
REPORT 3
(1215/52/IM)

FUNDING REQUIREMENTS FOR THE WELLINGTON WATERFRONT PROJECT

1. Purpose of Report

To seek the Committee's approval to recommend to Council that it approves the inclusion in the 2007/08 Annual Plan of temporary additional funding to the Wellington Waterfront project to fund public space development.

2. Executive Summary

Wellington Waterfront Limited (WWL) has experienced delays in the receipt of proceeds from commercial developments, primarily the Overseas Passenger Terminal, Chaffers Dock and the Hilton Hotel. Commercial proceeds are used, alongside up to \$15 million from the Council, to fund the development of public spaces on the waterfront.

The Council's allocation of up to \$15 million is forecast to be fully utilised in 2007/08. In order to complete both contracted and anticipated public space expenditure, temporary additional funding on the Wellington Waterfront project is required to bridge the forecast timing difference between paying for the development of public spaces (such as Kumutoto, Shed 13 and the Chaffers Dock promenade) and the receipt of funding from commercial developments.

Providing WWL with this temporary additional funding is likely to affect Council's \$20 million cap on new Capex and borrowings in any one financial year. However officers consider that the proposal should be viewed as an exception to the borrowing cap, due to its short term nature (i.e. the money will be paid back to Council by the project by November 2009). As per current practice, officers will be reviewing the timing of scheduled loan draw-downs and Capex spending plans to try to maintain spending within the \$20 million cap each year.

There are other options available to the Council to manage this issue – including slowing down public space development expenditure or increasing revenue generated through commercial activity. These options would reduce the level of short term additional funding required, but not eliminate it altogether, due to some contractual expenditure commitments for the Kumutoto area, Shed 13 and the Chaffers Dock promenade.

One potential option is for WWL to market additional waterfront sites for development, thus generating further commercial receipts to help fund public space expenditure. Due to the significant lead time for realising commercial proceeds, this would not address the issue in the short term and could also undermine Council's long term interests in respect of the waterfront. Consequently this option is not recommended by either WWL or Council officers.

Another option is for Council to defer some or all of the other planned public space upgrades until commercial receipts are received. WWL and officers recommend that the redevelopment of Frank Kitts Park, which was scheduled for 2008/09, is delayed to 2009/10. If this rescheduling of the Frank Kitts redevelopment is approved, the Council will avoid the need for an additional \$3.60 million on the waterfront project in 2008/09.

While further deferrals of public space expenditure would reduce the need for temporary additional funding on the waterfront project, it would also slow down the achievement of Council's aims for the waterfront. In some cases it could delay the receipt of commercial proceeds, where the development of public spaces around commercial developments is often a prerequisite for the commercial agreements.

3. Recommendations

It is recommended that the Committee:

1. *Receive the information.*
2. *Recommend to Council that it:*
 - a. *Agree that the redevelopment of Frank Kitts Park should be moved from 2008/09 to 2009/10*
 - b. *approve temporary additional funding for the waterfront project (cx131) of \$14.95 million during the period from 2007/08 to 2009/10 to fund public space development on the Wellington waterfront, comprised as follows:*

<i>2007/08</i>	<i>\$6.60m</i>
<i>2008/09</i>	<i>\$7.95m</i>
<i>2009/10</i>	<i>\$0.40m</i>
 - c. *agree that the total additional funding of \$14.95 million from 2007/08 – 2009/10 is to be repaid by the waterfront project from its commercial proceeds by 2009/10, as follows:*

<i>2007/08</i>	<i>\$2.00m</i>
<i>2008/09</i>	<i>\$3.90m</i>
<i>2009/10</i>	<i>\$9.05m</i>

- d. agree that the additional funding is to be drawn down by Wellington Waterfront Limited (WWL) on a needs basis only, supported by the provision of a cash flow forecast for each drawdown as is currently the practice in respect of drawing down against Council's \$15 million allocation*
- e. agree that the Overview Agreement between Wellington City Council and WWL be amended to reflect the above recommendations*
- f. delegate to the Chief Executive and the Mayor the authority to approve the wording of the revised Overview Agreement as outlined in recommendation (e)*
- g. agree that the interest impact of the temporary additional funding is included within project c378.*

4. Background

WWL manages the development of the waterfront by completing commercial developments in accordance with the Wellington Waterfront Framework, supplemented by up to \$15 million from the Council. The Framework requires that, where possible, commercial proceeds should be used to fund public space expenditure.

The commercial proceeds expected to be received from the Chaffers Dock, Overseas Passenger Terminal and Hilton hotel developments have been delayed for a number of reasons, including construction delays, car parking negotiations, and other consultation and regulatory procedural issues.

This delay in receiving commercial proceeds means that, even after drawing upon the remainder of the \$15 million allocation from Council during 2007/08 there will be a period of about 3 years where WWL has insufficient funds to complete both contracted and anticipated public space developments on the waterfront. As at 27 June 2007, WWL have drawn down a total of \$11.25m of the \$15m Council commitment.

The table below highlights the key revenue generating commercial projects and areas of public space expenditure which will impact on the waterfront project funding requirements:

	July 2007 – June 2008	July 2008 – June 2009	July 2009 – June 2010
Commercial Proceeds	<ul style="list-style-type: none"> • Chaffers Dock • Site 7 (#) • Hilton hotel (#) 	<ul style="list-style-type: none"> • Overseas Passenger Terminal (#) 	<ul style="list-style-type: none"> • Sites 8, 9, and 10 • Shed 6 • Overseas Passenger Terminal (#)
Public Space Expenditure	<ul style="list-style-type: none"> • Kumutoto (*) • Shed 13 (*) • Waitangi Park Area 3 (around Chaffers Dock) (*) • Hilton hotel wharf and tunnel works (*) 	<ul style="list-style-type: none"> • Taranaki Street Wharf • Outer - T public space 	<ul style="list-style-type: none"> • Frank Kitts Park • Site 10 • Outer – T (southern arm)

Key

- contracted / agreed commercial proceeds

* - contracted public space expenditure

5. Discussion

As stated in the Waterfront Framework, public space expenditure should be balanced with the realisation of commercial receipts in tandem with the drawdown of the \$15m Council commitment. However, the Framework does recognise the need for flexibility to cater for changes in the market, and as previously noted, delays in commercial receipts are often due to circumstances beyond WWL's control.

A number of options have been discussed between WWL and Council officers, and these are outlined later on in the paper; however, Council officers recommend that providing temporary additional funding to the waterfront project appears to be the most practical way of achieving Council's aims for the waterfront.

5.1 Planned Expenditure and Commercial Receipts 2007/08 – 2009/10

The additional temporary funding requirements for the 3 years from 2007/08 to 2009/10 are summarised in the table below:

Year	Temporary additional funding from Council	Repayment from waterfront project	Net additional funding at year-end
	\$m	\$m	\$m
2007/2008	6.60	(2.00)	4.60
2008/2009	7.95	(3.90)	4.05
2009/2010	0.40	(9.05)	(8.65)
3 year total	14.95	(14.95)	0.00

Financial Year 2007/08

Contracted capital expenditure on the Kumutoto public space is continuing and will be concluded by early 2008 whilst the promenade area around Chaffers Dock will be completed in July and the exterior improvements to Shed 13 will be finished in late 2007.

As noted previously, the delay in receiving proceeds from the Overseas Passenger Terminal, Hilton hotel and Chaffers Dock requires additional funding to be authorised in the 07/08 year. The temporary funding requirement for 2007/08 is \$6.60m, reducing to \$4.60m at year-end as a result of a \$2.00m repayment from the waterfront project.

Financial Year 2008/09

Public space expenditure for 2008/09 is primarily related to the Taranaki Street Wharf/ Lagoon area. The temporary funding requirement for 2008/09 is \$7.95m, reducing to \$4.05m through a further repayment of \$3.90m by the waterfront project.

Financial Year 2009/10

It is proposed that the \$3.60 million redevelopment of Frank Kitts Park is delayed from the scheduled 2008/09 year to 2009/10. This would allow it to commence once the commercial proceeds are realised from the developments of Shed 6, and Sites 8, 9, and 10. Other expenditure that has been budgeted to occur in this year includes the public space around the Site 10 development and the refurbishment of the southern arm of the Outer – T.

The temporary funding requirement for 2009/10 is \$0.40m, reducing to \$nil through further repayments of \$8.65m by the waterfront project.

5.2 Funding Cap

The Council has adopted a policy that establishes a \$20 million cap on new Capex and borrowings in any financial year. Whilst on current forecasts the proposals in this paper would result in the cap being temporarily exceeded in 2007/08 and 2008/09, officers consider that the proposal should be viewed as an exception to the borrowing cap, due to its short term nature (i.e. the temporary additional funding will be paid back from commercial proceeds received by the waterfront project).

Notwithstanding this, as is currently the practice, officers will be reviewing the timing of scheduled loan draw-downs and Capex spending plans to try and maintain spending within the \$20 million cap each year.

5.3 Interest costs

The previously committed \$15m funding from Council has already been recognised in the LTCCP, and the associated interest on borrowings required to provide this funding has already been built into future rates forecasts.

The additional temporary funding requirements detailed in this paper will have no impact on future rates given that the associated interest costs will be paid by the project to Council. These costs amount to \$1,116,000 over the 3 year period in question, and have been accounted for in WWL's detailed 3 year cash-flow forecasts for the project.

5.4 Alternative options

There are other options available to Council, as alternatives to providing temporary additional funding. These include either spending less on the project in the next two years or increasing the amount of funding generated from commercial activity.

Defer public space developments

One option open to the Council is to delay public space developments, and therefore associated expenditure.

There are contractual expenditure commitments for the development of the Kumutoto area, Shed 13 and the Chaffers Dock promenade, to the value of \$13m. Meeting these contractual requirements will require \$6.60m temporary additional funding from Council in the 2007/08 year.

WWL, in discussion with Council officers, have proposed to delay the redevelopment of Frank Kitts Park from 2008/09 to 2009/10, which reduces the potential funding gap by \$3.6 million (this amount has been assumed in officer's recommendations).

The Council could defer some or all other public space upgrades until commercial receipts are received. While this would reduce the need for Council to provide temporary additional funding on the waterfront project, it would slow down the achievement of Council's aims for the waterfront. In some cases

it would also delay commercial receipts, where the development of public spaces around commercial developments is a prerequisite for the commercial agreements.

Development delays would also raise issues about the funding that would continue to be invested into the ongoing management of the project while little public space development was continuing. It would also mean that the project, and its associated funding, would take longer to complete.

A further slow down of public space development, beyond pushing Frank Kitts Park out to 2009/10, is not recommended by officers.

Increase revenue by selling interests

WWL could increase the revenue side of the project by selling the leasehold interests in the land occupied by Shed 3 (Dockside Restaurant), Shed 5 (Shed 5 Restaurant) and Sheds 11 and 13, and the TSB Bank Arena.

An estimate of the revenue that could be generated through this option has not been undertaken, as selling the leasehold interests in these sites would not address the issue in the short term, as the process for redeveloping waterfront sites takes a significant period of time through marketing, planning and regulatory processes, meaning realisation of any proceeds typically takes a minimum of 24 months.

Consideration also needs to be given to the ongoing costs of managing the waterfront, which is currently partially financed through short-term lease income derived from these sites. This is a good outcome which, on balance, should be maintained over the long term. Therefore selling the above-stated additional leasehold interests could undermine Council's long term interests in respect of the waterfront.

Consequently, this option is not recommended by WWL or Council officers.

5.5 Risks to Council

It should be noted that the latest detailed management reports provided by WWL show that the Kumototo public space development is tracking very close to budget in terms of both timing and cost. Further to this, Council's Audit and Risk Assurance team have recently completed a follow-up audit of WWL after which they were able to offer assurances over, amongst other things, WWL's procurement and project management processes.

The financial information presented in this report is based on detailed forecasts prepared by WWL which has been thoroughly reviewed by Council officers. The forecasts are considered to be conservative in nature and based on the best currently available information, for example, future commercial proceeds are based on their June 2006 valuations. Given the current property market, there is good reason to believe that these amounts, at the least, can be realised.

Whilst assurance can be gained from contractually obligated commercial proceeds, there is a chance that RMA (or other regulatory) processes can impact

the amount and timing of receipts. For example, the 2007/08 commercial proceeds include contractually obligated payments relating to the proposed Hilton hotel development. If the Environment Court rules in favour of the resource consent appeals, in July of this year, then the associated proceeds could be delayed indefinitely.

5.6 LGA decision-making

The LGA 2002 requires that local authority decisions are made in accordance with the decision making requirements. In particular, this proposal should be considered within the Council's Significance Policy.

5.6.1 Significance Policy

The first consideration is whether the proposal involves a strategic asset. The Council's Significance Policy states that the waterfront land and assets *as a whole* are on the Council's list of strategic assets.

The assessment of significance occurs firstly by reference to financial thresholds - any decision which exceeds 10 per cent of total rates revenue in any one year to which the proposal relates indicates that a decision may be significant, but it is not an absolute measure.

As noted above, the total financial impact to Council of the temporary additional funding is \$14.95 million over 3 years. The targeted 2006/07 rates revenue of \$180 million gives a 10% threshold indicator of \$18 million, suggesting that the proposal is not significant. However, it is still possible for a decision which does not exceed the financial threshold to be significant.

Assessment of the proposal's significance then needs to be considered with regard to the general criteria. Assessment of the proposal against these criteria leads officers to consider that the decision to approve temporary additional funding does not constitute a significant decision, in particular:

- the proposal does not have a 'substantial' impact on Council's overall financial resources and ability to deliver
- in terms of community effect, the proposal does not materially affect all or a large portion of the community.

Further, the Significance Policy also states that "if a proposal or decision flows logically from existing policies or a decision(s) in the LTCCP, it would indicate that the decision is not significant". The LTCCP makes specific reference to the Wellington Waterfront Framework as the guiding policy for the waterfront development.

Finally, there have been no other identified reasons for concluding that the temporary additional funding decision is significant.

6. Conclusion

In order to continue the development of the waterfront, short term additional funding of up to \$14.95 million on project cx131 is required. This amount would be repaid in full to the project through the realisation of commercial proceeds by November 2009. This paper asks the Committee to recommend that Council approve the additional temporary funding for inclusion in the Annual Plan.

The need for this funding has arisen because of delays in the receipt of commercial proceeds, primarily from Chaffers Dock, the Overseas Passenger Terminal and Hilton hotel developments. The proceeds have been delayed for a number of reasons, including construction delays, car parking negotiations, and other consultation and regulatory procedural issues.

Whilst there are other options available to the Council to manage this issue – either through slowing down public space development expenditure or increasing revenue generated through commercial activity – these are not recommended by officers, as they either slow down the achievement of Council's aims for the waterfront or would be contrary to Council's longer term interests in the project.

The temporary funding requirement is likely to impact on the \$20 million borrowings cap established by the Council however, as it will be repaid to the project by November 2009, officers recommend that this proposal is treated as an exception to the borrowings cap. As per current practice, officers will be reviewing the timing of scheduled loan draw-downs and Capex spending plans to try to maintain spending within the \$20 million cap each year.

Contact Officer: *Allan Prangnell, Manager, Council Controlled Organisations*

Supporting Information

1) Strategic Fit / Strategic Outcome

The Waterfront Development Plan would contribute to the following Council outcomes:

More Liveable – Wellington will be a great place to be, offering a variety of places to live, work and play within a high quality environment.

Stronger sense of place – Wellington will have a strong local identity that celebrates and protects its sense of place, capital-city status, distinctive landform and landmarks, defining features, history, heritage buildings, places and spaces.

More Eventful – Wellington will maximise the economic value from promoting and hosting high-profile events.

More Prosperous – Wellington’s urban form, and flexible approach to land use planning in the central city, will contribute to economic growth and prosperity.

2) LTCCP/Annual Plan reference and long term financial impact

C378 Wellington Waterfront Project; A312 Wellington Waterfront Operations; CX131 Wellington Waterfront Development.

3) Treaty of Waitangi considerations

Maori have had a long connection with the harbour and waterfront that continues today. There are several sites of significance for iwi around the waterfront including Waitangi Lagoon and Te Aro Pa.

4) Decision-Making

This is not a significant decision. The decision has been assessed under the decision-making framework of the LGA as appropriate following the consideration of section 79 LGA 2002. It is noted that the decision does not give rise to any inconsistent decisions, and indeed is consistent with the Waterfront Framework.

5) Consultation

a) General Consultation

Consultation was undertaken on the proposal. All affected parties were included, and any feedback was reported back to the Subcommittee.

b) Consultation with Maori

Representatives from Council’s mana whenua Treaty partners – Wellington Tenth Trust and Te Rūnanga o Toa Rangatira were involved in the development of the Wellington Waterfront Framework that underpins the Waterfront Development Plan.

6) Legal Implications

The LGA decision-making framework has been addressed in this paper.

7) Consistency with existing policy

This report is consistent with existing WCC policy on waterfront development.