

# Draft 10-Year Plan Budget 2015-25

Supplementary Paper (to be read in conjunction with the 9 December 2014 extraordinary meeting agenda)

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<b>Report Author</b>	Chief Financial Officer, Paul Conder
<b>Report Authoriser</b>	Chief Executive, Richard Briggs
<b>Assessment of Significance</b>	The recommendations included in this report are considered significant when assessed against Council's Significance and Engagement Policy

## 1. Executive Summary

- 1.1. This report responds to the following council resolution made at the 10-Year Plan budget meeting held on 9 and 10 December 2014:

*"Staff are to review the draft budget and consider opportunities to rework the budget and report back to Council on 3 February 2015."*

- 1.2. This supplementary paper is presented in four parts:

a) An update on the December Draft Budget (Section 4)

b) Two Options for Council to consider to respond to the Council resolution made in December (Section 5):

- Option 1: Achieve the Current (2012-22 ) Financial Strategy target
- Option 2: Achieve a \$440m "debt cap" over all 10 years

c) Summary of the unfunded proposals from the December Agenda with staff recommendations and the budget adjustments required if the proposals are adopted by Council. Some of these recommendations differ from those made in the December reports (Section 6).

d) Other matters for Council information (Section 7)

- 1.3. Management recommend that Council adopt the updated December Draft Budget.

- 1.4. Council resolutions about the Financial Strategy for the 2015 – 2015 10-Year Plan, and therefore which budget option Council is accepting, are required at this meeting to enable staff time to prepare draft financial accounts for discussion at the 10-Year Plan Council meeting on 25 February and for Audit New Zealand to complete the auditwork.

- 1.5. The Chief Executive will present further information at the 25 February meeting relating to corporate services efficiencies impacting on the operating budget and a proposal for funding the River Plan.

## 2. Background

2.1 Council considered the Draft Budget at meetings held on 9 and 10 December 2014. Following discussions relating to the debt to revenue ratio, the following resolution was passed and the meeting adjourned:

*“Staff are to review the draft budget and consider opportunities to rework the budget and report back to Council on 3 February 2015.”*

2.2 As part of the usual practice, staff have continued to review and update the December Draft Budget, based on the latest available information including:

- Reviewed the capital programme while maintaining the integrity of the underlying and independently validated Asset Management Plans
- Depreciation expense being completely reviewed and recalculated (the outcome has been validated by a Deloitte's staff member seconded to Council)
- Reviewed and increased development contributions revenue
- Overall review of the operational budget (and reconciling key figures for ease of understanding of changes)

2.3 Staff will continue to update the draft budget up until the final budget is approved.

2.4 Staff have met with the Chair and Deputy Chair of the Finance Committee twice to update them, answer questions and to discuss and seek their feedback on the updated December Draft Budget and the two alternate budget options presented in this report.

2.5 The Draft Budget and the two alternate budget options maintain the 3.8% rate increase and balance the books by 2016 and deliver accounting surplus in all years. In the Draft Budget and both alternate budget options, the debt remains below \$440m for the next three years. In the Draft Budget, the 200% debt to revenue ratio is achieved from 2021.

2.6 Please note that the targeted rate for recycling bins has not been included in any of the budgets because the Council meeting was adjourned mid way and there was no final Draft Budget position available to staff.

2.7 The updated December Draft Budget and the two alternate budget options do not include any of the unfunded proposals from the December Council meeting agenda.

2.8 The Council is required to confirm a Draft 2015-25 Financial Strategy at the next budget meeting on 25 February and this strategy is audited by Audit New Zealand. The current financial strategy, with recommended changes for the updated Draft Budget which is recommended by management is set out below.

	Current (2012-22) Financial Strategy	Draft (2015-25) Financial Strategy
<b>Rates Limits</b>	Rates increases to existing ratepayers will not exceed 3.8%” Rates will not exceed <b>1.5%</b> of the City’s rateable <b>land</b> value	Rates increases to existing ratepayers will not exceed 3.8%” Rates will not exceed <b>0.627%</b> of the City’s rateable <b>capital</b> value
<b>Debt Management Limit</b>	The debt to revenue ratio will be reduced to under 200% by <b>2019</b> and thereafter will remain below 200%	The debt to revenue ratio will be reduced to under 200% by <b>2021</b> and thereafter will remain below 200%
<b>Living within our means goal</b>	Balance the books surplus by <b>2017</b>	Balance the books surplus by <b>2016</b>

2.9 For ease of understanding we have continued to present the same lead metrics and financial graphs that Council review regularly and are familiar with, noting that some of these measures are not formally part of the Financial Strategy.

### 3. Recommendations

1. That Council approve the Draft 2015-25 10 Year Plan Budget.
2. That the draft 2015-25 10-Year Plan budget is prepared based on a continuation of Council's Financial Strategy as contained in the 2012-22 10 Year Plan, except for a variation in relation to the debt to revenue ratio timing.
3. That Council approve a rates increase of 3.8% for existing ratepayers for each year of the 10-Year Plan.
4. That the 2015-25 Financial Strategy limits are updated to:
  - "Rates increases to existing ratepayers will not exceed 3.8%".
  - "Rates will not exceed 0.627% of the City's rateable capital value".
  - "The debt to revenue ratio will be reduced to under 200% by 2021 and thereafter will remain below 200%".

## 4. December Draft Budget Update

4.1 Following the December Council meeting, Management have continued to review and update the Draft Budget presented in December as part of the usual budget process as more updated information becomes available. Set out below are changes made as part of that process with accompanying explanations. No major changes have been made to the proposed capital programme as presented on 9 December and the changes set out in Table 1 below have improved the performance against the financial strategy since the December meeting.

**Table 1: Reconciliation of the Balancing the Books measure** (note favourable movements have no brackets and unfavourable movements have brackets.)

\$000	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Balancing the Books Surplus/(Deficit) at 9/12/2014	(3,266)	2,062	326	4,483	5,010	8,704	10,075	13,769	17,115	21,109	25,247
Changes:											
Increase DC Revenue	-	929	256	157	-	-	-	-	-	-	-
Capital Subsidies & Contributions	-	860	1,397	1,503	3,019	2,974	4,652	2,682	1,642	699	988
Remove duplicate revenue	-	(426)	(426)	(426)	(426)	(426)	(426)	(426)	(426)	(426)	(426)
Rates on Boundary Change	-	(525)	(525)	(525)	(525)	-	-	-	-	-	-
Depreciation Adjust (non Cash/debt)	-	(4,527)	(3,101)	(2,135)	(1,917)	(1,823)	(1,291)	(1,042)	(1,373)	(1,105)	(2,105)
Wheelie Bins timing	-	-	2,800	(2,800)	-	-	-	-	-	-	-
Staff costs adjustment	-	1,097	800	820	841	864	888	915	943	974	1,007
Insurance	-	150	153	157	161	166	170	175	181	187	193
Legal & Consultancy	-	150	50	52	54	55	57	58	60	62	64
Fuel costs	-	50	51	52	54	55	57	58	60	62	64
Doubtful Debts	-	50	-	-	-	-	-	-	-	-	-
Other adjustments	-	155	501	481	700	899	1,264	1,409	1,640	1,942	2,271
<b>Revised Balancing the Books Surplus / (Deficit) at 3/2/2015</b>	<b>(3,266)</b>	<b>25</b>	<b>2,283</b>	<b>1,820</b>	<b>6,970</b>	<b>11,467</b>	<b>15,446</b>	<b>17,599</b>	<b>19,843</b>	<b>23,505</b>	<b>27,304</b>

### 4.2 Development Contribution (DC) Revenue

4.2.1 The development contributions (DC) revenue assumption has been reviewed taking into account information up to the end of December. The review recalculated DC revenue based on the latest information, such as current payment patterns, the number of DCs still to be paid and when those assessments would expire and new assessments likely to be paid in the next 18 months.

### 4.3 Capital Subsidies

4.3.1 The expected level of capital subsidies was completely reviewed based on the proposed capital programme, calculations of projects that would attract subsidies and the latest rates advised from those agencies that provide subsidies.

### 4.4 Targeted Rate for Recycling Wheelie Bins

4.4.1 In December, Council passed a resolution to have a targeted rate for Recycling Wheelie Bins. The additional revenue from the targeted rate has not yet been included in the revised Draft Budget because the Council meeting was adjourned mid-way. Council will need to consider whether to retain or rescind this resolution.

## **4.5 Other revenue changes**

- 4.5.1 Revenue associated with a waste minimisation subsidy had been included twice (once within the activity budget and once centrally).
- 4.5.2 A contracted annual payment to Waikato District Council for the boundary change at Ruakura and Te Rapa is now included in the Draft Budget.

## **4.6 Depreciation**

- 4.6.1 The Depreciation calculation has been recalculated for accuracy starting with the latest version of the Asset Management Plans (“AMPS”), ensuring all information is carried through into the asset register and forward projected based on this updated information. To ensure accuracy and peer review of this calculation, a staff member seconded from Deloitte ran a parallel process to calculate the depreciation, test the assumptions and document a procedure for future 10 Year Plan & Annual Plan processes. Both the internal calculation and the parallel calculation arrived at the same outcome and the increased depreciation has now been included in the updated budget.

## **4.7 Wheelie Bins**

- 4.7.1 The wheelie bins purchased in late 2016/17 would go into service early in 2017/18, when the new rubbish contract commenced, therefore the timing of the expense has been amended.

## **4.8 Staff Costs adjustment**

- 4.8.1 Council is budgeting for a 1% average pay movement for 2015/16. This reflects current economic indicators and falls between the current inflation indicators of Consumer Price Index (CPI) and the Local Government Cost Index (LGCI).
- 4.8.2 An adjustment to reflect this remuneration assumption and the flow on consequences including amendments to training & ACC budgets and a number of other adjustments affecting individual departments are included in the updated Draft Budget.

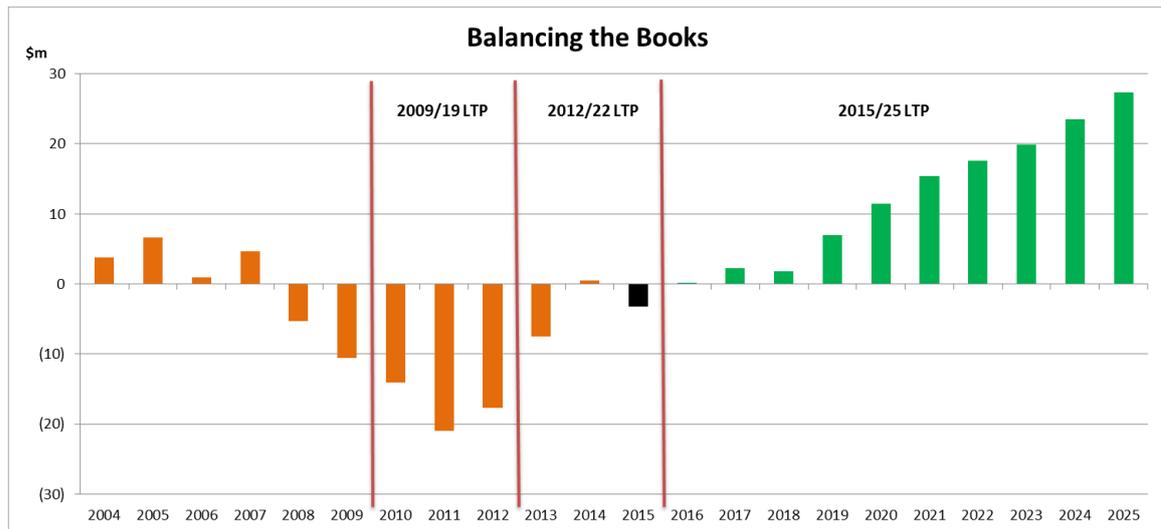
## **4.9 Other changes**

- 4.9.1 There were a number of other minor changes that had no significant impact.
- 4.9.2 The interest cost was amended by the net impact of the revenue and cost changes and is the major component of this line.

## 4.10 Draft Budget against Financial Indicators

4.11 Council will maintain both Balancing the Books and accounting surpluses in all years of the 10 Year plan. The Draft Budget result is a small “Balancing the Books” surplus of \$25,000 for 2015/16 and increasing thereafter.

**Figure 1: Balancing the Books surpluses achieved from 2016**



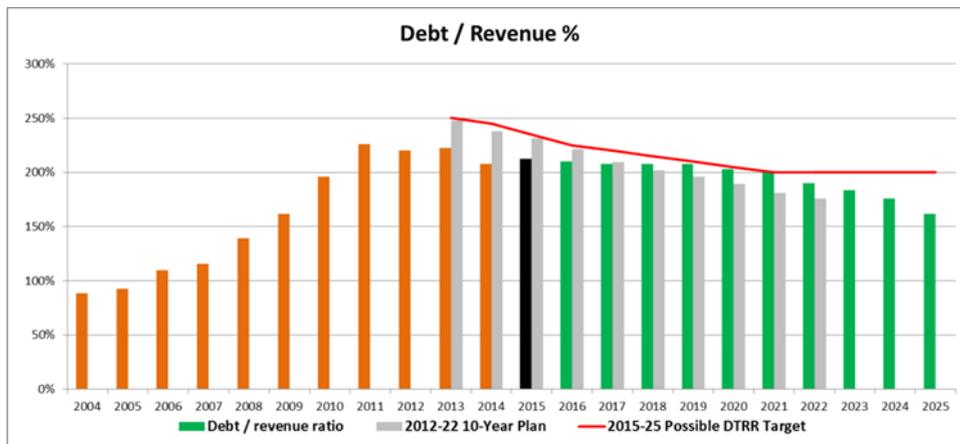
4.12 In the Draft Budget, the debt to revenue ratio exceeds the current (2012-22) Financial Strategy target for only three years, and not four as originally presented at the December meeting, with a peak of \$16.55m in 2018/19. Management have reached this position after challenging all aspects of the budget, balancing the timing to reach the 200% debt to revenue ratio against the risk of not meeting increased demands of the capital and maintenance programmes evidenced by comprehensive Asset Management Plans. Table 2 below provides a comparison between the current 2012 – 22 10-Year Plan debt to revenue ratios and the Draft Budget ratios.

**Table 2: Total Overall Net Debt levels compared with Debt to Revenue ratio**

\$000		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Proposed</b>	<b>Total Overall Debt (\$)</b>	399,479	407,027	418,137	435,720	449,554	457,305	467,997	463,113	466,487	466,571	447,711
	Proposed Debt to Revenue Ratio (%)	213%	210%	207%	208%	208%	203%	200%	190%	183%	176%	162%
<b>Current Target (\$)</b>	<b>2012-22</b>	<b>441,220</b>	<b>435,564</b>	<b>433,467</b>	<b>430,118</b>	<b>433,000</b>	<b>450,504</b>	<b>468,378</b>	<b>488,112</b>	<b>508,957</b>	<b>529,997</b>	<b>553,639</b>
	Current Financial Strategy Target	235%	225%	215%	205%	200%	200%	200%	200%	200%	200%	200%
<b>Variance fav./ (unfav.)</b>	<b>-</b>	<b>42,220</b>	<b>28,537</b>	<b>15,329</b>	<b>(5,602)</b>	<b>(16,554)</b>	<b>(6,801)</b>	<b>381</b>	<b>24,999</b>	<b>42,470</b>	<b>63,425</b>	<b>105,928</b>

4.13 The Draft Budget total overall debt level remains below \$440m for the next three years, a total of six years since the introduction of the current (2012-22) financial strategy.

**Figure 2: Total overall debt compared with proposed 2015-25 Financial Strategy target**



4.14 If the Draft Budget is approved, it is recommended that the 2015-25 Financial Strategy would be changed to read :

*“The debt to revenue ratio will be reduced to under 200% by 2021 and thereafter will remain below 200%”.*

4.15 The effect of this change in terms of debt to revenue ratio targets, is set out below

**Table 3: The 2015-25 Financial Strategy target would become:**

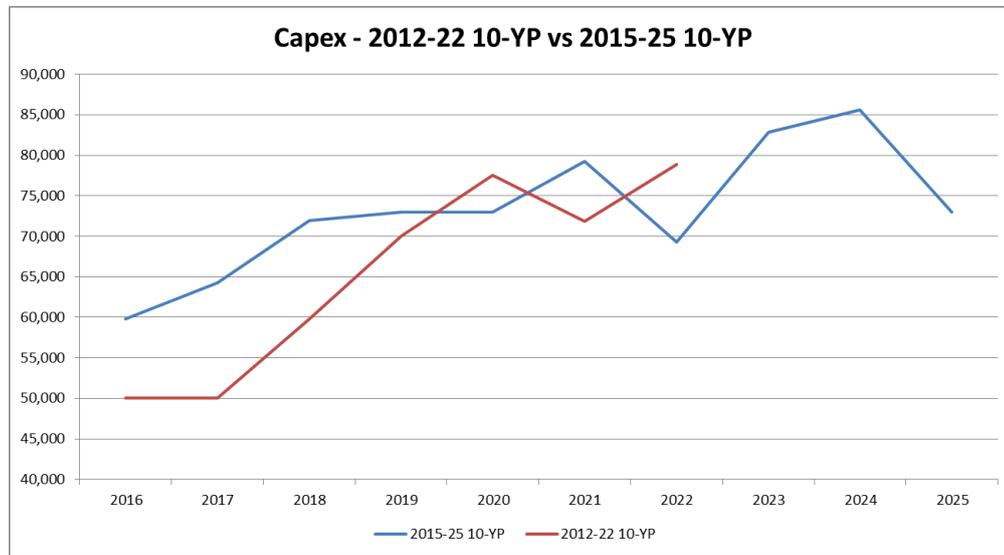
\$000		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
2015-25 Financial Strategy Target	DTRR	235%	225%	220%	215%	210%	205%	200%	200%	200%	200%	200%

4.16 Staff have obtained advice from the Council’s independent Treasury advisor and he supports this approach (refer paragraph 7.2).

4.17 Please note that unfunded proposals contained in the 9 December Agenda are not included in the draft budget and are to be decided at this meeting. The effect of inclusion of any of the unfunded proposals is set out in Section 6 of this report.

4.18 For information, Figure 3 below shows the December capital programme comparison between the Draft Budget recommended by Management and the current 10 year plan

**Figure 3: Comparison of the 2015-25 Capital Programme with the 2012-22 Capital Programme – demonstrating the higher and earlier investment required**



4.19 Management recommend the Draft Budget (with the updates identified in paragraph 4.1) be accepted because it:

- It is based on comprehensive Asset Management Plans with levels of service set by Councillors
- Represents a balance of risk between affordability and the need to maintain assets and invest in growth
- Addresses the capital programme renewals & replacements deferred three years ago in the 2012-22 10 Year Plan. Management do not recommend further deferral
- Accommodates the changed capital expenditure profile, particularly for core network infrastructure (watersupply, wastewater, stormwater & transport) which is larger and earlier than in previous 10 year plans (as outlined in Figure 3)
- Remains prudent with the key principles of the Financial Strategy including rates certainty, balancing the books
- Meets the challenge of moving to a 200% debt to revenue ratio and sustainably remaining there while addressing the capital programme demands by balancing the timing of this
- Includes additional efficiency gains to meet the impact of inflation and other operational budget changes (reduced revenue from sales of assets and additional maintenance budget requirements).
- Is realistically achievable

## 5. Alternative Budget Options

5.1 Management were requested to rework the Draft Budget to maintain the same debt to revenue ratio in the current 10 year plan. There was also some discussion about maintaining the \$440m “debt cap” for the duration of this new 10 year plan.

5.2 Two options are presented for Council to consider:

- a) Achieve the Current (2012-22) Financial Strategy target
- b) Achieve a \$440m “debt cap” over all 10 years

5.3 To achieve these options the Council could increase revenue (through increasing rates), reduce expenditure (capital and operating), sell assets. The budget options have been prepared on the basis of keeping to a rates increase of 3.8% each year and achieving the balanced budget in 2016 and in all years subsequent. Proceeds from the sale of assets are not included until they are realised because of the risk associated with potential sales. This effectively leaves the option of reducing debt through reduced capital and operating expenditure. Reducing operating expenditure on its own will not achieve the outcomes sought in these two options.

5.4 The Chief Executive will present further information at the 25 February meeting in relation to the corporate services efficiencies impacting on the operating budget.

5.5 A review of all proposed operating budgets and capital programmes was carried out to identify candidate items that Council could consider removing or deferring to manage debt levels. The candidate items were then ranked in order for removal from the budget to reflect the level of discretion, risk and impact.

5.6 Management do not recommend either option 1 or 2 due to the increased risks noted in paragraph 5.11, the essential nature of the candidate items and their priority within the Draft Budget and/or the Asset Management Plans.

### 5.7 Option 1: Achieve the Current (2012-22 ) Financial Strategy target

5.7.1 This option is to meet the current 10 year plan’s Financial Strategy Debt to Revenue ratio target limit which reads:

*“The Debt to Revenue ratio will be reduced to under 200% by 2019 and thereafter will remain below 200%”*

5.7.2 This option would require Council to reduce \$5.6m from the Draft Budget before 2018 and a further \$10.95m before 2019. This can be achieved by deferring ten candidate items, many until at least 2022. Under this option most candidate items are delayed and reinstated in later years of the plan. Final timing would be subject to Annual Plan and subsequent 10 Year Plan reviews.

### 5.8 Option 2: Achieve a \$440m “Debt Cap” Over All 10 Years

5.8.1 Council has on occasions translated the Debt to Revenue target to a concept of a single dollar amount, the \$440m “debt cap”. This was never formally adopted by Council and is not a limit in the current (2012-22) Financial Strategy. If this option was adopted the 2015-25 Financial Strategy debt limit would need to change and would then read:

*“The total overall debt of Council will be no higher than \$440m”.*

5.8.2 This effectively creates a reducing Debt to Revenue Ratio that would drop to 160% of revenue by 2025, constraining Council’s ability to meet renewals and growth investment in later periods of the

plan. This would represent 2/3rds of the current LGFA 250% debt covenant limit, considered reasonable by the sector.

- 5.8.3 This option requires Council to more severely change the Draft Budget by removing or deferring eighteen candidate items of capital and operating expenditure. Under this option most candidate items become unfunded in the 10 Year Plan and would need to be addressed in the 30 Year Infrastructure Plan or reconsidered at a later 10 Year Plan or Annual Plan process. Council would not be able to consider funding any of the unfunded proposals included in the December Agenda.

## 5.9 The options are summarised below:

**Table 4: Summary of Candidate Items and their status relating to Options 1 & 2**

Item	Brief description of Candidate Items	Draft Budget (all these candidate items are included in the recommended draft budget)	Opt 1 Achieve Current (2012-22) Financial Strategy target	Opt 2 \$440m "Debt Cap" met
1	Community Assistance Funding		Partially unfunded for 5 years \$290k p.a.	Partially unfunded for 5 years \$290k p.a.
2	Wheelie bins		deferred from 2018 to 2020	deferred from 2018 to 2020
3	IT Mobile Applications and eServices		Delayed up to 4 years	Unfunded \$3m
4	Aquatic – Pool Divider replacement			Unfunded \$250k
5	Property renewals delayed or reduced		Delayed up to 4 years	Delayed & \$420k Unfunded
6	Catering Equipment renewals Stage 1,2 & 3		Delayed one year	Delayed one year
7	Turf renewal Waikato Stadium			Delayed 2 Years
8	Seddon Park Light Tower Shrouds			
9	Waikato Stadium Stage 1 & 2 Seat Replacement			
10	Waterworld ceiling tiles			Delayed 2 years
11	Lift renewal Garden Place Car Park delayed 6 years		Delayed 5 years	Unfunded \$200k
12	Traffic Signal Camera Option		Delayed 4 years	Unfunded \$100k
13	Cross city connector funding			Unfunded \$2.4m
14	Public Toilets programme			Mix delay & unfunded \$250k
15	Playgrounds programme			Mix delay & unfunded \$1.26m
16	Other H3 operating and capital adjustments		Various deferrals up to 5 years (2021)	Various deferrals & unfunded \$1.47m
17	Wastewater Treatment Plant		Delayed up to 5 years (2021)	Delayed up to 5 years (2021)
18	5% Reduction in 3 Waters renewal programme 2016-2019 (Yr 1-4)			
19	Rotokauri Industrial Growth Programme		Delayed by 4 years (2020)	Delayed up to 6 years (2022)
20	Peacockes Stage 2 Growth Programme			Delayed up to 7 years (2023)
21	Rototuna Infrastructure Growth Programme			Mix delayed up to 10 years & unfunded \$760k
22	Peacockes Stage 1 Growth Programme			
23	Resolution Drive Growth Programme			
24	Water Treatment Plant			
25	Integrated Transport Initiatives			
26	5% Reduction in 3 Waters renewal programme 2020-2025 (yr 5-10)			
	Reinstate CapEx that is deleted		From 2021	From 2025

- 5.10 Full details on the candidate items are set out the attachment which includes more information and the consequences, risks & outcomes arising.
- 5.11 While Management have identified these candidate items, Councillors need to be aware of the following overall risks if any of these items are deferred or removed:
- Not maintaining Council's assets to previously agreed standards that are contained in the Asset Management Plans. This would increase the gap between the Asset Management Plan required level of investment and the level being included in the 10 Year Plan
  - Increasing the risk of failure and unavailability of the asset
  - Creating a bow wave of capital expenditure in later years or in the 30 year Infrastructure Plan if items continue to be deferred to later years; it eventually catches up
  - Delaying essential infrastructure needed for meeting growth that is real and occurring
  - An audit opinion highlighting that Council have not appropriately considered the risk balance of not delivering the level of investment indicated by the Asset Management Plan against self imposed limitations on debt levels and /or rates. Effectively Council would be knowingly deferring items with an increased risk of failure
  - Removal of growth projects would reduce the collection of development contributions toward the cost of necessary growth core network infrastructure
  - Creating housing affordability issues because the city is not investing in infrastructure that meets demand for housing
  - Increasing risk and cost of unplanned maintenance managed in an ad hoc manner
  - Creating inefficiencies in the capital programme because delay often adds costs to maintaining an asset and the Council misses out on doing a capital project at the optimum time. For example it's cheaper and less complex to put a pipe in when a road is being constructed
  - Impact on existing contractual commitments or procurement timing
  - Potential breach of legislation or consents
  - Reputational risk
- 5.12 The capital programmes included in the Draft Budget have been based on comprehensive Asset Management Plans prepared for various activities. These capital expenditure programmes have already been pared back in the past 6 months (i.e. timing deferred, budgeted costs reduced and some items treated as unfunded) to reflect affordability with a gap between the total AMPS and the Draft Budget being reflected in unfunded proposals.

## 6. Unfunded Proposals

- 6.1 A prioritised list of unfunded proposals for Council to consider is shown in the table 5. These proposals are included in the Agenda for 9 December from page 172.
- 6.2 Higher priority has been given to unfunded proposals that have one or more of the following factors:
- project is required to ensure long-term asset integrity (focus on existing assets)
  - project relates to core network infrastructure
  - project generates additional growth yield
  - project facilitates favourable external funding or partnership to deliver key outcome
  - project is required for compliance with a standard, consent or legal / contractual commitment
  - project is consistent with council policy and /or required for implementation of a strategic plan.
  - project is likely to provide expenditure savings or increase revenue
- 6.3 The type column identifies if the proposal is predominately capital (“C”), which impacts debt , or operating expenditure (“O”) which impacts both debt and the Balancing the Books measure.
- 6.4 The table considers the implications of each unfunded proposal, in isolation from any other unfunded proposals, on the Draft Budget and each of the options already presented above. Combining proposals may require more candidate items from the list in paragraph 5.8 (table 4) to be deferred or designated unfunded. Each new unfunded proposal that is added cuts more severely into already funded proposals.
- 6.5 The unfunded reports in the December agenda include three other recommendations that are not included in Table 5. These relate to Aquatic Facilities proposal (Municipal Pool and Rototuna Pool) and the Indoor Recreation Centre proposal (feasibility study). These will be considered as part of these items.

Table 5: Unfunded Proposals

Unfunded Proposal (Ranked in order of priority)	Proposal in December budget pack	Options / comments	Further reductions required to meet:			CapEx/Opex
			Draft Budget	Opt 1 2012 DTRR target of 200% by 2019	Opt 2 \$440m "Debt Cap" met	
1 <b>Founders Theatre upgrade Recommendation</b> <ul style="list-style-type: none"> <li>A capital amount of \$100,000 is allowed for the preparation of a Founders Theatre Upgrade Business Case in 2016 to explore all options in detail and identify the best outcome.</li> <li>The estimated upgrade cost of \$13.8m is included in 2022.</li> <li>Council reconsider this item at next Annual Plan review based on Business Case report.</li> </ul>	<ul style="list-style-type: none"> <li>Page 177 of December Budget Pack</li> <li>\$13.8m in 2016-18 and on going operating costs</li> <li>Ideal timing is years 1-3</li> <li>Addresses level of service and risk issues</li> </ul>	<ul style="list-style-type: none"> <li>Priority because it looks after an existing asset</li> <li>There remains uncertainty in relation to costs, timing, optimal solution &amp; benefits that can only be answered by a robust business case</li> <li>Option to defer with increasing risk to start 2022 (&amp; reconsider timing at each Annual Plan &amp; 10 Year Plan review) &amp; commission a robust Business Case to explore all options in detail</li> </ul>	If business case in 2016 and capital programme of \$13.8m included from 2022 per recommendation <ul style="list-style-type: none"> <li>No change required</li> </ul>	If business case in 2016 and capital programme of \$13.8m included from 2022 per recommendation <ul style="list-style-type: none"> <li>No change required</li> </ul>	If business case in 2016 and capital programme of \$13.8m included from 2022 per recommendation <ul style="list-style-type: none"> <li>Not achievable</li> </ul>	C
2 <b>Indoor Recreation Centre Recommendation</b> <ul style="list-style-type: none"> <li>Indoor Recreation grant of \$4m and on going operating costs of \$120k p.a. be included from 2022</li> </ul>	<ul style="list-style-type: none"> <li>Page 207 of December Budget Pack</li> <li>\$4m in 2018-19 &amp; on going operational costs \$120k p.a.</li> <li>Grant to Ministry of Education in association with Rototuna High School option is a once off opportunity that is lost if not included in 10 year plan.</li> </ul>	<ul style="list-style-type: none"> <li>Could be included from 2022 with a potential 10% additional cost</li> <li>Council would recognise commitment via a Heads of Agreement with Ministry of Education.</li> <li>Could be considered for earlier funding at Annual Plan</li> </ul>	If grant of \$4m and operating costs included from 2022 per recommendation <ul style="list-style-type: none"> <li>No change required</li> </ul>	If grant of \$4m and operating costs included from 2022 per recommendation <ul style="list-style-type: none"> <li>No change required</li> </ul>	If grant of \$4m and operating costs included from 2022 per recommendation removal of <ul style="list-style-type: none"> <li>5% of 3 Waters renewals (yr1-4)</li> <li>Integrated Transport Initiatives</li> </ul>	C
3 <b>Aquatic (enclose the Lido Pool) Recommendation</b> <ul style="list-style-type: none"> <li>Lido Pool programme of \$4.85m be included from 2022</li> </ul>	<ul style="list-style-type: none"> <li>Page 201 of December Budget Pack</li> <li>\$4.85m in 2017 and associated net operating impacts</li> <li>Lido Pool option provides needed capacity at lowest cost</li> <li>Also defers the need for a new complex beyond the 10 Year Plan period</li> </ul>	<ul style="list-style-type: none"> <li>An option exists to include the Lido Pool in 2022</li> </ul>	If Lido Pool \$4.85m included from 2022 per recommendation <ul style="list-style-type: none"> <li>No change required</li> </ul>	If Lido Pool \$4.85m included from 2022 per recommendation <ul style="list-style-type: none"> <li>No change required</li> </ul>	If Lido Pool \$4.85m included from 2022 per recommendation removal of <ul style="list-style-type: none"> <li>5% of 3 Waters renewals (Yr 1-4)</li> <li>Integrated Transport Initiatives</li> </ul>	C
4 <b>Sports Park Development Recommendation</b> <ul style="list-style-type: none"> <li>Rototuna Sports Fields of \$5.1m be developed from 2022 and associated operating costs \$225k p.a.</li> <li>Other sports field developments remain unfunded and are reconsidered at the next 10 Year Plan review.</li> </ul>	<ul style="list-style-type: none"> <li>Page 212 of December Budget Pack</li> <li>Rototuna Sports Park development \$5.1 from 2016-19 and associated operating costs \$225k p.a.</li> <li>Capital \$6.27m &amp; operating \$4m for other sports field developments (irrigation, drainage &amp; turf maintenance) across 2015-25</li> </ul>	<ul style="list-style-type: none"> <li>Suggested timing is 2022 to minimise impact</li> <li>Rototuna Sports fields are a previous commitment</li> </ul>	If Rototuna Sports Fields \$5.1m included from 2022 per recommendation <ul style="list-style-type: none"> <li>No change required</li> </ul>	If Rototuna Sports Fields \$5.1m included from 2022 per recommendation <ul style="list-style-type: none"> <li>No change required</li> </ul>	If Rototuna Sports Fields \$5.1m included from 2022 per recommendation removal of <ul style="list-style-type: none"> <li>5% of 3 Waters renewals (yr 1-10)</li> <li>Integrated Transport Initiatives</li> </ul>	C

			Further reductions required to meet:				
Unfunded Proposal (Ranked in order of priority)	Proposal in December budget pack	Options / comments	Draft Budget	Opt 1 2012 DTRR target of 200% by 2019	Opt 2 \$440m "Debt Cap" met	CapEx/Opex	
5	<b>Smart Parking Technology Recommendation</b> <ul style="list-style-type: none"> <li>Smart parking technology is implemented in the central city in 2016-17 funded from savings within the existing group infrastructure budgets</li> </ul>	<ul style="list-style-type: none"> <li>Page 186 of December Budget Pack</li> <li>Capital required of \$500k in 2016-17 &amp; associated net operating &amp; capital impact</li> </ul>	<ul style="list-style-type: none"> <li>Option for rollout as per proposal by reprioritising within the existing group infrastructure budgets</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>A small proportion of the 3 Waters renewals (yr 1-4)</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>No change required</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>No change required</li> </ul>	C
6	<b>LED street lighting Recommendation</b> <ul style="list-style-type: none"> <li>Include business case funding of \$100k in 2017 funded from existing operating surplus and reconsider capital request at next 10 Year Plan review</li> </ul>	<ul style="list-style-type: none"> <li>Page 195 of December Budget Pack</li> <li>Requested \$100k for a full business case in 2017</li> </ul>	<ul style="list-style-type: none"> <li>It is possible to fund the business case from the 2017 operating surplus.</li> <li>Any subsequent capital expenditure could be considered next Annual Plan or 10 Year Plan review</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>No change required</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>No change required</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>No change required</li> </ul>	O
7	<b>Heritage Fund Recommendation</b> <ul style="list-style-type: none"> <li>Remain unfunded and is reconsidered at the next 10 Year Plan review.</li> </ul>	<ul style="list-style-type: none"> <li>Page 199 of December Budget Pack</li> <li>\$200k per annum for all 10 years (\$2m)</li> </ul>	<ul style="list-style-type: none"> <li>Remains unaffordable in current year but could be reconsidered at next Annual Plan or 10 Year Plan Review</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>Community Assistance Funding reduced</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>Public Toilets removed</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>5% of 3 Waters renewals (Yr1-4) removed</li> </ul>	O
8	<b>Recycling Options (Refuse Transfer upgrade and recycling drop-off centres) Recommendation</b> <ul style="list-style-type: none"> <li>Remain unfunded and is reconsidered at the next 10 Year Plan review.</li> </ul>	<ul style="list-style-type: none"> <li>Page 220 of December Budget Pack</li> <li>\$1.7m from 2018-25 and associated operating impact.</li> </ul>	<ul style="list-style-type: none"> <li>Remains unaffordable against higher priorities in current year but could be reconsidered at next Annual Plan or 10 Year Plan review</li> <li>Potential options to include the Refuse Transfer upgrade as part of the new contract negotiations</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>Community Assistance Funding reduced</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>No change required</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>5% of 3 Waters renewals (Yr1-4) removed</li> </ul>	O
9	<b>Tourism Funding (RTO) Recommendation</b> <ul style="list-style-type: none"> <li>Remain unfunded and is reconsidered at the next 10 Year Plan review.</li> </ul>	<ul style="list-style-type: none"> <li>Page 224 of December Budget Pack</li> <li>\$195k p.a. for 10 years (\$1.95m)</li> </ul>	<ul style="list-style-type: none"> <li>Remains unaffordable against higher priorities in current year but could be reconsidered at next Annual Plan or 10 Year Plan review</li> <li>Sub-regional issue</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>Community Assistance Funding reduced</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>Public Toilets removed</li> </ul>	If per proposal <ul style="list-style-type: none"> <li>5% of 3 Waters renewals (Yr1-4) removed</li> </ul>	O
10	<b>Living Wage Recommendation</b> <ul style="list-style-type: none"> <li>That Council does not adopt the living wage.</li> </ul>	<ul style="list-style-type: none"> <li>Page 172 of December Budget Pack</li> <li>\$5.3m p.a. for 10 years (\$53m)</li> </ul>	<ul style="list-style-type: none"> <li>Remains unaffordable against higher priorities in current year but could be reconsidered at next 10 Year Plan review</li> </ul>	<ul style="list-style-type: none"> <li>This target could not be met</li> </ul>	<ul style="list-style-type: none"> <li>This target could not be met</li> </ul>	This target could not be met	O

## 7. Other Matters of Note

### 7.1 Rating Target

7.1.1 Council's 2012-22 Financial Strategy contained two limits in relation to rates:

- "Rates increases to existing ratepayers will not exceed 3.8%"; and
- "Rates will not exceed 1.5% of the City's rateable land value".

7.1.2 There is no proposed change to these limits, but because Council is moving to a Capital Rating system from 1 July 2015 the 2015-25 Financial Strategy requires a wording change to reflect an equivalent target using a capital value measure.

**Table 6: Rates compared with rateable Land and Capital value**

\$000	Land Value (existing)	Capital Value (Proposed)
Total Rateable value as at 1 July 2014	10,845,594	25,913,716
<b>Target</b>	<b>1.50%</b>	<b>0.627%</b>
Dollar equivalent	162,684	162,479
2015/16 Rates per revised Draft Budget	138,472	138,472
<b>2015/16 measure</b>	<b>1.27%</b>	<b>0.534%</b>

NOTE: Rounding up to 0.63% would add \$572,000 to the existing target.

### Recommendations

That the rating limits in the 2015-25 financial strategy read:

5. "Rates increases to existing ratepayers will not exceed 3.8%"; and
6. "Rates will not exceed 0.627% of the City's rateable capital value".

### 7.2 Independent Treasury Assurance

7.2.1 When preparing the Draft Budget and considering the Debt Limits for the 2015-25 Financial Strategy, written advice was sought from Stuart Henderson (Partner, PWC), Council's independent treasury advisor.

7.2.2 His advice is that the Draft Budget does not endanger Council current AA- credit rating from Fitch. His reasons included:

- Council is in a much better position than historically and debt projections are much lower than previous forecasts (see Figure 5 on page 7 of the 9 December agenda pack)
- Council remains well short of the Local Government Financing Agency covenant limits of:
  - Councils with a credit rating having debt that is less than 250% of revenue
  - Interest cost being less than 20% of total revenue and 25% of rating revenue (peak measures are 10.90% & 16.74% respectively during the 10 Year Plan).

- Council is managing its debt prudently and is not on a downgrade watch list
- It is placed well against other Council's with higher debt levels.

7.2.3 He concludes:

*"The maximum debt and peak lending ratios forecast by HCC in the draft 2015-25 10 year plan, in our opinion, do not present a significant deterioration to HCC's overall AA- credit risk metrics. We very much doubt that Fitch will down grade HCC to A+ based on these metrics."*

7.2.4 And adds:

*"In the event that Fitch does surprise with a down grade to A+, we believe the additional cost to HCC on new debt and refinanced debt to be no greater than 5 basis points (0.05%) per annum as this would be the differential requirement by LGFA. A long term rating of A+ remains a very good credit rating and should not be seen as imprudent and is consistent with other high growth Councils."*

7.2.5 A 0.05% / 5 basis point would add a small increase to interest cost rising from \$4,000 per annum in 2015/16 increasing to a maximum \$250,000 per annum by the time all debt is fully refinanced through debt recycling.

### **7.3 Efficiencies**

7.3.1 Since developing its financial strategy in 2012-22, Council has sought efficiency gains totalling \$23.9m. A total of \$15m of these were sought in the 2012-22 10 Year Plan and the 2015/16 Annual Plan. A further \$8.9m has been sought from the 2015-25 10 year Plan.

7.3.2 This equates to 20% of the estimated \$117m controllable costs at the beginning of 2012, after excluding depreciation, interest and committed long-term contracted services such as waste management contract. This leaves only \$93.84m of current operating costs that are available for seeking further efficiencies.

7.3.3 As a result of the levels of efficiency gains sought in recent years, proposed budgets contain very little resilience, such as the ability to cope with unexpected events. Therefore, Council's risk of not achieving its budget is higher than in prior years.

### **7.4 CEO review of support services**

7.4.1 Work on the Support Services review continues. To date, an estimated \$250,000 of potential savings have been identified for the 2015/16 year rising to \$500,000 for later years. These will be reported in more detail by the Chief Executive at a later meeting. As these potential savings are similar levels to preliminary estimates for implementing early stages of the River Plan, and the work is not yet completed, neither has been included in the Draft Budget at this stage. Adjustments will be recommended at 25 February meeting.

### **7.5 Inflation Assumption**

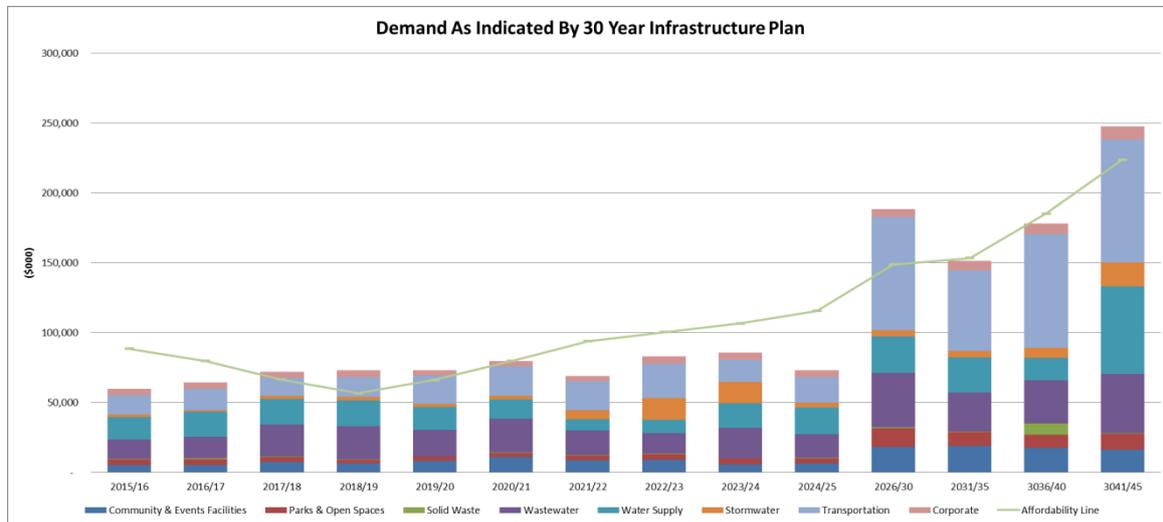
7.5.1 There has been some media speculation, prompted by revised Reserve Bank inflation estimates showing deflation for the last quarter of 2014 and possibly the first quarter of 2015, of the impact on the New Zealand economy. Most commentators agree that the situation in New Zealand is being driven by short-term commodity price falls (oil) and is not similar to deflationary pressures in European and some Asian economies.

7.5.2 As a result short-term deflation expectations have not flowed into any significant change to longer term LGCI or inflation estimates nor significantly reduced expectations of wage movements affecting the later years of the proposed 10 year plan.

7.5.3 As a result no change has been made to the inflation assumption, with Council expecting to absorb the impact of the first year of inflation (including an average 1% wage movement) through additional efficiency gains.

## 7.6 Infrastructure Strategy Impact

**Figure 4: 30yr estimated Capital Programme and Debt to Revenue Ratio affordability line**



7.6.1 A draft 30-Year estimated expenditure profile has been prepared for the Infrastructure Strategy. This will be considered by Council on 25th February.

7.6.2 The estimated expenditure profile has been developed based on:

- 30-Year Asset Management Plans (AMPs), and
- 2015-25 10-Year Plan Draft Budget affordability parameters.

7.6.3 Capital programmes that were unable to fit within these limits were unfunded in the 10 year period of the plan (2015-25) and were rephased into years 11-20 and beyond.

7.6.4 The large increases in estimates for these periods (particularly year 11-15) are due to a number of compounding reasons and assumptions:

- Detailed moderation of the initial AMP estimates to a Financial Strategy has not occurred as for expenditure in years 1-10
- Development of Peacocke growth cell and need for related strategic infrastructure
- Treatment plant upgrades (both water and wastewater)
- Strategic wastewater capacity projects (interceptors and inline storage facilities)
- Parks and reserves development for growth cells not funded in the 10 Year Plan.
- Restarting investment in strategic transport network after lull in 10-year Plan period (e.g. northern river crossing corridor, cross-city connector, Peacockes strategic works)
- Other deferred level of service and growth works from the 10-Year Plan period.

7.6.5 Under these assumptions 'capacity' identified for capital expenditure in years 7-10 may be required in the period beyond the 10-Year Plan for predicted expenditure in the future. Council should ensure that in the 10-Year Plan budget, some debt capacity is retained for future expenditure that has been identified in the 30 Year AMPs and deferred from the draft 10-Year Plan budget.

## 7.7 Rotokauri Stage 1

- 7.7.1 As requested by a Council resolution, staff have considered ways to advance infrastructure options for Rotokauri Stage 1 Residential on a cost neutral basis (taking into account the cost of capital).
- 7.7.2 Staff are working collaboratively with the main developers associated with Rotokauri Stage 1 residential to finalise the Integrated Catchment Management Plan. Through these discussions staff have understood that their primary concern is that Council progresses the far eastern waste water interceptor earlier than has previously been indicated. The draft 10 Year Plan presented to Council in December 2014 included funding for this work to progress commencing 2020/21 (year 6) at a cost of \$7,000,000.
- 7.7.3 It is important to understand that Council will be called upon to fund or contribute funding for other infrastructure including roading, water, other waste water and storm water. It is clear however that the waste water interceptor extension is strategic infrastructure that will have citywide benefits and that it would be unreasonable to ask local developers to fully fund the work and that it may not be economic for these developers to meet the advancement costs to bring it forward in the programme.
- 7.7.4 Staff are working with the developers to agree on how the other infrastructure will be provided to allow early development on the basis that Council would advance the waste water interceptor. It would be proposed that Private Developer Agreements are developed and presented to Council for approval prior to any work starting on the waste water interceptor if Council agrees to advance it.
- 7.7.5 The draft 10-Year Plan presented to Council in December 2014 included a waste water programme titled "Increase capacity of waste water network throughout the City" with a 10 year cost of \$15,265,000. This programme included a \$7,000,000 project to fix some restrictions in the western interceptor in the vicinity of Moreland Avenue in 2016/17 and 2017/18, as well as the \$7,000,000 far western interceptor in 2020/21.
- 7.7.6 Staff have considered the Council request and the relative priority of these two projects to achieve city wide benefits and could swap the timing of the projects. This has the effect of the far western interceptor commencing in 2016/17. As the two projects are of the same value it would meet the requirement of Council to find an option which is cost neutral. Both projects are critical to manage waste water collection city wide and they will also support Rotokauri stage 1 area growth.

### Recommendation

7. That the far western waste water interceptor extension project be programmed to commence in 2016/17 as part of the "increase capacity of wastewater network throughout the city" programme.

## 7.8 What Has Changed Since the 2012-22 10 Year Plan and the Pre-Election Briefing Report?

- 7.8.1 Council are required, under Section 101A and Schedule 10 of the Local Government Act 2002, to review and if necessary amend the financial strategy each 10 Year Plan cycle.
- The Draft Budget proposes a larger and earlier capital and maintenance programme than the 2012-22 10 Year Plan reflecting the following considerations
  - Asset Management Plans have been improved providing much more accurate information and timing for investment, particularly for replacement/renewals & growth is needed to ensure Council meets its obligations. (See Figure 3 above) As a result Council has focused on 3 Waters infrastructure capital & maintenance as a priority in the Draft Budget
  - New Zealand economic outlook has improved since the 2012-22 10 Year Plan was prepared and there is more certainty that New Zealand has moved from the economic downturn
  - Growth has been happening much faster than expected

- New accounting standards applying have changed the definition of capital and operating expenditure and adjustments have been made
- 7.8.2 As required by Section 99A and Schedule of the Local Government Act 2002, the Pre-Election briefing was prepared by staff based on the already existing 2012-22 10 Year Plan. It was not a Council approved document. Nor was it a fundamental update of future projections. It creates no obligation on the previous or existing Council and nor is it confirmation of the direction of Council. Its purpose is to remind the community of the 10 year plan in force at the time and other matters of community interest to enable a basis for discussion and debate ahead of the election.

## ATTACHMENT: CANDIDATES ITEMS FOR DEFERRAL OR REMOVAL FROM THE DRAFT BUDGET

- The list of candidate items includes both operational expenditure and capital programme items.
- All items are considered as high risk and management recommend that all items remain funded in the 2015-25 budget due to their impact on services, renewal or replacement of assets, compliance with contracts & legislation. The list has been ranked by the leadership team in order of priority for consideration by Council.
- Some candidate items may be reinstated under the Draft Budget at a later date. There is less ability to reinstate items under option 1 and no ability to reinstate items under option 2.
- The table shows 10 year budget totals and exclude inflation.
- The Project Types used are Renewal (R); Growth (G); and Level of Service (LOS). The items are also identified as capital expenditure (C) or operational expenditure (O). Capital expenditure impacts mostly on debt while operational expenditure impacts on both the surpluses and debt.

No.	Candidate Project	Description	10 Year Total	Plan Years	Project Type	OpEx / CapEx	Risk & Consequences if project not included in 10 Year Plan	Risk Rating
1	<b>Community Assistance Funding</b>	Community assistance funding are discretionary grants provided to community groups, split between Multi-Year and Single-Year Contestable Grants (including Arts, Environment, Community Services, Community Events).	11,600	2016-25	LOS	O	<p>PARTIAL REMOVAL: Reduce funding by \$290k p.a. (25% reduction of budget) for up to 5 years to \$870k p.a. which still allows for already contracted multi-year grants &amp; continuation of some other funding</p> <ul style="list-style-type: none"> <li>• Council resolved to continue grants after working group review, changes would be inconsistent with previous Council resolution.</li> <li>• Reputational risk for the organisation: <ul style="list-style-type: none"> <li>○ relationship risk with external funding organisations</li> <li>○ financial sustainability of community and arts groups</li> </ul> </li> <li>• Some groups have multiyear grants that are committed.</li> <li>• Potentially undermines HCC's own ability to access external grant funding.</li> </ul>	<b>High</b>
2	<b>Wheelie Bins</b>	Recycling wheelie bins provided to all households from start of new Solid Waste contract, due to commence on 1/7/2017.	2,800	2018	LOS	O	<p>DEFERRAL ONLY: Defers introduction of recycling bins by 2 years</p> <ul style="list-style-type: none"> <li>• Inconsistent with Waste Management Plan.</li> <li>• Risk to external waste minimisation funding paid to HCC &amp; means HCC not meeting legislation requirements.</li> <li>• Deferral will impact on the procurement and start of a new Solid Waste Contract (due 1/7/2017). Timing is to align with these contract negotiations.</li> <li>• Likely increase in cost of Solid Waste contract through landfill changes</li> <li>• Creates additional complexity with contractor needing to implement change mid-contract.</li> <li>• Alternate of a short term extension to existing contract is not cost effective.</li> </ul>	<b>High</b>
3	<b>IT Mobile Applications and eServices</b>	Continuation of two on-going projects currently underway <ol style="list-style-type: none"> <li>1. Mobile Applications - To implement software that facilitates the mobile capture and use of information by staff.</li> <li>2. e-Services – the development of additional online services to enable customers greater access of self service options online. The projects will be dependent on customer and business needs.</li> </ol>	2,969	2016-25	LOS	C	<p>DEFERRAL OR REMOVAL of up to \$3.0m</p> <ul style="list-style-type: none"> <li>• Existing mobile applications and eservices would not be renewed or updated so become obsolete over time</li> <li>• May increase capital cost of future implementation.</li> <li>• Substantial investment has been made to upgrade business applications over the last three years and that will cease.</li> <li>• Planned efficiencies through ability for staff to access and update information in the field will be compromised.</li> <li>• Anticipated efficiencies from online solutions and mobility will not be realised.</li> <li>• Online building consenting and online facility bookings will not be developed. Customers and staff have an increasing expectation to do business with Council both online and with a mobile device. This will negatively impact on Council's ability to deliver on aspects of Council's 'Easy to do business' plan.</li> </ul>	<b>High</b>

No.	Candidate Project	Description	10 Year Total	Plan Years	Project Type	OpEx / CapEx	Risk & Consequences if project not included in 10 Year Plan	Risk Rating
4	<b>Aquatic pool divider replacement</b>	Pool divider (bulkhead) at Waterworld separates lane swimming pool to enable more flexible use. Currently funding of \$250k scheduled for 2021 based on life cycle of asset. Possible to defer by up to five years to 2025.  Part of overall Waterworld capital renewals programme	250	2021	R	C	DEFERRAL OR REMOVAL of up to \$250k <ul style="list-style-type: none"> <li>• Fails to meet timing identified in Asset Management Plan.</li> <li>• Contractual agreement with Swimming NZ around hosting events. Bulkhead is required to deliver on this agreement.</li> <li>• Council would be unable to meet existing demand if bulkhead became unavailable.</li> <li>• Asset could deteriorate faster than expected resulting in increased maintenance cost.</li> <li>• If decommissioned and not replaced, revenue will be lost.</li> <li>• Ad hoc or urgent replacement in the event of failure is likely to cost more than a planned replacement.</li> </ul>	<b>High</b>
5	<b>Targeted Property renewals</b>	Some less critical property renewal items in Municipal Building and Duke Street deferred or unfunded.	420	2018-23	R	C	DEFERRAL OR REMOVAL of up to \$420k <ul style="list-style-type: none"> <li>• Fails to meet timing identified in Asset Management Plan.</li> <li>• Asset could deteriorate faster than expected resulting in increased maintenance cost.</li> <li>• Ad hoc or urgent replacement in the event of failure is likely to cost more than a planned replacement.</li> </ul>	<b>High</b>
6	<b>Catering Equipment renewals (Stages 1, 2 &amp; 3)</b>	The catering equipment at venues assists in driving revenue for H3 and is a contractual requirement. This is not being offered as a saving simply delaying each stage by a year.  Stage 1 \$645k 2017 Stage 2 \$175k 2022 Stage 3 \$496k 2023	1,416	2017, 2022, 2023	R	C	DEFERRAL ONLY <ul style="list-style-type: none"> <li>• Fails to meet timing identified in Asset Management Plan.</li> <li>• We are contractually obliged to provide catering facilities to our contracted caterer. If the catering facilities are not up to standard we will be in breach of our contract &amp; possibly subject to legal proceedings.</li> <li>• If assets are not renewed they will begin to fail and they may need to be replaced on short timeframes at possibly higher cost. Any critical failure will require advanced funding.</li> <li>• Deterioration or failure of asset may result in food safety issues.</li> <li>• Asset could deteriorate faster than expected resulting in increased maintenance cost.</li> <li>• If decommissioned and not replaced, revenue will be lost.</li> <li>• Ad hoc or urgent replacement in the event of failure is likely to cost more than a planned replacement.</li> </ul>	<b>High</b>
7	<b>Waikato Stadium Turf Renewal</b>	The scheduled Waikato Stadium turf renewal could be delayed by up to two years.	1,100	2020	R	C	DEFERRAL ONLY of \$1.1m by 2 years <ul style="list-style-type: none"> <li>• Increased maintenance cost of \$35K per annum. Deferral may result in increased capital cost.</li> <li>• An organic component of the turf deteriorates over time leading to issues with rugby over our requirement to provide international standard facilities. It may also lead to health and safety issues for players.</li> <li>• Incurs continued increased maintenance costs until replacement carried out.</li> <li>• Risk reputation damage to Hamilton as a venue, losing high profile events and revenue.</li> </ul>	<b>High</b>
8	<b>Waikato Stadium Lighting Tower Shrouds renewals</b>	Defer the shroud replacement for Light Towers at Waikato Stadium by 1 year	325	2021	R	C	DEFERRAL ONLY of \$325k by one year <ul style="list-style-type: none"> <li>• Deferral may result in increased capital cost.</li> <li>• Fails to meet timing identified in Asset Management Plan.</li> <li>• Floodlighting is required to host night rugby games. If the lighting levels cannot be maintained to the required standard this will impact upon broadcasters and players.</li> <li>• There is the potential risk of asset failure due to any delay in the replacement of these items.</li> <li>• This would carry contractual and reputational risk.</li> <li>• This is a difficulty and high risk area to maintain &amp; maintenance must be planned well in advance.</li> </ul>	<b>High</b>

No.	Candidate Project	Description	10 Year Total	Plan Years	Project Type	OpEx / CapEx	Risk & Consequences if project not included in 10 Year Plan	Risk Rating
9	<b>Waikato Stadium Stage 1 &amp; 2 Seat Replacements</b>	Replacement of Waikato Stadium seating scheduled over two years Stage 1 \$1.25m 2021 Stage 2 \$1.25m 2023	2,500	2021 & 2023	R	C	DEFERRAL ONLY Delay of up to 2 years. <ul style="list-style-type: none"> <li>Estimated increased maintenance costs of \$26k pa an extra 1-2 years.</li> <li>Not consistent with Asset Management Plan.</li> <li>Will incur increased customer complaints.</li> <li>If the seats are not replaced they may start to break and this could lead to health and safety risks for patrons.</li> <li>Seats will be over 20 years old in 2021 when replacement is due to start.</li> </ul>	<b>High</b>
10	<b>Waterworld Ceiling tiles</b>	Replacement of ceiling tiles at Waterworld.	900	2021	R	C	DEFERRAL ONLY of up to \$900k by 2 years <ul style="list-style-type: none"> <li>May increase overall cost.</li> <li>Fails to meet timing identified in Asset Management Plan</li> <li>Ceiling tiles are loose and some are dropping off occasionally. Currently covered by netting to prevent injury. Has potential to require pool closure if large numbers begin failing creating a risk of overloading safety netting designed to catch falling tiles.</li> <li>Possible impact on pool revenue &amp; cost of replacement if unexpectedly closed for a period to address urgently.</li> </ul>	<b>High</b>
11	<b>Lift Renewal Garden Place Car Park</b>	Renewal funding (\$220k) for car park lifts from 2016 to 2021	220	2016	R	C	DEFERRAL ONLY of \$220k from 2016 to 2021 <ul style="list-style-type: none"> <li>May increase overall cost.</li> <li>Fails to meet timing identified in Asset Management Plan.</li> <li>Non compliance with Building requirements if failure of asset.</li> </ul>	<b>High</b>
12	<b>Traffic Signal Management Improvements- Camera option</b>	Part of capital programme to transfer of traffic signal communication from analogue copper wires to WIMAX network and this project is to take the opportunity to also install intersection camera monitoring	100	2017	LOS	C	DEFERRAL OR REMOVAL of up to \$100K <ul style="list-style-type: none"> <li>Inconsistent with Transport strategy which is based on hierarchy of interventions where optimisation of exiting network is a high priority.</li> <li>Fails to meet timing identified in Asset Management Plans</li> <li>With a transport works programme that is not anticipating any significant transport capacity upgrades, it is important to optimise the use of the existing transport network. The ability to do this will be compromised by not having camera technology.</li> </ul>	<b>High</b>
13	<b>Cross City Connector Improvements</b>	Increase the capacity of the Boundary Road/Heaphy Terrace Intersection and to allow safe pedestrian crossing.	2,433	2020-4	LOS	C	DEFERRAL OR REMOVAL of up to \$2.4m <ul style="list-style-type: none"> <li>Fails to meet timing identified in Asset Management Plan.</li> <li>Increasing congestion and continued community concerns about pedestrian ability to cross the arterial road.</li> </ul>	<b>High</b>
14	<b>Public toilets</b>	Provision of new public toilets across the city for destination playgrounds.	1,250	2016, 2017, 2019, 2023	LOS	C	DEFERRAL OR REMOVAL of up to \$250k <ul style="list-style-type: none"> <li>Fails to meet timing identified in Asset Management Plan and playgrounds strategy.</li> <li>Linked to new destination playgrounds, refer below for risk.</li> <li>Defer public toilet programme in line with deferred playground programme (retain Hamilton Lake toilet in 2016)</li> </ul>	<b>Reassessed as High</b>
15	<b>Playgrounds</b>	Planned approach to the provision of playgrounds (Destination and Neighbourhood) as per Playground Policy.	3,700	2016, 2017, 2018, 2020-25	LOS	C	DEFERRAL OR REMOVAL of up to \$1.3m <ul style="list-style-type: none"> <li>Fails to meet timing identified in Asset Management Plan and playgrounds strategy.</li> <li>Results in one new destination playground instead of three by 2018</li> <li>High community expectations to develop Dominion Park and Hillcrest Park, which will not be met.</li> <li>Hamilton Gardens Playground still to be developed in 2017 as part of Hamilton Gardens development project.</li> </ul>	<b>Reassessed as High</b>

No.	Candidate Project	Description	10 Year Total	Plan Years	Project Type	OpEx / CapEx	Risk & Consequences if project not included in 10 Year Plan	Risk Rating
16	<b>Other operating &amp; capital adjustments within H3</b>	A range of 50+ short-term deferrals - generally for one to three years only affecting the Capital Programme over the 2015-25 periods. Some minor operational expenditure.		2015-25	LOS	C & O	DEFERRAL AND REMOVAL up to \$1.472m <ul style="list-style-type: none"> <li>• Fails to meet timing identified in Asset Management Plans.</li> <li>• May increase overall cost.</li> <li>• Possible impact on venue &amp; stadium revenue &amp; cost of replacement if unexpectedly closed for a period to address urgently.</li> <li>• Would undermine premium status of venues and stadiums, affecting customer experience and likelihood of repeat business.</li> <li>• Risk of adverse publicity as high profile venues.</li> <li>• Eventual catch-up of bow wave of renewals would be required.</li> </ul>	<b>High</b>
17	<b>Waste Water Treatment Plant upgrade</b>	Capital programme to improve the water treatment plant to ensure reliability and risk mitigation, effective operations/processes, monitoring and security.	17,200	2016-2020	LOS	C	DEFERRAL ONLY of up to 1 year (each element moves one year and last element completed 2021) <ul style="list-style-type: none"> <li>• Impacts core wastewater infrastructure and may increase overall cost.</li> <li>• Fails to meet timing identified in Asset Management Plans.</li> <li>• Reduced reliability, resilience and increased operational compliance risk.</li> </ul>	<b>High</b>
18	<b>3 Waters Renewals ( 5% in Years 2015-19)</b>	ALSO SEE ITEM 26 Below (Part of one overall programme)  Reduction of 5% across years 1-4 across all Water, Wastewater and Stormwater anticipating good market prices to deliver the renewal programme.	See 26 below	2015-25	R	C	DEFERRAL OR REMOVAL of up to \$2.2m <ul style="list-style-type: none"> <li>• Reduces ability to complete renewals programme.</li> <li>• Results in a reduced programme that will affect asset integrity, increase likelihood of asset failure and is not in accordance with AMP estimates of timing &amp; cost of renewals.</li> <li>• Reduced reliability, resilience and increased operational compliance risk could result. Costs may increase faster than expected, making savings unachievable.</li> <li>• Assumes some potential to manage costs over the first four years, including contingency, speed of programme and mix of work.</li> <li>• Construction costs may increase faster than expected, making savings unachievable.</li> </ul>	<b>High</b>
19	<b>Rotokauri Industrial</b>	Predominately urban roading upgrades to Tasman Road and Onion Road/Ruffle Road and associated core network infrastructure.	20,303	2015-20	G	C	DEFERRAL ONLY of up to \$3.8m up to 5 Years from 2016-20 to 2021-22 <ul style="list-style-type: none"> <li>• Mostly impacts transportation but some other core network services</li> <li>• May increase overall cost.</li> <li>• Fails to meet timing identified in Asset Management Plans &amp; Hamilton Urban Growth Strategy.</li> <li>• Risk is that roads within the growth Cell will not be urbanised or completed to allow the right traffic to be on the right roads. Unlikely to significantly affect development yield.</li> <li>• Expectations set by District Plan that Zoned Land will have strategic infrastructure put in place by Council. Levels of Service will be compromised if Growth occurs in ad-hoc manner without strategic infrastructure in place.</li> <li>• May endanger development contributions revenue that would otherwise be collected toward the cost of this infrastructure.</li> </ul>	<b>High</b>

No.	Candidate Project	Description	10 Year Total	Plan Years	Project Type	OpEx / CapEx	Risk & Consequences if project not included in 10 Year Plan	Risk Rating
20	<b>Peacocks Stage 2</b>	Roading upgrades and purchase of properties affected by Southern Links designation until at least 2021 and associated core network infrastructure.	9,979		G	C	<p>DEFERRAL of up to \$2.6m for up to 5 Years</p> <ul style="list-style-type: none"> <li>Majority of impact is Transportation May increase overall cost.</li> <li>Fails to meet timing identified in Asset Management Plans &amp; Hamilton Urban Growth Strategy.</li> <li>Council may be obligated to purchase property if requested and would need to fund on an ad hoc basis.</li> <li>Expectations set by District Plan that Zoned Land will have strategic infrastructure put in place by Council.</li> <li>Levels of Service will be compromised if growth occurs in ad-hoc manner without strategic infrastructure in place.</li> <li>Unlikely to affect development yield but may endanger development contribution revenue that would otherwise be collectable against this cost.</li> </ul>	<b>High</b>
21	<b>Rototuna Infrastructure</b>	Extensions of Borman Road West to Kay Road, Borman Road East to new Borman Road, the North City Road full urban upgrade through town centre, upgraded water mains and wastewater capacity.	52,193	2015-20	G	C	<p>DEFERRAL of up to \$13.6m by up to 5 years from 2016-20 to 2021-25 with net POTENTIAL UNFUNDED \$761k at end of 10 years</p> <ul style="list-style-type: none"> <li>Affects Transport, Water Supply, Waste Water</li> <li>Fails to meet timing identified in Asset Management Plans &amp; Hamilton Urban Growth Strategy. Suboptimal outcome for a growth cell nearing completion.</li> <li>May increase overall cost.</li> <li>Risk is that roads within the growth cell will not be urbanised or completed to allow the right traffic to be on the right roads or water and waste water system will be inadequate to meet demand.</li> <li>Expectations set by District Plan that Zoned Land will have strategic infrastructure put in place by Council. Levels of Service will be compromised if Growth occurs in ad-hoc manner without strategic infrastructure in place.</li> <li>May delay development in the area by making unattractive for developers to invest.</li> <li>Unlikely to significantly affect development yield but may endanger development contribution revenue that would otherwise be collectable against this cost.</li> </ul>	<b>High</b>
22	<b>Peacocks Stage 1</b>	Contributions to the Dixon Road/SH 3 intersection upgrade and the east/west arterial (includes some water, waste water and storm water infrastructure).  Roding Stage 1 (\$4.3m) Watermains Stage 1 (\$2.7m) Wastewater Stage 1 (\$1.8m) Stormwater Stage 1 (\$2.5m)	7,054	2015-18	G	C	<p>DEFERRAL ONLY of up to \$3.9m for up to 3 years from 2016-18 to 2019-23</p> <ul style="list-style-type: none"> <li>May increase overall cost.</li> <li>Fails to meet timing identified in Asset Management Plans &amp; Hamilton Urban Growth Strategy.</li> <li>Risk is that Council will not be able to offer timely contributions to strategic infrastructure.</li> <li>Given the more fragmented land ownership this will directly affect residential development yield.</li> <li>Expectations set by District Plan that Zoned Land will have strategic infrastructure put in place by Council.</li> <li>Levels of Service will be compromised if Growth occurs in ad-hoc manner without strategic infrastructure in place.</li> <li>May delay development in the area by making unattractive for developers to invest.</li> <li>Endangers development contribution revenue that would otherwise be collectable against the infrastructure cost.</li> </ul>	<b>High</b>

No.	Candidate Project	Description	10 Year Total	Plan Years	Project Type	OpEx / CapEx	Risk & Consequences if project not included in 10 Year Plan	Risk Rating
23	<b>Resolution Drive Extension</b>	Specific project within Rototuna transport capital programme to allow an extension of Resolution Drive to a new interchange with the Waikato Expressway.			G	C	DEFERRAL ONLY of up to \$4.5m for maximum 2 years from 2019 & 2020 to 2021 & 2022 <ul style="list-style-type: none"> <li>• Delays link to Waikato Expressway and has significant potential increased costs.</li> <li>• Fails to meet timing identified in Asset Management Plans &amp; Hamilton Urban Growth Strategy.</li> <li>• Timing may be too late to work in partnership with NZTA as the Waikato Expressway is constructed and that they do not construct the interchange as part of their project at their cost.</li> <li>• Added risk that HCC would need to fund the construction of the interchange in the future and that NZTA subsidy may not be available to assist with the construction at that time.</li> <li>• In addition to District Plan, expectations also set by Waikato Expressway Network Plan</li> </ul>	<b>High</b>
24	<b>Water Treatment Plant upgrade</b>	Includes works to ensure ongoing compliance with drinking water standards, headworks to support growth in all areas, resilience of water Treatment Plant	26,500	2018	LOS	C	PARTIAL DEFERRAL ONLY of \$2m up to one year from 2018 to 2019 <ul style="list-style-type: none"> <li>• Essential components of water master Plan and AMP would not occur within timeframes as required.</li> <li>• Reduced reliability, resilience and increased operational compliance risk.</li> <li>• Reduces water supply delivery and may increase overall cost.</li> <li>• More complexity in procurement and delivery of the programme</li> </ul>	<b>High</b>
25	<b>Integrated Transport Initiatives</b>	Integrated Transport Initiative fund implements the Hamilton Biking Plan, partners with Regional Council to improve the Public Transport system and addresses community concerns over pedestrian safety.	9,000	2015-25	LOS	C	DEFERRAL OR REMOVAL up to \$2.7m <ul style="list-style-type: none"> <li>• Reduces ability to improve transport network.</li> <li>• Fails to meet timing identified in Asset Management Plans and Access Hamilton strategy which requires a balanced investment across all modes.</li> <li>• Reduced ability to implement the Hamilton Biking Plan, to partner with Regional Council to improve the Public Transport system and reduced ability to address community concerns over pedestrian safety.</li> <li>• Levels of service will deteriorate without ability to make minor improvements particularly for public transport, biking and walking.</li> </ul>	<b>High</b>
26	<b>3 Waters Renewals ( 5% in Years 2020-25)</b>	ALSO SEE ITEM 18 Above (Part of one overall programme)  Reduction of 5% across years 5 to 10 across all Water, Wastewater and Stormwater anticipating good market prices to deliver the renewal programme.	35,977	2015-25	R	C	FURTHER DEFERRAL OR REMOVAL of up to \$4.5m (\$6.7m total) <ul style="list-style-type: none"> <li>• Reduces ability to complete renewals programme on required timeframes.</li> <li>• Strongly not recommended due to uncertainty in cost after first four years.</li> <li>• A reduced programme that will affect asset integrity, increase likelihood of asset failure and is not in accordance with AMP estimates of timing &amp; cost of renewals.</li> <li>• Reduced reliability, resilience and increased operational compliance risk could result.</li> <li>• Construction costs may increase faster than expected, making savings unachievable.</li> </ul>	<b>High</b>