
REPORT 2
(1215/52/IM)

ADOPTION OF THE 2005/06 ANNUAL PLAN

1. Purpose of the Report

This paper provides for the adoption of the 2005/06 Annual Plan.

Note that papers on the consultation process, Development Contributions, performance measures and the establishments of two trusts are discussed elsewhere on this agenda.

2. Executive Summary

Following extensive development, review and public consultation the Council's annual plan for the coming year is presented for adoption.

The paper covers:

- A consolidation of the opex and capex position (see section 5)
- A summary of movements to the projects and programmes budgets (see section 5.3) and a schedule of the budgets (see appendix one)
- A summary of responses to key issues raised on new initiatives (see appendix two)
- A series of brief reports on new items that were raised in consultation (see appendix four)
- Minor alterations to the schedule of proposed fees and charges (see appendix four)
- The continuation in the shift of the rating differential (see section 5.7)
- Forecast financial statements and the funding impact statements (to be distributed).

3. Recommendations

It is recommended that the Strategy and Policy Committee:

1. *Receive the information.*
2. *Note that the Draft Annual Plan 2005/06 was developed following a line-by-line assessment of budgets, a review of Asset Management Plans and service levels, and has been the subject of a special consultative procedure.*
3. *Note the summary of movements in section 5.3 and agree to the projects and programmes budgets in appendix one (excluding new initiatives) for inclusion in the 2005/06 Annual Plan.*

4. (a) Agree that the following new initiatives be included in the 2005/06 Annual Plan at the funding levels detailed in appendix one:

Earthquake protection (Building Act)
Waterfront public space expenditure
Non contestable grants increase
Community Events: additional funding
Hazardous Trees Removal (response to storms)
Public Conveniences and Pavilions Upgrades
Indoor Stadium Development Entity Funding
Newtown Park Redevelopment
National Hockey Stadium – Car Park
New Zealand Festival of the Arts

- (b) Note the additional information on the following new initiatives and agree that they be included in the 2005/06 Annual Plan at the funding levels detailed in appendix one:

Marine Education Centre
Renouf Tennis Centre
Wellington Museums Trust: operating grant
Older Persons Policy Implementation
PWT (CPI increases)
PWT (Growth in Australian Visitors)
PWT (Research and Product Development)
International Conferences
KWST Sanctuary Development
Weed and pest management
Spinks Café

5. (a) Note the responses (in the appendices) in relation to new items that were raised during consultation:

New item	Appendix
<i>Lyall Bay Surf Reef's request for additional funding</i>	<i>(3A)</i>
<i>Rongotai College deep water swimming pool</i>	<i>(3B)</i>
<i>Energy efficient light bulbs: Hutt Mana Charitable Trust</i>	<i>(3C)</i>
<i>Wellington Basketball Assoc: additional court</i>	<i>(3D)</i>
<i>Katherine Mansfield Birthplace Society: funding request</i>	<i>(3E)</i>
<i>NZ Sleep Safety: funding request for promotional campaign</i>	<i>(3F)</i>
<i>NZ Film School: funding request</i>	<i>(3H)</i>
<i>Wellington Museums Trust</i>	<i>(3L)</i>

- (b) Agree to the recommendations on the following new items:

New item	Recommendation
<i>Tawa Community Board: discretionary grant (3G)</i>	<i>Agree that a \$10,000 ongoing operating grant be provided to the Tawa Community Board.</i>
<i>Waterfront Operations (3I)</i>	<p>(a) <i>Confirm the management fee for Wellington Waterfront Ltd at \$1,9million as part of the 2005/06 Annual Plan.</i></p> <p>(b) <i>Agree that \$1,9million for Wellington Waterfront Operations (A312) be included in the out years 2007/08 to 2012/13 inclusive.</i></p>

<p><i>Night shelter (3J)</i></p>	<p>(a) <i>Agree that the funding commitment to the Night Shelter of \$250,000, unspent in the 2004/05 financial year should be budgeted in the 2005/06 Annual Plan.</i></p> <p>(b) <i>Agree that the following conditions should apply:</i></p> <ul style="list-style-type: none"> • <i>A funding strategy developed by the Trust be provided to Wellington City Council by 1 August 2005. This is to include an update on the current status of funding held by the Trust, proposals for further funding applications, be able to show intent of promises of goods and services by way of signed statements from those making the promise, the status of discussions with Housing NZ and any possible project price escalation expected.</i> • <i>The Trust provide Wellington City Council with a project plan detailing the time and costings of the project, including details of the contractor tender process and how the risks of cost overruns by the contractor will be managed and mitigated.</i> • <i>That the Trust provides regular written updates to Council on progress, particularly in relation to financial reports that also outline any goods and services are being donated.</i> • <i>That a meeting between Housing NZ and Wellington City Council be convened to discuss possible options.</i> • <i>That the Trust applies for any necessary encroachment approval for any structures being sited on the unformed legal road at the front of the site and provides the necessary documentation.</i>
<p><i>Zoo (3k)</i></p>	<p>(a) <i>Agree to a \$65,000 increase in the 2005/06 operating funding (for C046 project, to allow the Wellington Zoo Trust to meet increased salary costs).</i></p> <p>(b) <i>Agree to the reallocation of \$2,750 million within the 2005/06 capex programme (CX340) to cover the increased cost of the Chimp Quarters and to allow the balance to be allocated for urgent health and</i></p>

	<p><i>safety(including animal welfare) projects to be agreed with officers.</i></p> <p><i>(c) Note that \$930,000 was allocated to CX340 for the Chimp Quarters project in 2004/05, of which \$165,000 has been spent to date. The remainder will be carried forward to 2005/06.</i></p> <p><i>(d) Note that the Long Range Development Plan from the Wellington Zoo Trust will be presented to the Council as part of the 2006/07 Annual Plan during November 2005.</i></p>
<i>Ice Skating Rink(2)</i>	<i>Agree that \$70,000 be re-instated in the Annual Plan 2005/06.</i>

6. *Agree that the changes to fees and charges detailed in appendix four be implemented as part of the 2005/06 Annual Plan.*
7. *Confirm the transition in the rates differential from commercial to residential at 5.4:1 to 4.9:1 for the 2005/06 year.*
8. *Note that the Funding Impact Statement and the forecast financial statements will be amended to incorporate decisions, if required, (following on from decisions made above) and will be included in the Annual Plan when adopted by Council.*
9. *Having undertaken the special consultative procedure received the submissions and deliberated on changes, recommend that Council adopt the Annual Plan for 2005/06 (subject to consideration of performance measures and the Development Contributions policy).*
10. *Delegate to the Chief Executive Officer the authority to make any minor editorial changes that are required as the publication is prepared.*

4. Background

4.1 Statutory basis

The Council is required to produce an Annual Plan for the coming financial year. The 2005/06 Annual Plan is year three of the 2003/04 – 05/06 Long Term Council Community Plan amended to reflect and report on any variances to its forecasts. The special consultative process must be used to adopt the Annual Plan.

4.2 Process to date

The Council's annual planning process begins with an internal budget round in October 2004. Since then a detailed process has been followed that has included:

- a line-by-line scrutiny of the Council's projects by a Working Party
- an independent review of seven Asset Management Plans
- an internal efficiency and effectiveness review
- the preparation and review of new initiatives¹
- the identification of priorities for the year²
- the committee's deliberation on the draft annual plan
- production and distribution of the draft annual plan and summary
- public consultation
- the committee's consideration of submissions.

The planning process has allowed for detailed scrutiny of the Council's activities for the coming year.

4.3 DAP Summary

The 2004/05 Annual Plan forecast a rates increase for 2005/06 of 7.9 percent. Councillors received updates on these forecasts in November, January and February. Those updates highlighted significant cost pressures that the organisation was facing. These included construction industry cost increases and rising employment costs. The 7.9 percent rose to 12.5 percent with these increases.

The Council's ongoing rigorous approach to its budgets means it was able to hold the overall rates funding requirement to beneath that forecast, while accommodating 21 new initiatives. This was achieved by completing the following steps:

- i. Officers reviewed forecasts for each of their projects and programmes
- ii. Shocks and other factors impacting on the budget were identified and presented to Council
 - CPI/cost of living increases
 - contractual price fluctuations
 - salary and wages adjustments, including Collective Employment Contract increases
 - renegotiation of insurance policies
 - impacts on income sources, including reassessment of housing market rentals
 - depreciation review and identified adjustments
 - reallocation of indirect labour charges between Opex/Capex projects
 - consequential budget changes arising from project timing changes
- iii. Officers prepared forecast budgets reflecting the above movements
- iv. Officers prepared summary Asset Management Plans identifying variations

¹ Each initiative was considered for its: legal and contractual requirements; contribution to Council's strategic outcomes; consistency with current policy; urgency – the opportunity it represents; relativity to existing projects and current levels of service; cost; funding and delivery options; and risks.

² The following priorities guided the determination of whether or not to recommend funding:

- To address holes in the existing services that need to be filled
- To take time critical or unique opportunities to enhance the city
- To support organisations which demonstrate a collaborative leadership role in the city.

- v. Officers prepared line-by-line assessments of projects – potential service level changes identified
- vi. Working Party reviewed the line-by-line assessments, AMP variations, questioned officers and recommended proposed service level changes; and
- vii. Business-as-usual budgets (projects that have no change to their levels of service) were prepared
- viii. Officers identify efficiency and effectiveness savings
- ix. Committee and Council deliberate on recommendations
- x. Officers revise budgets taking into account the above movements.

As the Draft Annual Plan was being finalised a \$5million efficiency target was set for the Chief Executive. When the Draft Annual Plan was approved \$1.1million of the \$5million was agreed by councillors, with the residue \$3.9million identified before the Annual Plan was finalised. Officers have found the \$3.9million primarily through tightening up budgeting practices and reassessing the timing of projects. There was also \$800,000 in additional income from the housing rental review. The decision of 16 September 2005 to reduce that \$800,000 to \$600,000 means that only \$4.8 million of the \$5million has been found. The rates increase has been adjusted to reflect that.

5. Finalising the plan

The following tables show movements, including committee decisions, since the Draft Annual Plan was agreed in March. It also shows the rating impact of agreeing to those decisions and the recommendations within this paper.

5.1 Reconciliation of Rates Funding Requirement

	\$000	%
2005/06 Rates Funding Requirement as identified in the 2005/06 Draft Annual Plan	14,917	9.58%
Adjustment for Anticipated Growth in Ratepayer Base	(2,658)	(1.70%)
Adjusted "Real" Rates Funding Requirement in the 2005/06 Draft Annual Plan	12,259	7.88%
Strategy and Policy Committee decisions after 2005/06 DAP publication:		
V8 Supercar series	(2,580)	(1.65%)
Healthy urban housing initiative	100	0.06%
Housing rental (shift from \$800k - \$600k)	200	0.12%
Draft undergrounding policy (3 years from 2006/07 to 2008/09 @ \$250k each year)	0	0.00%
Waste fees (Northern Landfill) and tyre fees (Southern Landfill) – no budget impacts	0	0.00%
Newtown playground building extension (consequential OPEX impacts from 2006/07 - 2012/13 \$19k)	0	0.00%
Mobility parking policy (included in current LTCCP budgets)	0	0.00%
Change in legislative requirements for enforcement of loading zone parking – C290 (net impact)	280	0.18%
	10,259	6.60%

For Consideration by Strategy and Policy Committee during Annual Plan Deliberations

Funding Recommended by Officers:		
<u>Community, Health & Safety</u>		
Night shelter to be reinstated after confirmation of grant funding timing	250	0.16%
Proposal to drop guide/companion dog registration fee	0.3	0.00%
<u>Recreation & Leisure</u>		
Ice skating rink land rental subsidy reinstated for 2005/06 from 2006/07	70	0.04%
Increase in toddlers' entrance fee to swimming pools included in error	26	0.02%
Wellington Zoo Trust additional operating grant for increased salaries	65	0.04%
<u>Governance & Citizen Information</u>		
Tawa discretionary fund reinstated	10	0.01%
Adjusted "Real" Rates Funding Requirement Recommended by Officers	10,655	6.87%

Funding Not Recommended by Officers:		
<u>Community, Health & Safety</u>		
Sleep safety educational campaign	100	0.06%
<u>Recreation and Leisure</u>		
Rongotai College deep water swimming pool (study)	0	0.00%
Wellington Basketball Assoc. additional court (study)	0	0.00%
<u>Culture and Arts</u>		
Katherine Mansfield Birthplace	20	0.01%
Museums Trust: additional funding	40	0.03%
NZ Film School	60	0.04%
<u>Resources and Waste</u>		
Eco bulb subsidy for HELP project	300	0.18%
<u>Natural Environment</u>		
Lyll Bay surf reef to be reinstated after confirmation of grant funding timing	265	0.17%
Adjusted "Real" Rates Funding Requirement	11,377	7.31%

5.2 Draft Annual Plan CAPEX Programme

	\$000
2005/06 Capital Programme as identified in the 2005/06 Draft Annual Plan	111,800
Strategy and Policy Committee Deliberations after 2005/06 DAP publication: V8 Supercar series	(6,158)
Greening of quays project (bringing forward project from 2006/07)	380
	<u>106,022</u>
CAPEX Programme Review: <u>Built Environment</u> Part of central city golden mile project delayed to 2006/07	(400)
<u>Resources & Waste</u> Water connection work capitalised (additional income reflected as part of \$5m savings)	400
	<u>106,022</u>
For Consideration by Strategy and Policy Committee during Annual Plan Deliberations	
Changes Recommended by Officers:	
<u>Recreation & Leisure</u> Hydrotherapy pool at WRAC	(1,333)
	<u>104,689</u>
Proposed 2005/06 Capital Programme for inclusion in 2005/06 Annual Plan	<u>104,872</u>
Estimated 2004/05 CAPEX Carry Forwards	34,519
Proposed Total 2005/06 Capital Programme	<u>139,391</u>

5.3 Business as usual budgets: summary of movements since March

5.3.1 Reallocation of Organisational Costs

As a result of the Chief Executive's \$5m efficiency and effectiveness review, business units have reviewed their budgets in detail and identified a range of savings across projects and programmes, including organisational costs. The project and programme budgets have been updated to reflect these direct savings identified by units. Organisational costs have then been reallocated to Projects and Programmes based on the direct and indirect labour charged to the project, using the same allocation methodology in the 2005/06 Draft Annual Plan.

5.3.2 Significant Savings in Projects and Programmes

The following significant savings from Projects and Programmes have been identified by unit and project managers for 2005/06 and outyears:

- C412 Water network operations \$400,000 increased income from installation of laterals to connect properties to water main network and CX326 Water reticulation upgrades increase of \$400,000 to capitalise this expenditure
- CX406 Central city golden mile has deferred a portion of the project work of \$400,000 to a more realistic timeframe in 2006/07

- C050 Central library and library network-wide operations \$292,000 depreciation deferral as a result of a review of the useful life of the library management system software
- C088 Porirua sewage treatment contribution reduction of \$250,000 as a result of a review of the contribution based on current capacity
- C556 Quarry operations \$238,000 net savings as a result of a review of the restoration material (cleanfill) revenue and associated costs
- C034 Swimming pools operations \$233,000 depreciation deferral due to delay in start of the WRAC leisure pool and water play area and removal of hydrotherapy pool projects
- C113 Water reticulation unplanned maintenance \$90,000 expected reduction in Capacity maintenance contract
- C504 Sewage pollution elimination - cross connection inspections \$85,000 savings as this project work is included in other project budgets within the activity.

5.3.3 C130K Community Arts Programme Transfer to C605 Arts Centre

The annual community art grant of \$200,000 has been transferred from the Recreation Wellington project C130K Community Arts Programme to the Arts Centre project to allow a more effectively aligned management of the grant funding. The Arts Centre project has also been charged the full amount of depreciation and interest allocation as identified in the paper to Council and reflected in the 2004/05 LTCCP.

5.3.4 C290 Parking services and enforcement

Recent changes to land transport rules has meant that loading zones are now available for use by a large range of vehicles, rather than “vehicles primarily designed for the delivery of goods”. Previously the offence was instant but the changes require a warden to sight the vehicle for the period of the time restriction, which will restrict other monitoring and issuing functions. The net impact of this change will be a reduction of income by \$280,000.

5.3.5 CX458 Art Installation Project Renamed (formerly Waititi Landing)

The Waititi landing project has been completed but the funding continues to be managed by the City Development unit for the installation of donated artworks around the city.

5.3.6 CX485 Hydrotherapy Services Contract Not Signed

This is a project in partnership with the Capital and Coast District Health Board on the condition that they make an annual contribution to ensure that Council runs this operation on a break-even basis. The CCDHB have indicated they are no longer willing to meet this condition and the project has been removed from the 2005/06 Annual Plan.

5.4 Responses to submissions: additional information

Consultation on the Draft Annual Plan commenced on 20 April and closed on 20 May. 817 submissions were received and 112 presenters took up the opportunity to address the committee. A large number of the submissions commented on the new initiatives while others touched on business-as-usual elements. An outline of submissions is provided in the *Consultation Feedback on the 2005/06 Draft Annual Plan* report on this agenda.

Officers have reviewed projects in light of the submissions and additional information is provided where:

- a comparatively large number of submissions were received on the topic
- submissions raised issues that were not previously traversed at committee
- a proportionally larger number of submissions expressed concerns about the proposal rather than support.

An outline of the main issues and responses are outlined in appendix two.

All the remaining new initiatives and projects are presented for confirmation. Submissions on these were either: limited; indicated general support; or made comments on specific matters that relate to implementation/operations. These have been provided to the relevant officers for consideration and responses will be provided to the submitters.

5.5 New Items

Some matters have been raised since the Draft Annual Plan was adopted. New projects not contained in the Draft Annual Plan can be considered but grounds must be established for adding them. In determining whether an item should be added consideration is given to:

- the projects urgency (can the project be deferred)
- the fact that information has only come to light in the interim
- the need to publicly consult on the item
- other mechanisms for funding the project.

The following items have been raised:

New item
Lyall Bay Surf Reef's request for additional funding
Rongotai College deep water swimming pool
Energy efficient light bulbs: Hutt Mana Charitable Trust
Tawa Community Board: request for discretionary grant
Wellington Basketball Assoc: additional court
NZ Film School: funding request
Katherine Mansfield Birthplace Society: funding request
NZ Sleep Safety: funding request for promotional campaign
Night shelter: carry the budget forward
Zoo
Ice Skating rink: reinstating \$70k in light of the resource consent timing
Waterfront: out year

These are discussed in more detail in appendices.

5.6 Revenue and Financing Policy

The Council's Revenue and Financing policy sets the appropriate source of funding for each of the Council's activities. Officers continually review how they are performing against funding targets and each year a review of fees and charges is undertaken.

This year the review resulted in the following areas being identified for change:

- Swimming pools
- Recreation centres
- Libraries (overdue charges)
- Building Control and Facilitation; and
- Public health.

The policy rationale for the delivery and funding for these services remains unchanged. A simple change to the target was proposed to bring these into line with the market or is an incremental increase as was indicated in the policy. The agreed shifts in targets are as follows:

Activity	Current Funding targets	2005/06 targets
1.4.2 Building Control and Facilitation	User charges 50% <u>General rate 50%</u> TOTAL 100%	60% <u>40%</u>
2.8.3 Public Health	User charges 45% <u>General rate 55%</u> TOTAL 100%	50% <u>50%</u>
7.1.1 Swimming pools	User charges 45% <u>General rate 55%</u> TOTAL 100%	50% <u>50%</u>
7.1.4 Recreation Centres	User charges 25% <u>General rate 75%</u> TOTAL 100%	30% <u>70%</u>

5.6.1 Fees and Charges

A number of submissions were received on the proposed changes to fees and charges. Submissions predominantly commented on the impact that increases would have on access to activities, which managers considered in the development of the fees.

Two specific issues on fees should be noted:

- i. It is being recommended that the fees for guide dogs is waived. This is discussed in appendix two.
- ii. Officers have clarified that the shift in applying a fee to toddlers' entrance at the pools was erroneously included. The fee already applies.

5.7 Rating Differential

In 2000, the Council voted to alter the rates differential that determines the share of general rates³ to be paid by residents and by businesses. It was agreed that over a 10-year period, the balance will shift from a point where the commercial sector contributed 7.0 times more general rate (for a property with the same value) to a stage where they will end up contributing 2.8 times more to the general rate than the residential ratepayer by 2009/10.

³ The general rate is split between the base differential rate, which applies to residential ratepayers, community organisations and rural land, and the commercial, industrial and business differential rate.

This policy was confirmed as part of last year's detailed review of the Revenue and Financing Policy. The Council concluded that the move to the 2.8 ratio is still appropriate.

The Council also agreed, given that the Revenue and Financing Policy review resulted in a number of changes to activity funding, to continue a smooth transition to the 2.8:1 ratio. This was achieved by recalibrating the differential transition so that the general rate differential ratio in 2004/05 was 5.5:1.

The transition for the remaining years (subject to recalibration) is as follows:

	<i>2005/06</i>	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>
GR Ratio	4.90:1	4.40:1	3.90:1	3.30:1	2.80:1

A total of 54 submissions commented the rating differential. An overwhelming number, 41, supported the transition, while five opposed the shift and a further eight discussed the matter. No compelling issues were raised in opposition and it is recommended that the transition continue.

5.8 Marsden Village Targeted Rate

The Marsden Village Levy has been in place since 1999. It is an additional levy on commercial ratepayers located in the Marsden Village to allow the local representative group (now the Marsden Village Association Inc.) to promote the Village.

From 2005/06 the levy will be treated as a 'targeted rate'. This will fully align the existing Marsden Village Levy with the Local Government Rating Act.

It will be levied on the commercial ratepayers within the Marsden Village precinct to collect rates of \$12,500 plus GST (\$14,060). The rate will continue to be charged as a rate per dollar of capital value.

The targeted rates collected will continue to be distributed to the Marsden Village Association Inc. to be expended as per the annual business plan submitted to the Council prior to the finalisation of the Annual Plan.

To further improve transparency, expenditure funded by the Marsden Village targeted rate has been transferred from organisational costs to sit as a separate project under the City Economy key achievement area.

5.9 Financial Statements

The Council's is required to produce a set of Forecast Financial Statements and a Funding Impact Statement. These will be presented at the meeting and again at the Council meeting for formal sign off. These need to be altered to reflect any amendments made at the deliberations.

6. Conclusion

The Council's annual planning process started in October 2004. The numerous elements that make up have been subject to scrutiny on a number of occasions. From 20 April the Draft Annual Plan was subject to the special consultative procedure. Having received and deliberated on the submissions that were lodged having considered additional information from officers it is recommended that the Council adopts its plan for the coming year.

Contact Officer: *Andrew McKenzie – Chief Financial Officer*