

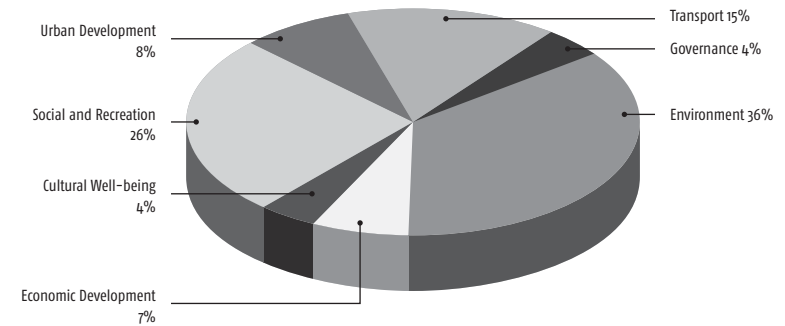
# Financial overview

## Operational expenditure

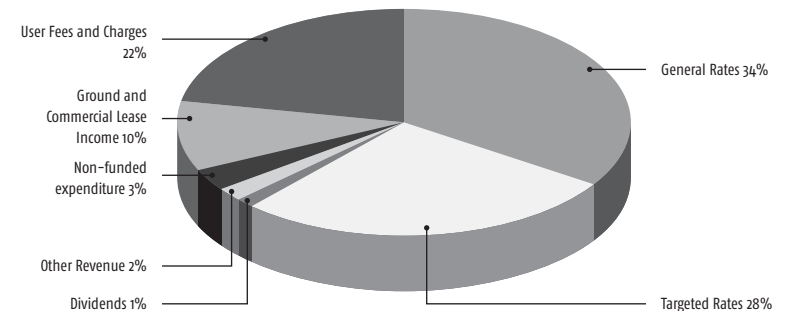
Operational expenditure pays for the Council's day-to-day operations and services, from collecting rubbish and maintaining our roads to issuing building consents, running our recreational facilities and maintaining our parks and gardens.

The Council plans to spend \$341 million on operational expenditure across our seven strategy areas in 2009/10, and a total of \$4.0 billion during the next 10 years. 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).

### Operational Expenditure over 10 years (\$4.0 billion) by Strategy



### Operational Expenditure over 10 years (\$4.0 billion) by Funding Source (including non-funded expenditure)



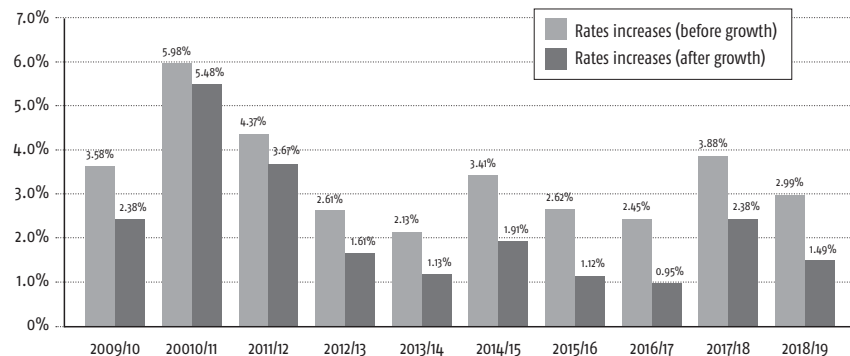
## RATES

Our rates revenue is split between targeted rates and general rates. Detailed information on rating mechanisms is included on page 201.

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 2008/09, the commercial sector general rate per dollar of capital value was 3.8 times higher than the base rate for a residential property of the same value. We propose to reduce the differential between our commercial and residential sectors to 3.45 in 2009/10 and, to 2.8 by 2011/12.

**2009–19 Draft Projected Rates Increase**



Our total rates are forecast to increase by 3.58 percent in 2009/10 before allowing for growth in our ratepayer base. After allowing for growth, our total rates are forecast to increase by 2.38 percent in 2009/10. Further increases in the total rates before allowing for growth are forecast for 2010/11 (6.0 percent including inflation and before growth) and 2011/12 (4.4 percent including inflation and before growth).

The graph on this page shows the projected rates increases before growth across the 10 years of the Plan. The actual impact on each ratepayer will vary depending on the change in their property value compared to the change in the total city valuation base and the impact of the changing differential.

## PROPERTY VALUATIONS AND RATES DISTRIBUTION

The Council sets the total amount of rates required to fund its expenditure based on the budgeted costs included in this 10 year 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. As a result, there is no revaluation of properties effective for the 2009/10 year and the proportional distribution of the total rates requirement to each property has remained relatively unchanged from 2008/09 – except for any growth in the ratepayer base arising from development.

It is also 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.

After allowing for the change in the differential, rates on the average residential property (valued at \$532,000) are forecast to increase by 4.5% to approximately \$1,920. An average rates increase of around 1% is proposed for commercial properties, including the impact of increases in metered water charges.

## USER CHARGES

For 2009/10, we are proposing to increase 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 catch up increases in future. Our fees are set in accordance with our Revenue and Financing Policy which is outlined in Volume 2 of this document. Areas where we are proposing to increase fees include:

- Development control and facilitation
- Recreation Centres
- Burials and Cremations
- Marinas
- Sewerage Treatment and Disposal
- Swimming Pools
- Libraries
- Sportsfields
- Waste Minimisation and Disposal
- Road Encroachments

The level and extent of fee increases vary and are outlined in greater detail in the appendices of this plan.

## 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 well-being.

Our Revenue and Financing Policy outlines how we are funding our activities and is detailed in full in Volume 2 of this document. In 2009/10 we are proposing to make the following changes to our Revenue and Financing Policy:

ACTIVITY	CHANGE
2.4.2 & 2.4.3 Sewage collection, treatment and disposal	Increase user charge funding from 0% to 5% to reflect trade waste charges introduced in 2009/10
4.3.1 Arts and cultural festivals	Decrease from 25% to 20% non-rates income as proposed in 2008/09
4.4.2 Arts Partnerships	Decrease from 30% to 25% user charges
5.3.3 Synthetic turf sportsfields	New activity with a user charge target 40%
5.2.3 Recreation programmes	Decrease from 25% non-rates income to 5% to reflect loss of SPARC Push Play programme funding
5.4.3 Public health	Increase from 45% to 50% user charges
6.2.1. Building control and facilitation	Increase from 60% to 65% use charges as proposed in 2008/09
6.3.1 Development control and facilitation	Increase from 45% to 50% user charges
7.2.3 Passenger transport network	Decrease from 100% to 70% non-rates funding, reflecting forecast lower bus shelter advertising income

## 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 \$112 million in 2009/10 and \$1.4 billion (including inflation) over the next 10 years.

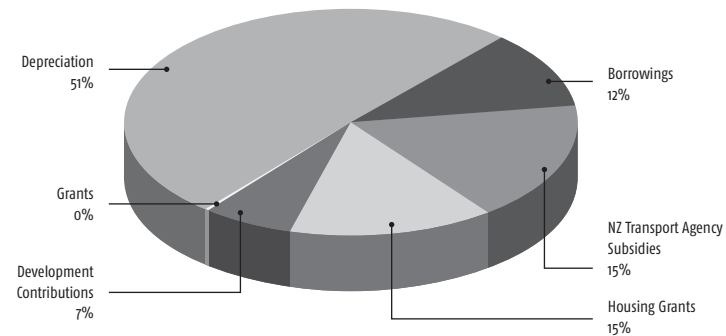
We fund capital expenditure from depreciation, borrowings, NZ Transport Agency subsidies, grants and development contributions. For asset renewals, the main funding source is depreciation. For new assets and upgrades, the main funding sources are borrowings, subsidies and grants.

### Capital Expenditure over 10 years (\$1.4 billion) by Strategy (%)



<sup>1</sup> Council Projects predominately relate to capital expenditure on our technology infrastructure, replacement of vehicles and equipment and meeting health and safety requirements.

### Capital Expenditure over 10 years (\$1.4 billion) by funding source (%)



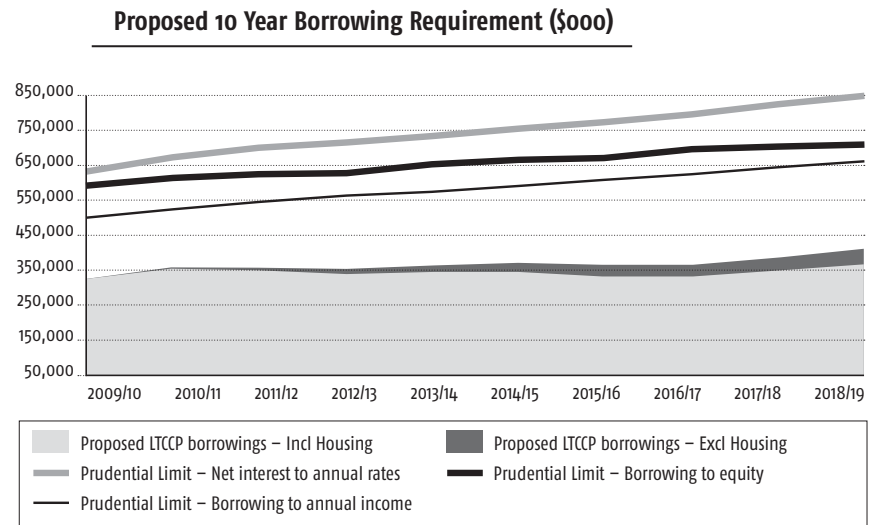
**BORROWINGS (10-YEAR FORECAST)**

Total borrowings are forecast to be \$323.0 million at the end of 2009/10 increasing to \$363.1 million by 2018/19. Over the same period our forecast asset base totals \$6.3 billion in 2009/10, and increases to \$7.6 billion by 2018/19.

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%

The following graph shows our forecast borrowings over the next 10 years against these prudential borrowing limits. We remain compliant with all our prudential limits across the life of the plan.

Our Housing activity generates a cash surplus which offsets our borrowings. These cash surpluses are “ring-fenced” for re-investment in our housing stock upgrade programme. The graph below also shows how our borrowings would increase if this cash surplus was excluded.



## FINANCIAL INDICATORS AT A GLANCE

Over the 10 year plan our forecasts show:

- operating expenditure will increase from \$341 million in 2009/10 to \$454 million in 2018/19
- capital expenditure will range from \$112 million to \$199 million each year
- total borrowings (net of ring-fenced housing surpluses) will increase from \$323 million in 2009/10 to \$363 million in 2018/19
- total rates revenue will increase from \$212 million in 2009/10 to \$286 million in 2018/19.

The key reasons for the increasing trends across our ten year plan are as follows:

- Operational expenditure and rates are impacted by inflationary assumptions around our underlying costs, and the operational impact of our capital expenditure programme
- Borrowings are influenced by the timing and extent of our capital expenditure programme.

### 2009–19 Key Financial Indicators (\$'000)

