

Rates, Charges and Spending

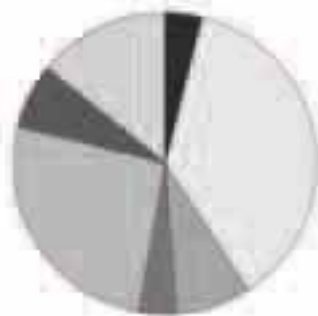
OPERATIONAL EXPENDITURE

We are forecasting total operational spending of \$352 million during 2010/11.

Operational expenditure pays for the Council's day-to-day operations and services, from collecting rubbish and maintaining our roads to issuing building consents, running our recreational facilities and maintaining our parks and gardens.

The Council funds operational expenditure from a combination of general rates (paid on all properties), targeted rates, user charges, ground and commercial lease income, dividends and other revenue (such as grants/subsidies).

2010/11 Operational Expenditure by Strategy



| | |
|-------------------------|-----|
| ■ GOVERNANCE | 4% |
| ■ ENVIRONMENT | 36% |
| ■ ECONOMIC DEVELOPMENT | 8% |
| ■ CULTURAL WELLBEING | 4% |
| ■ SOCIAL AND RECREATION | 26% |
| ■ URBAN DEVELOPMENT | 7% |
| ■ TRANSPORT | 15% |

2010/11 Operational Expenditure by funding source (\$000)



| | |
|--------------------------------------|-----|
| ■ GENERAL RATES | 35% |
| ■ TARGETED RATES | 28% |
| ■ DIVIDENDS | 1% |
| ■ OTHER REVENUE | 2% |
| ■ NON-FUNDED EXPENDITURE | 3% |
| ■ GROUND AND COMMERCIAL LEASE INCOME | 9% |
| ■ USER FEES AND CHARGES | 22% |



RATES

The average rates will increase by 3.24%, after allowing for growth in the ratepayer base in 2010/11.

63% of our funding for operational expenditure comes from our rates revenue. Our rates revenue is split between targeted rates and general rates. Detailed information on rating mechanisms is included in the financial statements of this plan.

In accordance with the Council's Revenue and Financing Policy, targeted rates are used to fund activities where the Council is able to clearly identify a specific group of ratepayers who receive the benefit of the activity, and where it is appropriate that this group be targeted to pay. Targeted rates include base sector targeted rates, commercial sector targeted rates, water rates, sewerage rates, stormwater rates, and the Marsden Village, downtown and Tawa driveways rates.

There are two categories of general rates: the base general rate, and the commercial sector general rate. General rates are charged at different levels depending on the type of property. In 2009/10, the commercial sector general rate per dollar of capital value was 3.45 times higher than the base rate for a residential property of the same value. We are reducing the differential between our commercial and residential sectors to 3.1:1 in 2010/11. By 2011/12, we aim to reduce this differential to 2.8:1.

Our total rates will increase by 3.74 percent in 2010/11 before allowing for growth in our ratepayer base. After allowing for growth, our total rates will increase by 3.24 percent in 2010/11.

The rates increase for 2010/11 is lower than we had previously forecast.

In our 2009–19 long term plan, we had forecast a rates increase of 5.88% before growth (5.38% after growth) for 2010/11. The lower than previously forecast figure reflects our efforts to manage the city's finances efficiently and prudently, together with growth in the ratepayer base of the city. While we are including new projects, we've also sought operational efficiencies and rescheduled some of our work programme to keep the rates increase below previously forecast levels.

WATER RATES

This year we are increasing the water rating mechanisms in the following four areas:

- An increase to the annual fixed charge for base (residential) sector properties without a water meter from \$111.11 + GST to \$113.33 + GST.
- An increase to the annual administrative charge for properties with a water meter from \$95.11 + GST to \$96.00 + GST.
- An increase to the water consumption charge for those properties with a water meter installed from \$1.58 + GST per cubic metre to \$1.618 + GST per cubic metre.

These increases are to ensure the costs of the water activity are appropriately recovered through our rating mechanisms.

“The rates increase for 2010/11 is lower than previously forecast”.



PROPERTY VALUATIONS AND RATES DISTRIBUTION

The actual rates changes affect each household or property differently, depending on changes in capital value relative to the change in capital value for the entire city.

The Council sets the total amount of rates required to fund its expenditure based on the budgeted costs included in this annual plan. For the majority of its rates the Council then uses property valuations as the basis to distribute the total rates requirement proportionally across all properties in Wellington.

In 2008 the Council changed its revaluation cycle from an annual cycle to a 3-yearly cycle to be more in line with other cities in New Zealand. The 2010/11 year is a revaluation year therefore the rates changes affecting each property will reflect both the change in the total rates required to fund expenditure, and the change in capital value of the property.

Over the last year the average residential property capital value has decreased by 3.0%, from \$531,632 in 2009/10 to \$515,708 in 2010/11.

It is important to note that the average rates bill does not automatically reduce as property values fall. The Council calculates the total rates requirement for the year and then uses property values as the basis to distribute this total.

Therefore, a change in your property's value will only impact on your rates bill to the extent that the change is higher or lower than the average change in value for the city.

The final rates increase for an individual property will depend on:

- the overall increase in the Council's rateable budget
- any changes in the rates differential or uniform rates applying to that property
- the growth in the number of rateable properties in the city (e.g. due to construction of new houses, apartments or business premises)
- the change in a particular property's capital value compared to the average change in the capital value for other properties.

**INDICATIVE RESIDENTIAL PROPERTY RATES EXCLUSIVE OF GST
(FOR PROPERTIES WITHOUT A WATER METER)**

| 2010/11 Capital Values \$ | 2010/11 Total Rates \$ |
|--|---------------------------------------|
| 200,000 | 834 |
| 300,000 | 1,144 |
| 400,000 | 1,454 |
| 500,000 | 1,764 |
| 600,000 | 2,075 |
| 700,000 | 2,385 |
| 800,000 | 2,695 |
| 900,000 | 3,005 |

USER CHARGES

For 2010/11 we are raising user charges in a number of areas. The majority of these increases are minor and reflect cost pressures on the underlying service provided by the Council. Increasing fees by a little each year ensures that ratepayers are not over-subsidising services the Council provides and helps to avoid larger increases in future. Our fees are set in accordance with our Revenue and Financing Policy, and depend on a range of factors including who benefits from the activity (see below). Areas where fees will increase include:

- Waste minimisation, disposal and recycling management
- Swimming pools
- Sports fields
- Synthetic turf sports fields
- Recreation centres
- Marinas
- Burials and cremations
- Public health regulations (food/dogs)
- Urban Planning and Policy Development
- Building control and facilitation
- Development control and facilitation

A full list of updated fees and charges is outlined in greater detail in the appendices of this plan.

GOODS AND SERVICES TAX (GST) CHANGES

The rate of GST used throughout this plan is 12.5%. Therefore any fees, user charges and any rating charges per unit that include GST are on this basis. All fees and rates are subject to change on 1st October 2010 as a result of the Goods and Services Tax (GST) rate increase from 12.5% to 15%.

FUNDING OUR ACTIVITIES

When we're deciding how to fund an activity, we consider a wide range of factors including:

- who benefits (individuals, an identifiable part of the community)
- can the beneficiary be easily identified
- can the beneficiary be easily excluded from using the service for non-payment
- intergenerational equity (i.e. do the benefits accrue to future generations as well as present ones)
- the 'polluter pays' principle (i.e. people should pay for negative effects they cause)
- fairness/equity of excluding people who cannot afford to pay
- transparency/accountability of a particular funding method
- overall impact on social, economic, cultural and environmental wellbeing.

Our Revenue and Financing Policy outlines how we are funding our activities. In 2010/11 we're making some changes to the funding of the following activities as detailed in the below table, which is a variance to the Revenue and Financing Policy.

| Activity | Change |
|---|---|
| 7.2.5 Cycle network | Decrease other income from 15% to 10% |
| 2.2.1 Road open spaces | Decrease other income from 10% to 5% |
| 2.5.2 Waste minimisation, disposal and recycling management | Split the activity (10:90 User Rates Funded) into 2, 100% User Funded Recycling, Waste Minimisation and disposal, and 100% rates funded Closed Landfill aftercare |
| 6.2.1 Building control and facilitation | Reduce the user funding from 65% to 60% due to cost and revenue implications from the current legislative compliance environment |

These variances will be formalised in the next Long Term Council Community Plan.

UNDERSTANDING THE COUNCIL'S BUDGETED SURPLUS

The Council is forecasting a net operating surplus of \$49.0 million in 2010/11. The majority of the Council's budgeted net surplus arises from cash funding received for capital purposes (Housing New Zealand grants, development contributions, NZTA subsidies and bequests). This income flows through to the net operating surplus to be available to fund capital expenditure. Offsetting this are some depreciation costs on assets which we have resolved not to fund.

CAPITAL EXPENDITURE

We're continuing to invest in our city's infrastructure.

Capital expenditure pays for purchasing, building or developing the Council's assets (e.g. bridges, pipes, libraries, swimming pools). Our capital expenditure (excluding carry forwards and loans to other organisations) is forecast to be \$165 million in 2010/11. This includes \$37 million on upgrading our social housing which is fully funded by a Housing New Zealand Grant, and \$25 million for the construction of the new Indoor Community Sports Centre which is funded by borrowings. Both projects are shown within the Social and Recreation Strategy in the graph below.

We fund capital expenditure from depreciation, borrowings, NZ Transport Agency subsidies, grants and development contributions. For asset renewals, the main funding source is depreciation. For new assets and upgrades, the main funding sources are borrowings, subsidies and grants.

BORROWINGS

Total borrowings are forecast to be \$360 million at the end of 2010/11. Our asset base is forecast to total \$6.6 billion at the same period. We manage our borrowings within the following prudential borrowing limits:

| | |
|--|-------|
| Net borrowing as a percentage of equity | <10% |
| Net borrowing as a percentage of income | <150% |
| Net Interest as a percentage of income | <15% |
| Net Interest as a percentage of annual rates income | <20% |
| Liquidity (term borrowing + committed loan facilities to 12 month peak net borrowing forecast) | >110% |

VARIANCES FROM THE LONG TERM PLAN

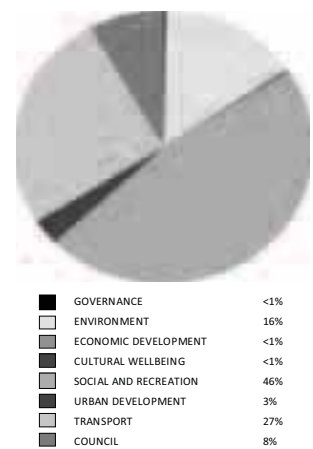
Each year we review the underlying assumptions and costs that make up each activity. For each activity we consider the impact of a number of factors including:

- changes in direct costs
- updated forecasting assumptions (including changes to the forecast timing of projects)
- the allocation of indirect and organisational costs/efficiencies
- the appropriateness of forecast inflation and CPI adjustments
- changes affecting our opening position (e.g. updated borrowings forecasts).

This means that the costs for each activity may differ from those we had originally forecast in the 2009/19 long term plan for 2010/11.

Further information is provided in the "Our Activities in Detail" chapter.

2010/11 Capital Expenditure by Strategy (\$000)



³Council Projects predominately relate to capital expenditure on our technology infrastructure, replacement of vehicles and equipment and meeting health and safety requirements.

2010/11 Capital Expenditure by Funding Source (\$000)

