for the private good being considered.

This Council recently declared an ecological and climate emergency. For the Council's own work, consideration of the city's carbon emissions and how they can be reduced sits across a number of our activities. When we make decisions on transport, the landfill, and how and where our city grows, climate change impacts will be considered.

Vulnerable buildings

For new builds, the market appears to have responded by building more base isolated structures. The costs of retrofitting older earthquake-prone buildings, difficulty accessing engineers and contractors in this tight construction market, and rising insurance costs has made the environment for this repair work difficult for many building owners.

The ability to obtain insurance at an affordable price is a looming issue for Wellington homeowners, and the Council. Wellington premiums have increased significantly in recent years and the natural hazards we face mean parts of the city face the real prospect of being unable to access or afford insurance.

Some apartment owners in particular are well-aware of the difficulty as on the one-hand they can't get insurance if their building is earthquake-prone, and on the other, they are unable to get a loan to fund the repairs if they don't have insurance.

In the suburbs, we know that more intense rainfall, coupled with recent seismic activity, will result in more slips and landslides, especially in suburbs constructed 50-60 years ago, and in the road corridor.

Lifelines

- **Three Waters:** A new 35 million-litre buried concrete reservoir is being built above Prince of Wales Park in Mt Cook. The Prince of Wales/Omāroro Reservoir will provide an emergency water supply for Wellington Hospital, and significantly increase water storage for the central business district. There will be short-term traffic disruption while this asset is constructed.

  We are supporting Greater Wellington Regional Council's (GWRC) plan to construct a cross-harbour pipeline to service the Eastern suburbs.

- **Transport:** We are working alongside Centreport and the New Zealand Transport Agency (NZTA) to maximise the resilience co-benefits of investment at the port, connections to the airport through Let's Get Wellington Moving, Petone to Grenada and the SH2 pedestrian and cycleway.

Information

An abundance of scientific and engineering research is available for Wellingtonians in the areas of climate change and seismic risk. For the next three years, a major focus will be using this information to inform our land use planning, improving our building stock, and informing our citizens about the risks of living in Wellington, and what to do about those risks.

Te Ngākau – Civic Precinct

Te Ngākau - the Civic Precinct is the home of many of the city's key civic functions. It includes Civic Square, the Central Library, Michael Fowler Centre, Town Hall Council office buildings and the City to Sea Bridge. It is also one of the city's most well-used connections to the waterfront. Recently given the name Te Ngākau, it forms the highly-connected 'heart of the city' where people can walk between the waterfront, the Golden Mile and our important arts, culture and performance venues.

This area was damaged significantly during the 2013 and 2016 earthquakes and continues to face some challenging resilience issues. Not only are there seismic challenges with the buildings themselves, the precinct is also vulnerable to sea level rise, liquefaction and tsunami and much of the land is reclaimed. The recent closure of the Central Library building has highlighted the resilience challenges in the square.

While the issues facing the precinct are challenging, they also offer a once-in-a-lifetime opportunity to re-imagine Te Ngākau so that it is safe, functional, modern and fit for purpose in our growing city.

Decisions about the Central Library will be key to unlocking the full potential of Te Ngākau. The existing library has been a well-used community hub, home of a cafe and the Citizens Advice Bureau, however the building was designed for a different time. The use and role of libraries has been evolving around the world - well before ours was closed. Christchurch's new central library *Tūranga* is an example of a modern technology-focussed library that acts as the 'social infrastructure' of the city. More than a place for 'just books', modern libraries are the community's 'third place' - a destination where they can go to study, research, seek rest, meet, work, play, perform and connect with one another.

Big decisions will need to be made about the future of Te Ngākau - the Civic Precinct. The status quo is not an option and officers are progressing a programme of work that will inform not only the future of the central library service but also the broader Te Ngākau precinct.

The Civic Precinct

Questions the new Council will need to consider:

- How can we best secure and make the heart of the city - Te Ngākau - resilient? Is it best to partner with the private sector and commercialise some of the space in Civic Square to reduce costs to the ratepayer and spread risk? Do we prioritise this project? Or do we take longer and accept the disruption for a longer period of time?
- How should we fund improving the city's resilience and transitioning to a zero carbon future? Who pays, and how fast do we make the transition? Should we consider a targeted rate to deal with these issues?
- How do we best engage with affected communities to make decisions regarding climate change adaptation and how will those solutions be funded?

Transport to connect the city

Wellington's transport network is managed by three organisations. The Council is responsible for overall land use and movement planning, spatial planning, local roads and the transport corridors that public transport, cyclists and walkers use. GWRC is responsible for regional transport planning, public transport planning and operation. NZTA is responsible for state highways and is the central government funding partner for local roads, public transport, and walking and cycling.

We each manage our own parts and work collaboratively together on large projects, like Let's Get Wellington Moving and bus priority.

Last three years

The Council has carried out a lot of "business as usual" work over the last three years, including: Resurfacing 1,200,000 square metres of roads, 900,000 tonnes of road materials moved from Kiwi Point quarry, and doing extensive resilience work constructing and strengthening retaining and sea walls. Karori and Northland tunnels have been strengthened and Seatoun's is under way. We have installed 14,000 new LED street lights - these lights use much less power and have a longer life.

We replaced the old Hutt Road shared path with separate walking and bike paths, and built a new bike path on Oriental Parade between Herd Street and Freyberg Pool. We also worked with the community to develop a number of new bike paths, lanes and connections in Kilbirnie. These included new uphill bike lanes on Crawford Road, and the top of Constable Street, new bike lanes on Rongotai Road, and a new bike path on Evans Bay Parade near Kilbirnie Park.

Work is under way at Point Jerningham on the first section of a two-way harbourside bike path around Evans Bay, and also on Cobham Drive. Once these projects are complete it will be possible for people of all ages and abilities to ride the 7km between the Miramar cutting and the city without having to ride on the road.

Lots of new bike parking has been installed including the very popular two-tier rack in Grey Street, which provides parking for 59 bikes.

A huge amount of work has gone into developing and planning Let's Get Wellington Moving over the last three years with our partners GWRC and NZTA. Let's Get Wellington Moving focuses on the area from Ngauranga Gorge to the airport, and connections to the central city, hospital, and the eastern and southern suburbs.

The vision is to create a great harbour city, accessible to all, with attractive places, shared streets, moving more people with fewer vehicles and efficient local and regional journeys.

Where we are now

Our transport network has been underinvested in for decades.

We want a safe, efficient and reliable transport system.

A good transport system should do more than just move people and goods efficiently. It should benefit people's overall quality of life, support economic productivity, help create healthy urban neighbourhoods that are people focused and reduce the city's carbon emissions.

We're investing in transport options to maintain easy access in and around our city, promoting alternatives to private car usage, managing congestion and acting as a catalyst for urban renewal and sustainable growth.

We're taking this action because data showed that we have one of the worst congestion problems for a city of our size.

Data shows that travel time reliability continues to be an issue for car journeys at peak times. For example, while it usually takes about 20 minutes to get from Johnsonville to the central city during the busy morning commute, it can take 30 minutes on bad days. Nevertheless, car travel is generally much faster than public transport, with bus journeys taking about twice as long as car trips on average.

We need to improve reliability and safety for all transport users and enable transport choice. Further improvements to walking, cycling and public transport will reduce congestion and improve conditions on the roads for those who want or need to drive.

In May the Government announced the indicative package of $6.4 billion for Let's Get Wellington Moving with a $3.8 billion commitment from the Government.

In June Wellington City Council and GWRC unanimously approved the Councils' shares of funding to proceed with the next steps for Let's Get Wellington Moving, including an early delivery programme and business case development.

Next three years

We'll continue to do the basics well such as road maintenance, street cleaning, renewals of footpaths and structures and ongoing seismic strengthening work.

Cycleways
We'll make more progress with the cycleway programme. We'll complete the upgraded walking and bike paths on Cobham Drive and the harbourside cycleway around Evans Bay between the intersection of Carlton Gore Road and the National Institute of Weather and Atmospheric Research.

We'll also continue to plan, and seek Government funding to begin to develop improved routes and connections in the south as part of the Newtown Connections project. The funding bid is expected to include the planned redesign of The Parade in Island Bay, as well as connections in Newtown, Berhampore and Mt Cook.

Let's Get Wellington Moving
The transformational Let's Get Wellington Moving programme is the most significant item on the agenda. It is the single largest investment into the city for many generations. It is a masterplan delivered over many years and will therefore be very challenging. To be successful, we will need to:

- **Be structured and set up right:** With our partners we would need to utilise any special powers given through Let's Get Wellington Moving to deliver the project. We also need to work towards a joined up approach with an integrated body that has a clear mandate. The Waterfront Company is a good example of how this could be done.

  We also need to bring in expertise because this scale and combination of projects hasn't been done here before. This may have to be sourced from overseas where projects of this scale are more common. It will give others an opportunity to learn and upskill.
- **Access new funding tools:** The Council will need to consider new tools and mechanisms to fund our portion of Let's Get Wellington Moving. Mechanisms to capture value uplift and advocate for new tools to charge for traffic congestion to manage demand and user levies should be considered.
- **Maintain focus and long-term commitment:** This package will be delivered over the course of several council terms. To get the planned results the three partners will need to remain committed to the programme and provision of funding. Even small changes could potentially lead to significant delays, higher costs further down the track or simply not getting Wellington moving. Other cities have faltered over time and those decisions are rued by today's ratepayers who are paying for it now with time in their cars, not doing what they'd rather be doing, and the wider economy suffering through lost productivity.

? Questions the new Council will need to consider:

To deliver Let's Get Wellington Moving will require significant additional funding. Key questions include:

- Who pays? What proportion should be paid by general ratepayers vs targeted rates on properties whose property values will increase from this public investment vs users of the new enhanced public transport service?
- As Wellingtonians have told us that they want to move more people with fewer vehicles, should car drivers contribute to the cost of new transport infrastructure through mechanisms such as a carpark levy?
- How can the city remain committed over a fairly long period of time to fully realise the benefits of Let's Get Wellington Moving?
- How can we ensure the city remains liveable while parts will be construction zones for long periods?

Affordable and social housing

Housing supply and affordability issues have been felt nationwide and while Wellington has not yet reached the crisis situation of Auckland or Queenstown, we still face a significant challenge. These are challenges and areas of focus for central and local government.

To house the up to 280,000 people expected to be living in Wellington by 2043 Wellington will need up to 30,000 new homes.

Last three years

Housing Strategy
Addressing the housing challenge remains a top priority for the Council. It led to the Council's 10-Year Housing Strategy (adopted in 2018) which focuses on people right across the housing continuum and sets the vision of 'all Wellingtonians well-housed'.

Working out the numbers and options
We've done the preparation: The National Policy Statement on Urban Development Capacity (NPS-UDC) requires us to provide sufficient feasible residential and business land to meet the projected population and business growth over the next 30 years. We've estimated population growth, where we can build more houses, and what type under our current planning rules. Planning for Growth is the next stage.

In addition to improving our understanding of the opportunities and constraints to increase housing supply in Wellington, we have also developed the Wellington Housing Affordability Model, a tool that helps define what housing can be considered affordable, and for whom. The model assesses affordability based on household circumstances.

Strategic Housing Investment Plan
We've developed and started the first phase of the Strategic Housing Investment Plan (SHIP). This is a 10-year programme of work that started in 2017 and will continue through until 2027.

This includes making better use of existing Council housing sites (and other Council land) to increase social and affordable housing in the city. It will help us deliver our goal of working with partners to provide 750 new social and affordable housing units over the next 10 years.

Arlington
Te Mara (formerly Arlington site 2) has been redeveloped, doubling the capacity to 104 good quality social housing apartments. We leased the homes to Housing New Zealand (HNZ) in 2018 for up to seven years. This provides social housing to some of the city's most vulnerable people.

We also entered into an agreement with HNZ for the development of Arlington sites 1 and 3. HNZ is leasing the sites for 125 years and will have the option to freehold up to 30 percent of the site for affordable housing. HNZ will redevelop the site to provide a mix of between 230 and 300 modern social and affordable homes, including approximately 40 supported living units for the city's most vulnerable residents.

Upgrading our social housing
We have completed the first phase of our 20-year housing upgrade programme (HUP). Over half of the portfolio of more than 2000 properties have been modernised to a high standard and are warm safe and dry. This phase was largely funded by the Crown through a Deed of grant of $220 million.

Where we are now

Housing is expected to remain a key issue for the next three years. Housing in Wellington is unaffordable for many people and not everyone is well-housed in the city.

The issues are complex and the range and scale of work planned will take some time and require ongoing commitment to achieving the goal of 'all Wellingtonians well-housed'.

Next three years

Planning for Growth

The Planning for Growth project responds to the NPS-UDC: to identify where growth should take place, and what is needed to enable it to happen. It is closely linked to Let's Get Wellington Moving.

Planning for Growth involves the development of a new Spatial Plan for the city that will replace the 2015 Urban Growth Plan and a full review of the District Plan - the City's planning rulebook which is required under the Resource Management Act 1991. The Spatial Plan will set out the strategy for accommodating future growth. It will also guide decisions on the infrastructure investment that is required to support this growth and provide the direction for the review of the District Plan.

City-wide engagement was recently undertaken on a set of four growth scenarios which demonstrated different ways 80,000 people could be accommodated across the city over the next 30 years. The feedback from this engagement provides us with significant direction to get on and develop a draft Spatial Plan for consultation in late 2019/early 2020. The new Spatial Plan is expected to be finalised in early 2020. Following this, a non-statutory draft District Plan will be consulted on in late 2020/early 2021, with the formal Proposed District Plan to be publicly notified in late 2021.

Urban development powers

The Government is bringing an Urban Development Authority (UDA) into force. Granting UDA powers to councils will be key to having more houses built sooner by enabling major urban regeneration and greenfield developments, such as through Let's Get Wellington Moving, and Lincolnshire Farm. How and where we utilise new powers will be a key decision for the new council.

More partnerships to deliver more homes

We will continue to explore partnership opportunities with private developers, government and others for more affordable housing in the city.

We also want to develop a range of different infill and greenfield housing opportunities, including low, medium and high density housing close to transport and services. We have approached KiwiBuild and are looking at ways to identify and enable development to occur.

Social housing upgrades

City Housing will spend the next three years planning for and delivering HUP Phase 2 by bringing all its capital works into a Single Capital Programme.

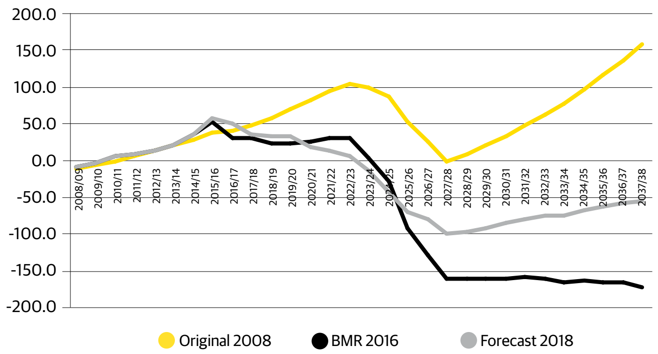
Phase 2 will see the upgrade of the remainder of the social housing portfolio. This phase must be funded by the Council and as agreed in the Deed will involve a Council contribution of $180 million with the intention that this would be funded through City Housing activity.

Funding and expertise are key issues

The full housing programme is an ambitious programme of work. To ensure our capability matches that ambition, we need to increase resources - people and funding, and seek to maximise partnerships to ensure we deliver on our Housing Strategy objectives.

There is a distinct need for additional programme expertise. This will be a challenge as the housing market is a competitive sector in terms of skills and experience.

The City Housing service is currently ringfenced from rates funding and the service is not financially sustainable into the long term.



The graph shows that despite the improvements shown in the 2018 projections, there is still a considerable financial gap[3]. A workplan to address the shortfall is under way. This includes changes to its rent setting policy, to improve equity for tenants, and to improve financial sustainability so the service can continue to assist those in housing need.

To increase fairness across housing providers, the Income Related Rent Subsidy (IRRS) should be made available to councils. The Council is one of New Zealand's largest social housing providers yet doesn't have access to this.

? Questions the new Council will need to consider:

- How can we position ourselves to be the best partner with the Government's new UDA to deliver good housing outcomes for Wellington city?
- How do we make our social housing portfolio financially sustainable over the long-term? Who should pay? Should this be funded through social housing rents? Or should ratepayers subsidise this? Or a combination of the two?

3. BMR line: Business Model Review

Enhancing our creative city

Wellington is known as New Zealand's most creative city, reflecting the presence of national arts organisations and vibrant arts and events in the city, with more than 10,000 people employed in the creative sectors. It is a city of unique cultural moments, experienced by residents and visitors alike. This did not happen by accident. It is the result of deliberate investment over many years by the Council and other partners.

Last three years

Strengthening our buildings

The arts and culture sector relies heavily on Council support and Council owned facilities to showcase their talent. Many of those buildings - like the Town Hall and the St James - are old, earthquake-prone and heritage listed.

The last few years has been dominated by preparatory work to strengthen these key facilities, carry out the necessary planning work, agree budgets with the community, obtain consents, and make temporary arrangements for key cultural institutions like the Royal New Zealand Ballet who will train and rehearse in a 'pop-up' building in the Michael Fowler Centre car park.

Strengthening our cultural programme

We agreed to embark on a Decade of Culture that will emphasise and enhance the city's unique creative strengths. This work included enhancing the Matariki festival and growing the reach of major festivals and events by redirecting existing economic grant funding towards cultural events and festivals to boost the city's profile as a cultural destination.

Strengthening the cultural sector

We began the development of *Aho-Tini* - a new vision for the ongoing development of Wellington as a creative city - in collaboration with the art and culture sector. The process includes working with key stakeholders in the city, and making a strategic commitment to working together to deal with the challenges in the sector and realise the creative potential in the city.

Where we are now

With our partners, we're delivering our enhanced programme of creative events and support for creative organisations. These include Ahi Kā and Matariki, Te Matatini, NZ Festival, Second Unit, CubaDupa, and Wellington on a Plate. We're currently working with our creative sectors to further develop the Aho Tini vision and action plan, and we've recently submitted our application to UNESCO to become a City of Film.

Next three years

There are two main areas of focus for the coming three years:

- **Earthquake strengthen buildings:** The Council has allocated $143.7 million to earthquake strengthen the St James and the Town Hall in the coming years. These are not insubstantial projects and significant risks remain. There are considerable complexities associated with the Town Hall strengthening project in particular as the design includes retrofitting base isolation to the structure, much of which needs to be carried out below the water table.

  While this work is carried out we will continue to work with the sector to ensure events can continue to be showcased in Wellington.

- **Aho Tini:** The next step in this programme is to develop a coherent strategy and action plan. This also needs to be done in collaboration with the sector as envisioned by the Aho Tini framework, focus on supporting the arts and culture sector to address key challenges, and develop tangible projects that will enhance the city's creative landscape.

Questions the new Council will need to consider:

- How can we enhance the collaboration in the arts and culture sector?
- How can we best support the sector with audience development and attraction?

Other upcoming matters

The following reviews are part of the Government agenda and will impact on the Council in the new triennium.

Three waters review

The Government is reviewing how to improve the regulation and supply arrangements of drinking water, wastewater and stormwater (three waters) to better support New Zealand's prosperity, health, safety and environment. Most three waters assets and services, but not all, are owned and delivered by local councils. The initial findings of the review were consistent with many of the findings in the Havelock North inquiries into drinking water safety. It raised broader questions about the effectiveness of the regulatory regime for the three waters, and the capability and sustainability of water service providers.

Urban Development Authority legislation

The Government is in the process of developing legislation to enable urban development at an increased pace and scale to respond to the challenges of population growth.

The legislation will establish Kāinga Ora - Homes and Communities, the central government UDA which is expected to be in force by 1 October 2019. This is the Crown entity to manage the delivery of urban development projects of all sizes. It amalgamates the functions of Housing New Zealand, its development subsidiary HLC and KiwiBuild, and takes on a broader mandate to lead and co-ordinate urban development projects at a national level.

The second bill (which is due mid 2020), will confirm the powers available to the UDA and how they will be applied to urban development projects that meet a set of eligibility criteria. Powers related to planning and consenting, land assembly, infrastructure and funding have been recommended as potential instruments for accelerating housing development and urban regeneration.

The Council is particularly interested in how these powers can be applied at the local level and sees them as an opportunity to play a more active role in housing development in the city and a means to deliver on its housing objectives.

Resource Management Act review

The Government is conducting a two-stage review of the Resource Management Act (RMA) 1991. Stage one will be a Bill to make the RMA less complex, to give people more certainty on RMA issues, and increase public participation.

Stage two will be a more comprehensive review of the resource management system. It will build on Government work priorities across urban development and freshwater, and climate change. This will also include changes to ensure quality built environments and better protection of the natural environment. Legislative changes will also require councils to undertake spatial planning to better manage urban growth and ensure long-term investment in key infrastructure.

Building System legislative reform

Earlier this year the Government, through MBIE, consulted on proposed reforms to New Zealand's building laws. These are the most significant reforms since the current Building Act was introduced in 2004. The objectives for reform are safe and durable buildings, a high-performing sector, and an efficient regulatory system.

While we support the general direction of the Building System Reform proposals, they do not go far enough, stopping short of the changes needed to improve sector performance and accountability. The next triennium will see the Council continue to liaise with central government and advocate for changes that will make a meaningful difference to the building sector.

Part 3:

Financial statements – What we do and what it costs

Major projects

Parts 1 and 2 of this report set out the major projects for the years ahead, the cost pressures and decisions necessary regarding funding for future years. Our Annual Plan 2019/20 sets out the funding decisions for the major projects displayed to the right.

For more information please see the *Annual Plan 2019/20* on our website

Project 2019/20

FUNDING CONFIRMED	
Prince of Wales/Omāroro Reservoir	**$58.15m/4 years**
Town Hall	**$112.4m/4 years**
St James	**$31.3m/3 years**
Convention & Exhibition Centre	**$157.8m/3 years**

FUNDING TO BE CONFIRMED
Let's Get Wellington Moving
Te Atakura – First to Zero
Civic Precinct and Central Library

Governance
Pārongo-a-tāone

What we do

We ensure people are well-informed and can contribute meaningfully to council decision-making processes. We also keep a record of our work and provide access to the information we hold.

We work with mana whenua Ngāti toa Rangatira and Taranaki Whānui ki te Upoko o te Ika and ensure they are involved in decisions about the city.

How we perform

We have incrementally improved residents' satisfaction with the level of consultation although the level of resident satisfaction with involvement in decision-making remains static. Consultation and engagement is an ongoing area of focus and will remain a priority in the coming years.

Our Service Centre has responded to challenges from the earthquake, relocating to Manners Street and providing seamless high quality services and experiences to Wellingtonians. Residents are highly satisfied with the services provided by the City Archives team.

We continue to foster a positive relationship with both of our iwi partners.

For more detailed information about our performance please see the annual report on our website.

What it costs

ACTIVITY COMPONENT	TOTAL COST ($000)	COST PER RESIDENT PER WEEK
Governance, information and engagement	19,585	$1.75
Māori and mana whenua partnerships	316	$0.03
Total governance	**19,901**	**$1.78**

How we pay

Services in the governance portfolio are funded mostly through non-targeted rates, with a small portion being funded through fees and user charges for Civic Information and City Archives.

Environment
Taiao

What we do

We protect and restore the city's biodiversity. We also provide attractive, safe and accessible spaces such as parks and beaches for leisure and recreation.

We supply water, waste and stormwater services and provide waste disposal and recycling services.

We promote a sustainable city and encourage waste minimisation and promote energy efficiency and conservations.

We also support and fund the Wellington Zoo and Zealandia.

How we perform

The city's gardens, beaches and green open spaces offer good value-for-money, are highly used by residents and maintained to a high standard. 86 percent of residents were satisfied with the quality and maintenance of green open spaces.

Waste disposal and recycling services are well used by residents. Efforts to reduce our environmental footprint continue. There has been an increase in waste diverted from the landfill over the last three years, although user satisfaction with recycling and waste services remain just short of target.

Residents continue to be very satisfied with the water and wastewater services we provide, but satisfaction with stormwater management services has dropped and is below target.

Visitor numbers to both Zealandia and the Zoo are above targets and increasing.

For more detailed information about our performance please see the annual report on our website.

What it costs

ACTIVITY COMPONENT	TOTAL COST ($000)	COST PER RESIDENT PER WEEK
Gardens, beaches and green open spaces	43,546	$3.91
Waste reduction and energy conservation	18,084	$1.62
Water	47,066	$4.23
Wastewater	47,515	$4.27
Stormwater	19,583	$1.75
Conservation attractions	6,927	$0.62
Total environment	**182,721**	**$16.40**

How we pay

Services in the environment portfolio are funded through a mixture of general rates, user charges and other income such as subsidies received from NZTA for road open spaces.

Economic development and cultural wellbeing
Whanaketanga ōhanga me oranga ahurea

What we do

Our economic activities include funding tourism promotions and visitor attractions, support for the regional economic development agency, and maintaining relationships with other agencies to foster economic growth.

Our arts activities ensure Wellington builds on its reputation as New Zealand's arts and culture capital, by continuing to be home to top-class museums and art galleries, orchestras, dance and theatre companies.

We also support the arts activities in our communities and those of arts organisations through our funding of the Wellington Museums Trust, the Public Arts Fund, the Cultural Grants Pool and the Creative Communities Scheme.

How we perform

Our investments in economic development have been very successful. Over 700,000 people attended council-supported events, and the average length of stay for visitors to the city is increasing.

Attendee satisfaction with council-supported cultural events was high at 82 percent but just below our target of 90 percent.

For more detailed information about our performance please see the annual report on our website.

What it costs

ACTIVITY COMPONENT	TOTAL COST ($000)	COST PER RESIDENT PER WEEK
City promotions and business support	38,108	$3.42
Arts and cultural activities	22,595	$2.03
Total Economic development and cultural wellbeing	**60,702**	**$5.45**

How we pay

Services in the economic development and cultural wellbeing portfolios are funded through a mixture of general and targeted rates and external grants and subsidies from non-council sources.

The majority of the economic development activities are paid for by commercial ratepayers, as it covers the cost of tourism promotion, economic grants, and other activities that directly benefit this sector.

Social and recreation Pāpori me te hākinakina

What we do

We operate sport and recreation facilities, support a network of community spaces and operate libraries. We also support community leadership and advocacy to strengthen community resilience and safety. With the challenges we're facing regarding the Central Library, our network of community spaces and suburban libraries and need for resilience and flexibility have all come together.

We work to solve homelessness and provide social housing, with a focus on tenant welfare.

We maintain public health standards by regulating food and liquor outlets, animals, trade waste and managing environmental noise problems. We also provide public toilets, cemeteries and crematorium services.

How we perform

User satisfaction with most recreation services and facilities are mostly high and steady. Usage levels of many of our facilities are also broadly similar to previous years.

Library website visits have increased significantly and user satisfaction with library services is high and meeting targets.

Our housing services continue to be of very good quality and highly rated by tenants. For more detailed information about our performance please see the annual report on our website.

What it costs

ACTIVITY COMPONENT	TOTAL COST ($000)	COST PER RESIDENT PER WEEK
Recreation promotion and support	43,506	$3.90
Community support	83,494	$7.50
Public health and safety	17,337	$1.55
Total social and recreation	**144,337**	**$12.95**

How we pay

Services in the social and recreation portfolio are funded through a mixture of general rates and user charges.

Urban development and transport
Tāone tupu ora me waka

What we do

Our urban planning provides guidance on how and where the city should grow. We operationalise this through the District Plan that manages land use and development within the Council's territorial boundaries. We control building and development work according to the provisions of the Building Act 2004 – including managing earthquake-prone buildings, the Resource Management Act 1991 and the District Plan. We also look after public spaces, including the waterfront.

We operate and maintain our transport network, which doesn't include the buses but does include bridges, tunnels, bus shelters and approximately 18,000 street lights.

How we perform

Residents are generally satisfied with the character of the central city and waterfront, and our efforts to preserve the city's heritage.

In most cases, we complied with legislative requirements for timeliness and customers were increasingly satisfied with our services.

Residents are less satisfied with peak travel volumes than before and resident perceptions that parking enforcement is fair are increasing.

For more detailed information about our performance please see the annual report on our website.

What it costs

ACTIVITY COMPONENT	TOTAL COST ($000)	COST PER RESIDENT PER WEEK
Urban development, heritage and public spaces development	11,093	$0.99
Building and development control	22,976	$2.06
Transport	70,410	$6.32
Parking	16,718	$1.50
Total urban development and transport	**121,197**	**$10.87**

How we pay

Services in the urban development and transport portfolios are funded through a mixture of general rates, fees and charges and grants and subsidies received from NZTA for transport related activities.

Financial performance

The Council's financial performance is sound.

The Council is required under the Local Government Act 2002 to have a balanced budget. The balanced budget requirement is closely linked to the principle of intergenerational equity, the idea that each generation of ratepayers pays their fair share for the goods and services they use. It means the Council aims to budget its revenue to equal its operating expenses.

The Council forecasts a net deficit of $8.5 million from its operating activities due to the accounting treatment of the long term lease of Arlington sites 1 and 3 to HNZ (see p27). If the loss that resulted from transferring Arlington was not included, the statement would show a net surplus.

The net surplus is the difference between the expenses the Council incurred during the year and the revenue the Council received. It is represented by the following formula:

Net surplus = Total revenue – Total expenses

Summary Statement of Comprehensive Revenue and Expense

	ACTUAL 2017 $000	ACTUAL 2018 $000	ESTIMATED[1] 2019 $000	ANNUAL PLAN[2] 2020 $000	PROSPECTIVE[3] 2021 $000	PROSPECTIVE 2022 $000	PROSPECTIVE 2023 $000
REVENUE							
Rates revenue	286,015	296,409	309,887	325,857	347,623	371,361	395,413
Operating activities revenue	181,121	196,398	181,088	180,753	177,103	209,969	196,914
Investment revenue	24,585	24,362	24,813	25,861	26,123	27,050	28,129
Vested assets and other revenue	8,565	9,740	12,865	7,337	1,100	1,100	1,100
Fair value movements	23,500	6,941	18,454	8,672	5,408	5,527	5,649
Finance revenue	2,367	1,603	2,799	13	13	60	154
TOTAL REVENUE	**526,153**	**535,453**	**549,906**	**548,493**	**557,370**	**615,067**	**627,359**
EXPENSE							
Finance expense	(23,960)	(24,082)	(25,408)	(24,902)	(38,175)	(44,412)	(50,655)
Expenditure on operating activities	(368,625)	(371,749)	(378,271)	(407,555)	(387,208)	(397,185)	(419,962)
Depreciation and amortisation	(101,889)	(107,415)	(118,155)	(124,573)	(133,748)	(140,387)	(151,155)
TOTAL EXPENSE	**(494,474)**	**(503,246)**	**(521,834)**	**(557,030)**	**(559,131)**	**(581,984)**	**(621,772)**
NET SURPLUS/DEFICIT FOR THE YEAR	**31,679**	**32,207**	**28,072**	**(8,537)**	**(1,761)**	**33,083**	**5,587**
OTHER COMPREHENSIVE REVENUE and EXPENSE							
Revaluations of property, plant and equipment	295,254	180,413	-	204,856	62,166	-	202,142
Other	18,687	(3,223)	(42,776)	-	-	-	-
TOTAL OTHER COMPREHENSIVE REVENUE and EXPENSE	**313,941**	**177,190**	**(42,776)**	**204,856**	**62,166**	**-**	**202,142**
TOTAL COMPREHENSIVE REVENUE and EXPENSE	**345,620**	**209,397**	**(14,704)**	**196,319**	**60,405**	**33,083**	**207,729**

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3. The prospective information for 2021-23 is taken from the 2018-28 Long-term Plan. This information is audited.

Financial Position

Our assets and liabilities

The Council's forecast net worth for 2019/20 is $7,107 million. This is calculated as the difference between the total assets and the total liabilities of the Council. Net worth is represented in the financial statements by the balance of equity or net assets.

Assets

Assets are items of economic value owned or controlled by the Council. The Council's total assets are worth $8,106 million, and include major assets such as:

- Property, Plant and Equipment which includes land, buildings and infrastructure assets
- Other assets which include investment properties and the cost of investments in controlled entities and associates.

During each year further capital investment is spent on constructing and developing assets around Wellington which contribute to the balance of Property, Plant and Equipment.

Liabilities

Liabilities are amounts owed to lenders and suppliers. The Council's total liabilities are $995 million. The major liabilities of the council include:

- Gross borrowings
- Other liabilities which include trade and other payables.

Summary Statement of Financial Position

	ACTUAL 2017 $000	ACTUAL 2018 $000	ESTIMATED[1] 2019 $000	ANNUAL PLAN[2] 2020 $000	PROSPECTIVE[3] 2021 $000	PROSPECTIVE 2022 $000	PROSPECTIVE 2023 $000
ASSETS							
Current assets							
Financial assets	122,349	162,326	187,104	185,241	53,063	55,035	60,683
Non-financial assets	15,161	16,506	21,790	23,747	15,332	15,717	16,748
Total current assets	**137,510**	**178,832**	**208,894**	**208,988**	**68,395**	**70,752**	**77,431**
Non-current assets							
Financial assets	15,464	12,582	14,668	14,667	18,151	19,644	20,615
Non-financial assets	7,253,426	7,514,093	7,575,862	7,882,596	7,980,504	8,102,681	8,360,842
Total non-current assets	**7,268,890**	**7,526,675**	**7,590,530**	**7,897,263**	**7,998,655**	**8,122,325**	**8,381,457**
TOTAL ASSETS	**7,406,400**	**7,705,507**	**7,799,424**	**8,106,251**	**8,067,050**	**8,193,077**	**8,458,888**
LIABILITIES							
Current liabilities							
Borrowings	100,096	131,058	125,000	126,000	126,500	181,000	105,000
Other liabilities	112,945	107,116	92,347	100,085	104,916	105,161	102,514
Total current liabilities	**213,041**	**238,174**	**217,347**	**226,085**	**231,416**	**286,161**	**207,514**
Non-current liabilities							
Borrowings	395,724	451,086	558,500	676,962	744,561	783,391	920,059
Other liabilities	67,514	76,729	119,367	95,851	19,402	18,771	18,832
Total non-current liabilities	**463,238**	**527,815**	**677,867**	**772,813**	**763,963**	**802,162**	**938,891**
TOTAL LIABILITIES	**676,279**	**765,989**	**895,214**	**998,898**	**995,379**	**1,088,323**	**1,146,405**
TOTAL EQUITY / NET ASSETS	**6,730,121**	**6,939,518**	**6,904,210**	**7,107,353**	**7,071,671**	**7,104,754**	**7,312,483**

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Cash flows

This table sets out where we got our money from and what it's used for. The majority of our income comes from rates and we spend a large portion of the money coming in on delivering services and capital projects as well as paying our suppliers and employees.

Summary Statement of Cash Flows

	ACTUAL 2017 $000	ACTUAL 2018 $000	ESTIMATED[1] 2019 $000	ANNUAL PLAN[2] 2020 $000	PROSPECTIVE[3] 2021 $000	PROSPECTIVE 2022 $000	PROSPECTIVE 2023 $000
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from rates	286,658	295,301	304,741	326,123	345,825	369,312	390,367
Receipts from activities and other revenue	145,185	148,467	160,038	120,915	151,950	155,754	173,907
Other receipts	93,520	110,606	106,609	112,494	110,159	144,194	118,362
Cash paid to suppliers and employees	(312,227)	(324,275)	(357,870)	(353,846)	(342,870)	(354,462)	(377,620)
Other payments	(99,966)	(103,002)	(100,343)	(108,388)	(117,522)	(120,677)	(126,402)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**113,170**	**127,097**	**113,175**	**97,298**	**147,542**	**194,121**	**178,614**
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchase of intangibles	(5,029)	(3,456)	(3,274)	(6,031)	(7,641)	(6,485)	(4,259)
Purchase of property, plant and equipment	(132,617)	(170,339)	(165,830)	(242,851)	(257,195)	(252,773)	(202,610)
Other	24,942	2,406	16,492	27,659	24,421	17,895	19,068
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(112,704)**	**(171,389)**	**(152,612)**	**(221,223)**	**(240,415)**	**(241,363)**	**(187,801)**
CASH FLOWS FROM FINANCING ACTIVITIES							
Increase in borrowings	5,336	86,324	101,356	119,462	133,198	93,330	60,668
Interest on borrowings	(22,904)	(22,943)	(24,202)	(24,902)	(40,306)	(45,905)	(51,626)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**(17,568)**	**63,381**	**77,154**	**94,560**	**92,892**	**47,425**	**9,042**
Net increase/(decrease) in cash and cash equivalents	(17,102)	19,089	37,717	(29,365)	19	183	(145)
Cash and cash equivalents at beginning of year	94,009	76,907	95,996	160,025	279	298	481
CASH AND CASH EQUIVALENTS AT END OF YEAR	**76,907**	**95,996**	**133,713**	**130,660**	**298**	**481**	**336**

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Our expenditure and how we fund it

There are two ways we pay for things: Through operating expenditure and capital expenditure.

Operating expenditure pays for the Council's day-to-day operations and services, from collecting rubbish and providing street lighting to maintaining gardens and issuing building consents. It is funded from general rates, targeted rates, fees and charges, and other income such as grants and subsidies and investment income.

Capital expenditure represents expenditure on property, plant and equipment, which are assets held by the Council and include those used in the provision of its goods and services (eg swimming pools, libraries, sports fields, and bridges). It is largely funded from depreciation, development contributions, borrowing and funding from third parties such as subsidies from NZTA for roading.

This table shows how the Council funds its operating and capital expenditure.

Funding impact statement

WHOLE OF COUNCIL	ACTUAL 2017 $000	ACTUAL 2018 $000	ESTIMATED[1] 2019 $000	ANNUAL PLAN[2] 2020 $000	PROSPECTIVE[3] 2021 $000	PROSPECTIVE 2022 $000	PROSPECTIVE 2023 $000
SOURCES OF OPERATING FUNDING							
General rates, uniform annual general charges, rates penalties	161,708	170,476	176,119	188,020	200,332	216,056	230,316
Targeted rates	124,308	125,933	133,768	137,837	147,291	155,305	165,097
Subsidies and grants for operating purposes	8,995	7,615	7,773	7,862	6,712	6,700	6,692
Fees and charges	130,802	131,425	153,207	150,153	151,822	155,605	173,379
Interest and dividends from investments	20,632	14,315	16,781	14,659	14,921	15,895	17,068
Local authorities fuel tax, fines, infringement fees, and other receipts	7,777	8,064	12,250	8,547	8,748	8,725	8,703
TOTAL SOURCES OF OPERATING FUNDING (A)	**454,222**	**457,828**	**499,898**	**507,078**	**529,826**	**558,286**	**601,255**
APPLICATIONS OF OPERATING FUNDING							
Payments to staff and suppliers	294,995	307,439	341,107	350,791	341,516	353,284	375,312
Finance costs	23,644	23,765	25,408	24,902	38,175	44,412	50,655
Other operating funding applications	48,970	51,818	37,164	56,764	45,692	43,899	44,651
TOTAL APPLICATIONS OF OPERATING FUNDING (B)	**367,609**	**383,022**	**403,679**	**432,457**	**425,383**	**441,595**	**470,618**
SURPLUS / (DEFICIT) OF OPERATING FUNDING (A-B)	**86,613**	**74,806**	**96,219**	**74,621**	**104,443**	**116,691**	**130,637**
SOURCES OF CAPITAL FUNDING							
Subsidies and grants for capital expenditure	29,872	45,146	28,680	25,992	20,136	49,252	18,456
Development and financial contributions	3,026	3,305	2,897	2,000	2,000	2,000	2,000
Increase / (decrease) in debt	7,668	39,478	64,639	138,419	133,196	93,328	60,665
Gross proceeds from sales of assets	-	146	2,000	13,000	9,500	2,000	2,000
Lump sum contributions	-	-	-	-	-	-	-
TOTAL SOURCES OF CAPITAL FUNDING (C)	**40,566**	**88,075**	**98,216**	**179,411**	**164,832**	**146,580**	**83,121**
APPLICATIONS OF CAPITAL FUNDING							
Capital expenditure							
- to meet additional demand	1,168	410	1,774	1,078	2,044	2,159	24,141
- to improve the level of service	48,232	55,321	71,205	102,099	150,473	153,174	87,277
- to replace existing assets	87,823	117,209	96,963	137,275	109,331	103,318	98,934
Increase / (decrease) in reserves	(10,044)	(10,059)	24,493	13,580	7,427	4,620	3,405
Increase / (decrease) in investments		-	-	-	-	-	-
TOTAL APPLICATIONS OF CAPITAL FUNDING (D)	**127,179**	**162,881**	**194,435**	**254,032**	**269,275**	**263,271**	**213,757**
SURPLUS / (DEFICIT) OF CAPITAL FUNDING (C-D)	**(86,613)**	**(74,806)**	**(96,219)**	**(74,621)**	**(104,443)**	**(116,691)**	**(130,636)**
FUNDING BALANCE ((A-B) + (C-D))	-	-	-	-	-	-	1
Expenses for this activity grouping include the following depreciation/amortisation charge	**101,109**	**106,614**	**118,155**	**124,573**	**133,748**	**140,387**	**151,155**

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Indicators of financial performance

The Council continues to score well against the local government benchmarks under the Financial Reporting and Prudence Regulations. The three main elements for financial prudence under regulations are affordability, sustainability and predictability.

The purpose of these benchmarks is to enable the assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

Affordability benchmarks

These benchmarks are intended to help assess the affordability to present and future ratepayers of each local authority's expenditure and financing activities. These cover the Council's compliance against targets in our financial strategy for rates increases and debt levels.

Sustainability benchmarks

These provide an indicator of how prepared the Council is for long-term uncertainties and to maintain itself indefinitely.

Investments and net borrowings

The Council continues to be in a strong position when compared with the level of borrowings, meaning our investments are almost equal to our borrowings at present. The balance of investments primarily comes from investment properties, our share of the net assets of our associates (including Wellington International Airport Limited) and other financial assets.

Net borrowings are the total borrowings less any cash or cash equivalents held as short or long term

Predictability benchmarks

These are an indicator of level of flexibility that the Council has to respond to unexpected events as well as our ability to pay for capital expenditure using internally generated funds rather than relying on external sources.

REF	CATEGORY	MEASURE	2018/19[1] MET
1.	Rates affordability benchmark	Council's planned rates increases are within the quantified limit on rates increases included in the Long-term Plan financial strategy. These limits are based on the Local Government Cost Index.	Yes 4.5%
2.	Debt affordability benchmark	Net borrowings as a percentage of income <175%	Yes 100.7%
		Net interest as a percentage of revenue <15%	Yes 4.0%
		Net interest as a percentage of annual rates income <20%	Yes 7.3%
		Liquidity (term borrowing + committed loan facilities to existing external debt) >115%	Yes 126.4%
3.	Balanced budget benchmark	Operating revenue is greater than operating expenditure as a proportion >100%	Yes 103.4%
4.	Essential services benchmark	Capital expenditure on network is greater than operating expenditure as a proportion >100%	Yes 130.0%
5.	Debt servicing benchmark	Borrowing costs as a proportion of operating revenue <10%	Yes 4.7%
6.	Debt control benchmark	Net debt as a proportion of planned debt <100%	Yes 95.2%
7.	Operations control benchmark	Net cash flow from operations as a proportion of its planned net cash flow from operations >100%	No[2] 85.2%

1. The financial information for 2018/19 is estimated, unaudited and subject to change.
2. A number of assumptions are made around the timing of events. Any departure from these assumptions can affect the outcome of this measure. The Council is satisfied that it is prudently managing operational cash flow, with timing differences in the receipt of revenues compared to budget, leading to the "not met" outcome for this measure.


Why will you vote?
He aha te take me pōti koe?
I vote for Wellington!

J008784