
WELLINGTON WATERFRONT PROJECT BUSINESS PLAN 2005/06

Background

The business plan for the Wellington Waterfront project was considered at committee on 9 June 2005. The paper discussed the work programme for the coming year and addressed the need to foreshadow operating costs once the framework has been implemented.

The committee recommended that the funding be considered in the context of the Annual Plan 2005/06. It also noted that the Waterfront Development Plan and the final Wellington Waterfront Limited business plan will be reported back for approval in August 2005 taking into account the results of consultation.

2005/06 Funding

Funding for the Wellington Waterfront Operations was included in the Draft Annual Plan 2005/06. The business plan seeks no change to the overall quantum of funding that was tagged for the operations – the management fee – in the coming year. The fee of \$1.9million is therefore presented for confirmation.

Out year funding

As noted above the business plan also discussed out year funding. The committee agreed that \$1.9million for the out years 2007/08 to 2012/13 inclusive Wellington Waterfront Operations be considered as part of the Annual Plan deliberations.

While these projected costs require further work it is expected that implementation will go 2-3 years beyond the planning phase and these cost should therefore be projected. It is also recommended that operating costs for property management and maintenance beyond 2010/11 be budgeted.

These costs are estimated to be between \$1-2 million per annum. Although these costs need to be developed more thoroughly, it is timely for the estimates to be reflected in the Council's out year budgets. Doing so will not pre-empt any decisions about how the waterfront operation will be managed, once implementation is complete.

This is discussed in the attached subcommittee paper of 15 May 2005.

WATERFRONT DEVELOPMENT SUBCOMMITTEE

16 MAY 2005

1. Purpose of Report

The purpose of this report is to present the **Wellington Waterfront Project Strategic Plan** and Business Plan for 2005/06 and out-years to 2007/08.

2. Discussion

The Wellington Waterfront Business Plan flows from the Waterfront Development Plan, which is also to be considered by the Subcommittee. After consultation on the draft Development Plan, the Subcommittee may suggest changes to both the Development Plan and the Business Plan. Following this process the Business Plan is to be presented to the Strategy and Policy Committee for consideration and approval in August 2005.

3.1. Overview of the Plan

The Wellington Waterfront Business Plan is provided within the updated Strategic Plan, and outlines the work to be carried out for 2005/06. The Strategic Plan provides a more indicative plan for the three years 2005-2008 in the context of the company's assessment of its operating environment.

2004/05 review

In order to provide some context for the 2005/06 business plan, it is worth noting the priorities that were listed in the 2004/05 plan. The business plan for 2004/05 noted that the level of activity was set to increase markedly, and that the top priorities were:

- Proceeding with Waitangi Park construction
- Agreeing the Taranaki Street Wharf designs and proceeding with implementation
- Continuing Overseas Passenger Terminal development process
- Progressing existing developments according to programme e.g. Kumutoto
- Completing ground floor uses strategy
- Increasing the number and diversity of events

A review of the results against plan is undertaken as part of the quarterly monitoring reports to the CCO Performance Subcommittee. However in general terms it can be noted that progress was made on each of the priorities.

The planned public space capital expenditure in 2004/05 was \$18.4 million, and the forecast for the year is \$6.0 million. The main differences to plan are for Waitangi Park (\$5.5m) and Taranaki Street Wharf (\$3.7m). These timing differences are reflected in the project plan, with a number of projects now planned for later completion.

Strategic changes

The Framework recommends that implementation aims to offset capital expenditure (on public space development) against revenue (from commercial proceeds), to minimise the financial impact on ratepayers and the risk to the Council. The income should be generated up front where possible. However the Framework also recognises that timing will be impacted by market demand. This concept of ‘matching’ essentially means that the company will receive income from commercial development as it needs funds to pay for public space development, and provides a means of allowing for changing market conditions over time.

In preparing the latest strategic plan, the company notes the following points:

- the construction market shows no sign of slowing in the short to medium term;
- resources in the construction market are stretched resulting in inflationary pressure – in both labour and materials;
- as the wider NZ economy cools off, growth in the building sector will start to ease resulting in reduced cost pressures and cost escalations returning to more modest levels.

This combination of factors means that the company is signalling a slight change in emphasis, with the objective of accelerating commercial sales to capitalise on the current market. It is also possible that the development of public space will be spread over a longer timeframe, although this is not currently flagged in the business plan.

Other changes

The draft business plan signals a number of changes that may be worthy of further discussion, or simply for noting.

- 1. Completion:** The strategic plan includes the objective of completing planning by December 2008, and implementation over the following 2-3 years. This indicates that WWL as the implementation agency expects to be operational beyond December 2007 (which had been advised as the date for completion of planning). It can be assumed this will also translate to ongoing funding requirement from the Council, by way of the annual management fee (see section 3.2 below).
- 2. Staffing:** 2 further project managers were employed during 04/05, as part of the drive to speed up progress on the waterfront. This may put some pressure on the management fee, at least until the public space projects are in construction (and labour costs are capitalised).
- 3. QWEC upgrade:** The cost of the improvements to the Queens Wharf Events Centre has been included, as has the \$3.5m Council contribution to this. This project is outside of the Framework, and was approved by the Council in the 2004/05 Annual Plan. The upgrade therefore increases the total cost of the project, but nets off against the extra Council contribution.

4. Timing/priority changes: Only Waitangi Park area 1 is still aligned to last year's timetable – the rest have delays of about one year, e.g.

- a. Wharewaka – completion twelve months later (Wharenui completion date is uncertain)
- b. Taranaki Street wharf – completion twelve months later
- c. Site 7 – completion twelve months later

In addition, the following are the main changes in priority within the project plan:

- d. Shed 1 (outer-t) – dropped down the order from 2nd to 8th
- e. Sites 1,2,3 pushed up the order to 5th

2005/06 priorities

The top priorities in the 2005/06 business plan are:

- Completing Waitangi Park construction
- Obtaining resource consent and development agreement for site 7
- Progressing to plan - including design, consultation and resource consents - for sites 1, 2 and 3 by Waitangi Park; and for the Overseas Passenger Terminal
- Gaining resource consents for the Taranaki Street Wharf designs and proceeding with implementation

The planned public space capital expenditure for 2005/06 is \$28.35 million, which is an increase of \$10 million on the previous year's plan. This includes the Queens Wharf Events Centre, bringing forward expenditure on Kumutoto, and deferring work on Frank Kitts Park.

3.2. Financial implications

The following items have a financial impact on the Project implementation.

The Council's contribution, as set out in the original Framework document, is capped at \$15 million. After discussion between Council officers and the company it has been agreed that all of the contribution will be capex. Previously some of the Council's contribution was planned as opex, being a contribution towards the operating expenses of the project. However, the gains on sale of commercial development sites have been sufficient to fund the net operating costs. Because the Council's contribution is to be capex, the rates impact will be spread over the life of the resulting assets.

As noted earlier, implementing the Project is expected to take 2-3 years beyond the planning stage. While more work is required in this area, it is noted that the management fee needs to be extended beyond its present end of December 2007. This will have an impact on the years 2007/08 and beyond. At this stage it would be recommended to include \$1.9 million per annum from 2007/08 to 2010/11 inclusive.

Beyond that point, there is likely to be a net operating cost for the waterfront, including property management and maintenance. This is estimated to be between \$1 - \$2 million per annum. Again, while this needs to be developed more thoroughly, it is timely for the estimates to be reflected in the Council's out year budgets. Doing so will not pre-empt

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any decisions about how the waterfront operation will be managed, once the Project is complete.

Total Project Cost

The forecast cost of developing public space has increased compared with the 2004/05 business plan. The increase includes the \$3.5 million for the Queens Wharf Events Centre upgrade. Excluding this, the increased expenditure of \$7 million (or 11%) is almost matched by a corresponding \$6.2 million (13%) increase in the commercial proceeds expected.

Public Space Expenditure \$'million	Framework 2001	Business Plan 2004/05	Business Plan 2005/06	Increase
Proceeds from commercial developments	26.3	47.8	54.0	6.2
Public space developments	39.2	61.4	71.9	10.5
TOTAL	(12.9)	(13.6)	(17.9)	
Council funding	8.0	11.5	18.5	7.0
Balance funded from WWL investments	4.9	2.1	(0.6)	(2.7)

As shown in the **Schedule of Public Space Developments** in the business plan, the main increases in expenditure are for Kumutoto (\$2.6m), Frank Kitts Park (\$1.7m) and Waitangi Park (\$1.7m). This latter is for ancillary work and for areas 2 and 3.

The Framework that was developed in 2001 anticipated total expenditure of \$39.2 million on public space. The current business plan has \$60 million to be spent in the next 3 years. With the \$11.9 million that is forecast to be spent by June 2005, the total expenditure of \$71.9 million represents an increase of over 80%. However the Council contribution remains at \$15 million, with the balance sourced from commercial developments. These changes are largely due to the impact of the strong economy, causing increases both in construction costs and in property values.

It is important to note that the developments are still in line with the Framework, in terms of the number of sites to be developed, and their intended uses.

Council Funding

As noted above, the contribution required for operational expenditure is nil, with the full \$15 million contribution required for capital expenditure. This has already been flagged in the 2005/06 Draft Annual Plan.

Expenditure \$'million	Framework 2001	Business Plan 2005/06
Operational	7.0	0.0
Capital	8.0	18.5
TOTAL	15.0	18.5

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An additional \$3.5 million is being provided by the Council towards the cost of upgrading the Queens Wharf Events Centre. This is outside the Framework, but is included in the company's business plan this year. The relevant Council capex project is CX481.

The following table shows the budgets proposed in the 2005/06 Business Plan, and compares the figures with the 2004/05 Business Plan (excluding the WWL Management Fee).

Expenditure - WCC \$'million	Operational		Capital	
	Business Plan 2004/05	Business Plan 2005/06	Business Plan 2004/05	Business Plan 2005/06
2004/05	-	-	7.0	7.0
2005/06	1.5	-	3.0	11.5
2006/07	1.0	-	-	-
2007/08	1.0	-	1.5	-
TOTAL	3.5	-	11.5	18.5

Due to the timing changes that have been referred to, the capital expenditure contribution of \$7 million has not been required during 2004/05, and will be carried forward to 2005/06. An updated schedule has been provided for the public space expenditure, and it indicates the Council contribution will be drawn down between November 2005 and May 2006.

If proceeds from commercial developments are realised earlier, or if there are delays to forthcoming public space projects, then the Council contribution will not be required in full. Any balance will be carried forward to 2006/07.

3.3. Risk evaluation

The small complement of staff retains a great deal of project knowledge. As has been demonstrated during 2005, staff turnover can have quite a marked effect on the company, and could ultimately impact on project continuity.

It has previously been noted that the construction market is experiencing a busy period. The availability of supply in the construction market will continue to have an effect on the cost and the timing of completion of projects. The company has to balance the desire to expedite the Framework implementation on the one hand, with a need to achieve the best outcome overall. While difficult to forecast with any certainty, the net effect of the heated market could be to slow down the pace of public space development in the short term.

Given the range of factors that can influence the project timetable, the business plan continues to set an ambitious programme of work. It may be that the current staff resource is not able to implement the work programme, which will in turn impact on the time required to complete the waterfront development. Ultimately this would translate to increased cost – whether in the Framework or the management fee.

3. Conclusion

The draft Business Plan has no significant changes to the planned public space, or to the commercial developments. The timing and priorities have changed for a number of the sites, and there is an increase to the total cost of the Project which will be funded by commercial proceeds, and not by the Council.

The Business Plan recognises that a number of factors can impact on the achievement of the work plan, and WWL as project managers will be working to manage these risks. As the company is noting that the project may take a further 2-3 years to implement (beyond the planning stage), and on the basis that future operating expenditure will need to be funded, it is recommended that \$1.9 million per annum be included in the out years of the Council's Annual Plan, for 2007/08 and beyond. This is included for recommendation to the Strategy and Policy Committee.

The Business Plan will be reported back to the Subcommittee in August with any recommended changes for final approval.