Summary of our financial approach

The Council's strong financial position means we can afford to invest in growth. The Council has an AA credit rating - the same as the New Zealand Government.

We have far less debt per capita than most local authorities. All up, our debt levels are currently less than 100% of our annual income - that's the equivalent of a household earning $50,000 a year and having a mortgage of less than $50,000. We also hold significant investments in Wellington International Airport and an extensive central-city ground lease portfolio. Their value is similar to our level of debt.

Our strong financial position means we can afford to invest in projects that will support economic growth. In the short term, this will require modest increases in debt and rates. In the long term, rates increases should become lower due to growth in business activity, business numbers, and overall population.

IMPACT OF THE 'INVEST FOR GROWTH' APPROACH

3.9%

Rates increases will be limited to 3.9% on average after growth annually over the next 10 years.

And by 4.5% annually, on average, over the next three years.

175%

Council debt will be capped at a maximum of 175% of annual income - the same as a household earning $50,000 a year having a mortgage of $87,500.

WE'VE SHARPENED OUR FINANCIAL APPROACH

We've created headroom to allow us to deliver the programme within prudential limits. The key steps to ensure a sustainable financial approach include:

- Rebalancing our spending investment between key strategic areas
- Identifying areas where service levels and performance are already high and increasing the use of existing assets, rather than spending on new investment in these areas
- Investing in projects that grow the economy and deliver returns on our investment as reflected in our forecast growth in the rates base - an average increase of 1.2% a year - providing total increased rates capacity of about $220 million across the 10 years of the plan
- Improved asset management practices and data quality to better manage risk and forecasting of when we need to replace assets
- Incorporating an annual savings of 1% (a total of $55 million) from shared services and efficiencies
- Recognising that rates increases equal or less than CPI (household inflation) are not sustainable in the long-term without cutting services
- Providing for average rates increases of no more than 3.9% across 10 years, to provide capacity to maintain existing services and invest in initiatives that will grow the city
- Lifting our borrowing limits - to a maximum of 175% of income. Note that our forecast peak borrowing for the 10 year programme is 135%. This provides around $230 million of capacity by 2024/25 to respond to emergencies or other requirements not currently planned for.

FUNDING AND RATES OVER THE NEXT 10 YEARS

Wellington's economy has been flat for the past six years. This Long-term Plan aims to kick-start it. We have been prudent in recent years and are now in a strong financial position. The time is right to invest in game-changing projects – as the city did in the 1990s with Te Papa, the waterfront and the stadium – to grow the economy.

A growing economy means more businesses and a larger rating base, which in turn means we can spread the costs further and it will allow us to reinvest in the things that make Wellington great and different. We are conservatively forecasting an average growth in the rating base of 1.2% over the next 10 years.

RATES WILL BE KEPT AT AFFORDABLE LEVELS

The Council's 'invest for growth' approach will ensure rate increases are kept at affordable levels. In fact, as outlined in the graph on page 87, forecast average rates for the next 10 years will be lower than our average rates historically.

We also use average household income as a threshold to measure rates affordability. The plan aims for the average residential rates to not rise above 3.5% of average Wellington household income. This is significantly lower than the 5% affordability threshold identified in the 2007 Local Government Rates Enquiry as appropriate.

WE HAVE SET TOUGH PARAMETERS FOR ANY RATES INCREASES

Our Financial Strategy guide sets out our proposed rates limits including:

- For the next three years, the average rates increase will be kept below 4.5% (after accounting for growth)
- For the next 10 years, the average rates increase will be kept below 3.9% (after accounting for growth).

The proposed option to 'invest for growth' is below this limit with rates increases over the next 10 years of 3.8%.

INDICATIVE RATES FOR THE FIRST YEAR OF THE PLAN

The table on page 172 shows the indicative residential and commercial property rates (inclusive of GST) for 2015/16.

YOUR RATES

For 2015/16, total rates are forecast to increase by 6.1 % before allowing for growth in our ratepayer base. After allowing for expected growth, our total rates are forecast to increase by 4.9%.

Rates on the average residential property (valued at $533,084) are to increase by 5.3% to $2,193 (excluding GST) in 2015/16. There will be an average rates increase of around 5.5% for commercial properties, including the impact of increases in metered water charges. These increases average to a 4.9% rates impact on all ratepayers after growth in the ratepayer base has been taken into account.

EXPLAINING YOUR RATES

Our total rates revenue is split between general rates and targeted rates.

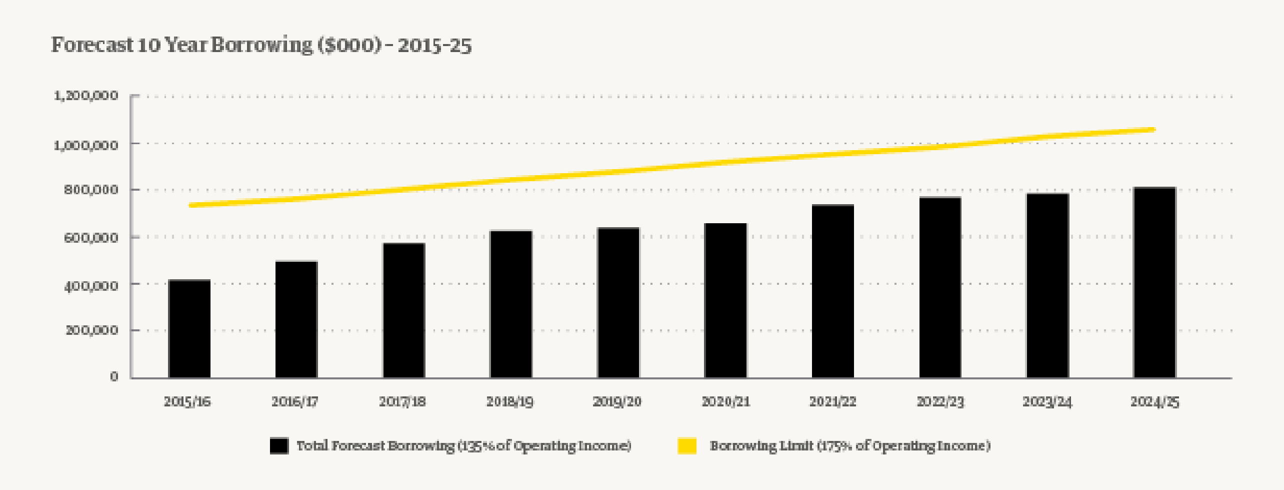
General rates are used to fund activities where the Council is unable to clearly identify a specific group of ratepayers who receive the benefit of that activity, or where is it not possible or suitable for that group to be targeted to pay. General rates are split over two categories: the base sector general rate (residential) and the commercial sector general rate. These are both levied based on a rate-per-dollar of capital value. The Council has a general rates differential in place that decides how the general rate is shared between the residents and businesses in each category.

In 2015/16, the commercial sector's general rate per dollar of capital value is to remain 2.8 times higher than the base residential sector's general rate for a property of the same value. We will review this rating differential after the September 2015 city property general re-valuation is complete to check whether there is any significant shift in the relative proportion of capital value between the base and commercial sectors. We will consult on any recommended changes arising from that review in the 2016/17 Annual Plan.

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. The Council sets targeted rates to fund costs associated with the city's water, sewerage and stormwater systems. Separate targeted rates are also set for our base (residential) sector, commercial sector, downtown commercial sector, Tawa driveways and business improvement districts (BIDs) in Marsden Village, Miramar and Khandallah.

BORROWING OVER THE NEXT 10 YEARS

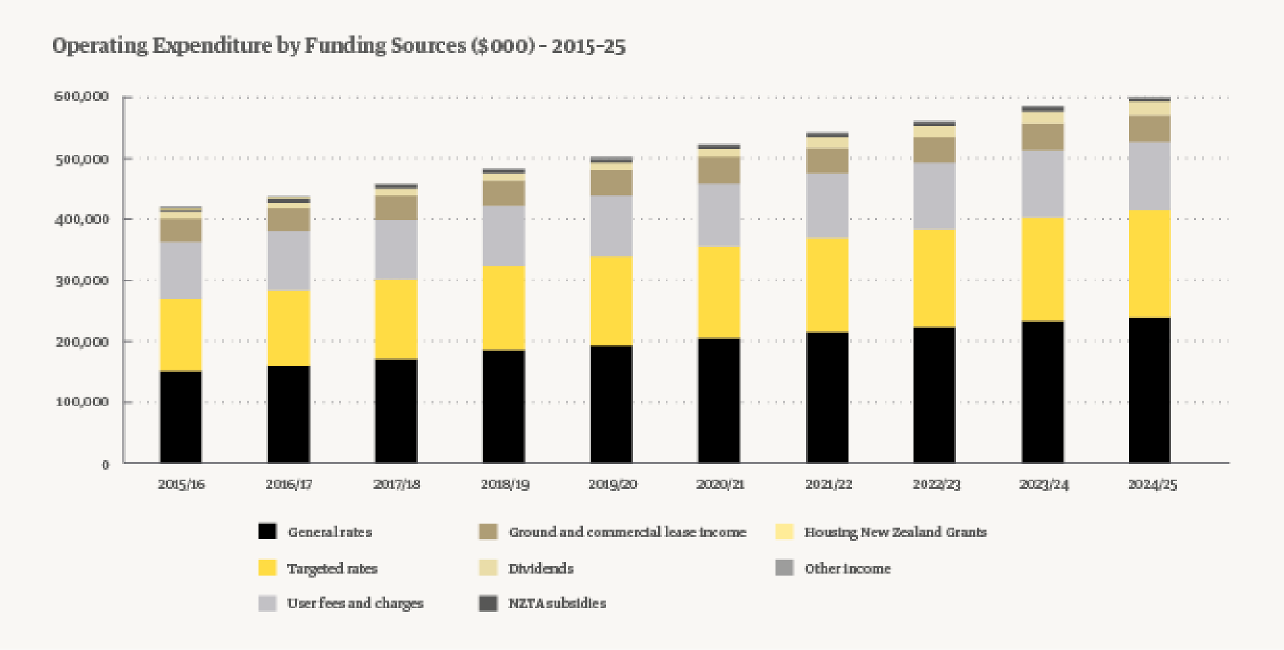
Our approach keeps borrowing levels well within the 175% debt-to-income limit set out in our Financial Strategy. Borrowing is forecast to increase from $416 million (around 100% of income) in 2015/16 to $807 million (around 135% of income) in 2024/25.



OPERATING EXPENDITURE

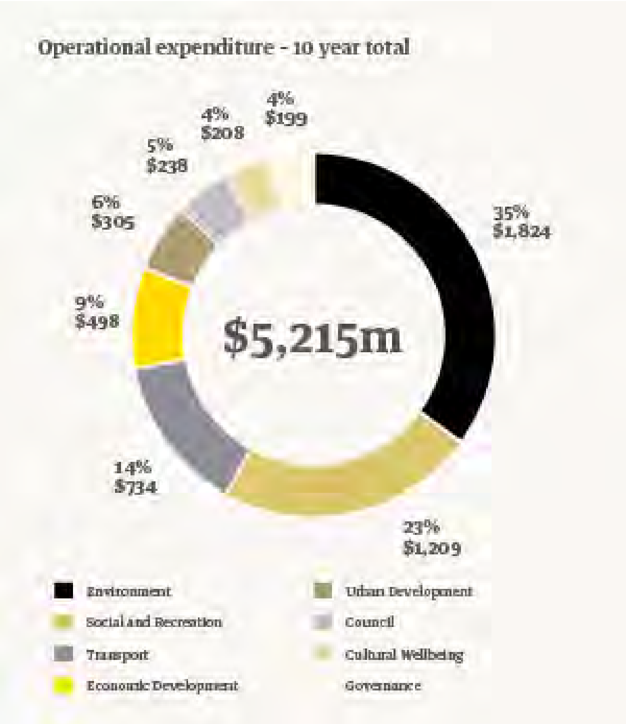
Where the money comes from

In addition to rates the Council plans to receive revenue from a number of other funding sources. The proposed funding sources for our operating expenditure are summarised in the graph below.



Where the money gets spent

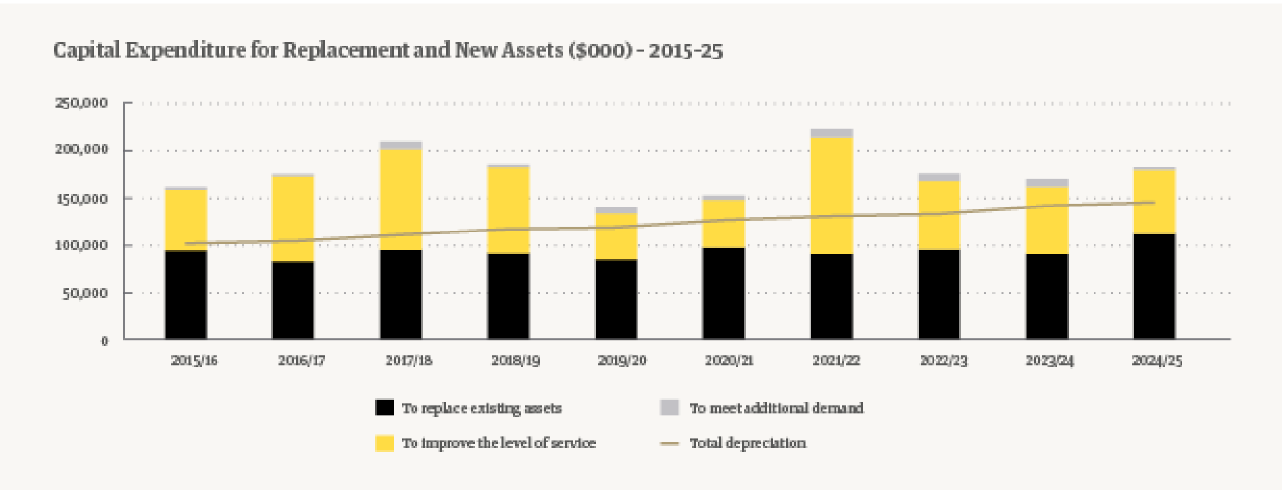
In total we plan to spend $5.2 billion of operational expenditure over the next 10 years. This is spread across a range of activities with the major spending areas being the environment, social and recreation, and transport. The biggest increase is in the economic development area.



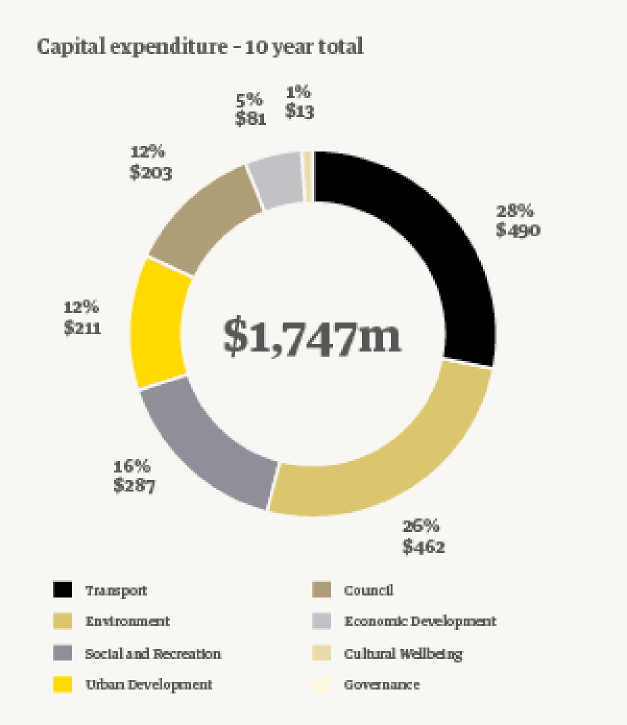
CAPITAL EXPENDITURE

How we plan to spend capital expenditure

The graph below illustrates the make-up of the $1.7 billion of proposed capital expenditure investment over the next 10 years.

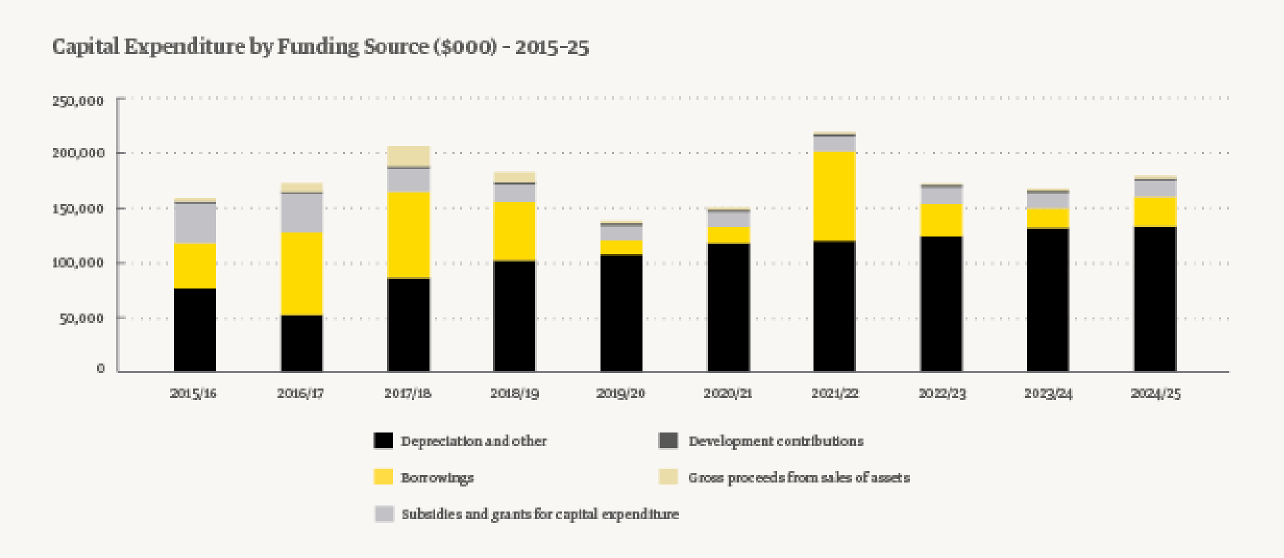


Even with the ‘invest to grow’ focus, over half of the proposed $1.7 billion of capital expenditure will be invested on business-as-usual services in the Environment (which includes water, wastewater and stormwater) and Transport areas. This reflects the focus that the Council will continue to have on maintaining the quality and resilience of infrastructure.



Where the capital funding comes from

Capital expenditure will be funded through a variety of funding sources. The funding to renew assets will come from rates funded depreciation. The balance is sourced from borrowings, external grants, development contributions and asset sale proceeds.



OUR ASSETS

We're managing our assets in a smarter way

We own $6.5 billion of assets. These include streets, pipes, libraries, swimming pools, retaining walls, signs, crematoria and much more. Our Infrastructure Strategy sets out how we intend to manage these over the next 30 years. The key aspects of this are:

- Overall, maintain assets in line with the current service offering
- Continue to improve the information about our assets to guide future investment decisions
- Make full use of an assets' life and make use of technology to improve the performance of assets
- Make use of the capacity in our existing facilities and assets before investing in new ones
- Focus investments into areas of growth (our programme includes urban regeneration, bus priority and cycling investment, amongst others).

How we look after our assets

Our Infrastructure Strategy indicates that we will need to spend about $1 billion renewing the city's network and social infrastructure over the next 10 years. We have made provision for this within our Financial Strategy and Long-term Plan.

Our Financial Strategy provides capacity for the Council to invest some $720 million to upgrade assets and fund new assets. In addition to our 'invest to grow' initiatives major areas of planned investment include:

Social housing	$111 million
Water reservoirs	$46 million
Cycleways	$58 million
Stormwater upgrades	$25 million
Johnsonville library	$17 million
Water network upgrades	$13 million
Walkways	$8 million

We also plan to continue our investment in making our infrastructure and public assets more resilient to earthquake risk and climate change. Investment to achieve that includes:

Road corridor walls	$23 million
Tunnel and bridge improvements	$10 million
Road safety projects	$11 million
Strengthening Town Hall	$57 million
Strengthening Civic Campus	$16 million
Stormwater and sewer hydraulic modelling	$9 million