KOMITI ITI MAHERE Ā-NGAHURUTANGA / MAHERE Ā-TAU LONG TERM PLAN/ANNUAL PLAN SUBCOMMITTEE

19 August 2024

Order Paper for the meeting to be held in the
Council Chambers, 2nd Floor, 30 Laings Road, Lower Hutt,
on:

Monday 26 August 2024 commencing at 9:00 am

The meeting will be livestreamed on Council's You Tube page.

Membership

Mayor C Barry (Chair)
Deputy Mayor T Lewis

Cr G Barratt	Cr J Briggs
Cr K Brown	Cr B Dyer
Cr S Edwards	Cr A Mitchell
Cr K Morgan	Cr C Parkin
Cr N Shaw	Cr T Stallinger
Cr G Tupou	

For the dates and times of Council Meetings please visit www.huttcity.govt.nz

Have your say
You can speak under public comment to items on the agenda to the Mayor and Councillors at this meeting. Please let us know by noon the working day before the meeting. You can do this by emailing DemocraticServicesTeam@huttcity.govt.nz or calling the Democratic Services Team on 04 570 6666 | 0800 HUTT CITY

KOMITI ITI MAHERE Ā-NGAHURUTANGA/MAHERE Ā-TAU
LONG TERM PLAN / ANNUAL PLAN SUBCOMMITTEE

Chair:	Mayor Campbell Barry
Deputy Chair:	Deputy Mayor Tui Lewis
Membership:	All Councillors (11)
Quorum:	Half of the membership
Meeting Cycle:	Meets on an eight-weekly basis or as required during the LTP/AP process
Reports to:	Council

PURPOSE:

To carry out all necessary considerations and hearings, precedent to the Council's final adoption of Long Term Plans (LTP) and Annual Plans (AP) which give effect to the strategic direction and outcomes set by the Komiti Ratonga Rangatōpū me te Rautaki | Policy, Finance and Strategy Committee through setting levels of service, funding priorities, the performance framework and budgets.

Determine:

- Development of a framework and timetable for the LTP and AP processes.
- The nature and scope of engagement and public consultation required.
- Statements to the media.
- Such other matters as the subcommittee considers appropriate and which fall within its Terms of Reference.
- Informal engagement with the community, and the hearing of any formal public submissions.
- Consideration of submissions on Hutt City Council's Assessment of Water and Sanitary Services.

Consider and make recommendations to Council:

- Levels of service, funding priorities, performance framework, budgets, rating levels and policies required as part of the LTP or AP, excluding any policies recommended to Council by the Komiti Ratonga Rangatōpū me te Rautaki | Policy, Finance and Strategy Committee.
- Consultation documents.
- Council's proposed and final LTP.
- Council's proposed and final AP.
- Final content and wording, and adoption of the final Hutt City Council Assessment of Water and Sanitary Services.

HUTT CITY COUNCIL

KOMITI ITI MAHERE Ā-NGAHURUTANGA / MAHERE Ā-TAU
LONG TERM PLAN/ANNUAL PLAN SUBCOMMITTEE

Meeting to be held in the Council Chambers, 2nd Floor, 30 Laings Road, Lower Hutt
on
Monday 26 August 2024 commencing at 9:00 am.

ORDER PAPER

PUBLIC BUSINESS

1. OPENING FORMALITIES - KARAKIA TIMATANGA

Whakataka te hau ki te uru Whakataka te hau ki te tonga Kia mākinakina ki uta Kia mātaratara ki tai E hī ake ana te atakura He tio, he huka, he hau hū Tīhei mauri ora.	*Cease the winds from the west* *Cease the winds from the south* *Let the breeze blow over the land* *Let the breeze blow over the ocean* *Let the red-tipped dawn come with a sharpened air.* *A touch of frost, a promise of a glorious day.*

2. APOLOGIES

No apologies have been received.

3. PUBLIC COMMENT

Generally up to 30 minutes is set aside for public comment (three minutes per speaker on items appearing on the agenda). Speakers may be asked questions on the matters they raise.

4. CONFLICT OF INTEREST DECLARATIONS

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a member and any private or other external interest they might have

5. RECOMMENDATIONS TO TE KAUNIHERA O TE AWA KAIRANGI COUNCIL - 6 September 2024

a) Draft Annual Plan 2025-26 initial direction setting

Report No. LTPAP2024/4/231 by the Manager Financial Strategy and Planning 6

CHAIR'S RECOMMENDATION:

"That the recommendations contained in the report be discussed."

b) Jackson Street Three Waters Renewals

Report No. LTPAP2024/4/233 by the Strategic Advisor 38

CHAIR'S RECOMMENDATION:

"That the recommendations contained in the report be discussed."

c) Three Waters Capital Carry-Overs

Report No. LTPAP2024/4/234 by the Strategic Advisor 42

CHAIR'S RECOMMENDATION:

"That the recommendations contained in the report be discussed."

d) Micromobility Programme

Report No. LTPAP2024/4/235 by the Senior Management Accountant 45

CHAIR'S RECOMMENDATION:

"That the recommendations contained in the report be discussed."

e) Proposed budget changes for 2024-25 and later years

Report No. LTPAP2024/4/236 by the Manager Financial Strategy and Planning 48

CHAIR'S RECOMMENDATION:

"That the recommendations contained in the report be discussed."

6. QUESTIONS

With reference to section 32 of Standing Orders, before putting a question a member shall endeavour to obtain the information. Questions shall be concise and in writing and handed to the Chair prior to the commencement of the meeting.

7. CLOSING FORMALITIES - KARAKIA WHAKAMUTUNGA

Unuhia!
Unuhia!
Unuhia i te uru-tapu-nui
Kia wātea, kia māmā
Te ngākau, te tinana, te wairua i te ara takatū
Koia rā e Rongo whakairihia ake ki runga
Kia wātea, kia wātea!
Ae rā, kua wātea!
Hau, pai mārire.

Release us from the supreme sacredness of our tasks
To be clear and free
in heart, body and soul in our continuing journey
Oh Rongo, raise these words up high
so that we be cleansed and be free,
Yes indeed, we are free!
Good and peaceful

Kate Glanville
SENIOR DEMOCRACY ADVISOR

Long Term Plan/Annual Plan Subcommittee

08 August 2024

Report no: LTPAP2024/4/231

Draft Annual Plan 2025-26 initial direction setting

Purpose of Report

1. The purpose of this report is to seek direction and agree the high-level approach for the Draft Annual Plan 2025-26.

Recommendations

That the Subcommittee recommends that Council:

(1) notes that there are a range of challenges and opportunities that were considered as part of the Long Term Plan 2024-2034 (LTP) process and that these remain relevant in the preparation of the Draft Annual Plan 2025-26, as detailed in section A of the report;

(2) agrees to the high-level plan and approach to the Draft Annual Plan 2025-26 as outlined in table 1 in the report;

(3) notes that there may be inflationary cost pressures impacting on Council operations and capital investment programme and that officers will undertake work on potential offsetting mechanisms for Council consideration, such as non-rates funding sources, savings, rephasing and reprioritisation of work programmes;

(4) notes the risks relating to a downgrade of Council's Standard and Poors Credit Rating have been highlighted throughout the Annual Plan 2023-24 and the LTP process, and that a downgrade would result in higher borrowing costs as outlined in the report in paragraphs 16 and 17;

(5) notes the water reform financial modelling completed to provide early indicative impacts for the Council, as detailed in Appendix 1 attached to the report;

(6) notes the potential increase in depreciation costs based on the revaluation of three waters assets as part of the Annual Report 2023-2024 as outlined in section B in the report and that further analysis and officer advice will be presented to the Subcommittee on 25 November 2024;

(7) notes the key assumptions as detailed in sections C, D, E and F in the report, together with Appendix 2 attached to the report;

(8) agrees with the proposed approach to the inflation assumptions as outlined in paragraphs 29 to 31 and table 2 of the report;

(9) agrees with the proposed approach to the interest cost assumption as outlined in paragraphs 33, 34 and table 3 of the report;

(10) notes the proposed approach to the staff salary increase assumption remaining unchanged from the LTP as outlined in paragraphs 35 and table 4 of the report,

(11) notes the rates increases adopted through the Long Term Plan 2024-2034 as outlined in Table 6;

(12) notes that further officer advice will be considered by the Subcommittee on the long term Financial Strategy considerations on 25 November 2024, including the approach to the balanced operating budget and setting a budget that is financially prudent as required by legislation;

(13) considers direction and guidance to be provided to officers on the potential inclusion of a voluntary targeted rate for wastewater and stormwater repairs in private properties for Draft Annual Plan 2025-26 as outlined in section G of the report;

(14) considers direction and guidance to be provided to officers on the potential rating policy changes for Jackson Street targeted rates as outlined in section G of the report;

(15) notes that light community engagement is proposed for the Draft Annual Plan 2025-26; and

(16) considers any further direction and guidance to be given to officers in the preparation of the Draft Annual Plan 2025-26.

Acronyms:

DAP26 – Draft Annual Plan 2025-2026

LTP – Long Term Plan 2024-2034

AP24 – Annual Plan 2023-24

Capex – capital expenditure

Opex – operating expenditure

LGA – Local Government Act 2002

Section A – Draft Annual Plan 2025-26 high level approach and background

2. Following the extensive and significant work programme across the LTP, DAP26 is expected to be largely unchanged from a strategic direction perspective, with some minor updates and refreshes where new information is available.

3. Council decisions for the LTP included higher costs for a range of service areas and capital projects to reflect cost escalations, such as Three Waters, Transport and Parks and Reserves. These were partially offset by increased fees and charges in some areas, increase to development contributions revenue enabled through the revised policy, deferral of some capital investment and operational savings to minimise the impact on rates revenue funding requirements, which are ongoing for DAP26.

4. One of the key assumptions is the rates revenue increase, which as agreed by Council for 2025-26 through the LTP, is 13.4% (after growth). Rates affordability continues to be a key consideration for DAP26.

5. The financial issues and challenges that were dealt with in the LTP are still relevant for DAP26 and include:

    a. significant increase in inflation

    b. much higher cost of borrowing

    c. resourcing constraints and relatively high wage growth

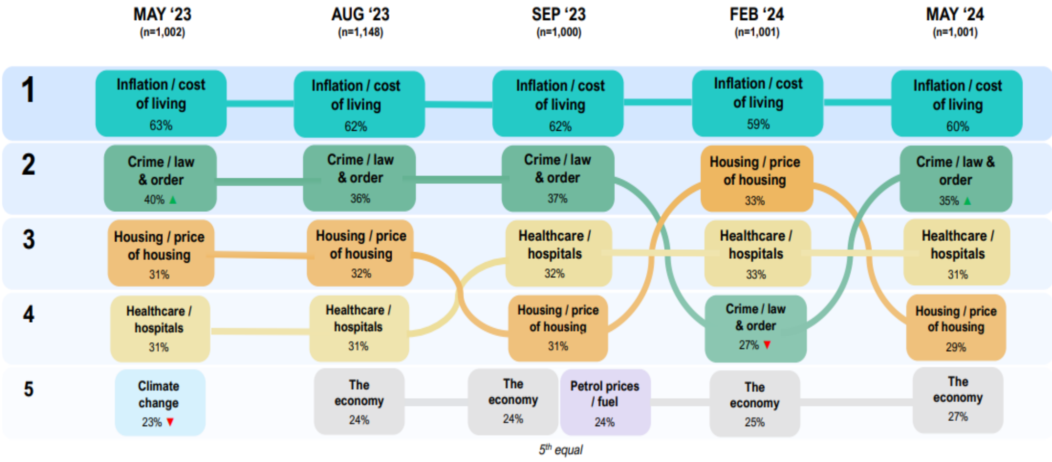
    d. ongoing supply chain issues, including significantly increased cost of materials.

    These continue impacting our service delivery operating expenses and capital investment programme.

6. The Stats NZ Consumer Price Index (CPI) inflation rate was 3.3% in the June 2024 quarter, with salary and wage growth of 4.1% for all sectors in the March 2024 quarter.

7. Inflation/cost of living remains steady as the number one issue for New Zealanders now with 60% noting this as the top issue, refer to the graphic below for the trends in top five issues.

Top five issues New Zealanders are concerned about



Source: 24th Ipsos New Zealand Issues Monitor – May 2024

High level planned approach to the financial aspects of the DAP26

8. The following reviews and updates are planned as part of the DAP26 financial update:

a) review of implementation plans, strategies and policies agreed by Council along with their funding needs.

b) continuous review of the Financial Strategy to determine the parameters within which we need to operate to achieve financial sustainability and financial prudence as required by legislation.

c) review of the rating policy and rates affordability considerations where needed.

d) review of capital investment plans and priorities, including asset planning for critical assets where needed.

e) budget review process which will include a review of cost pressures and priorities considering inflationary impacts on our service delivery contracts (e.g. infrastructure maintenance, cleaning, construction, utilities etc.).

f) officers will undertake work on potential offsetting mechanisms such as non-rates funding sources, savings, rephasing and place a strong focus on reprioritisating work programmes to fund any cost pressures identified.

g) Water Services transition impacts – review and reporting against a scenario where Water Services transition occurs on 1 July 2027 alongside the DAP26 financial modelling.

h) Inclusion of key changes for Council Controlled Organisations in DAP26.

9. Table 1 below sets out the high-level timeline for the development of the plan which includes light community engagement.

Table 1: High Level Plan

Activity	Date	Status
Council agrees high level plan and approach to DAP26, including e key assumptions	26-Aug-24	Today
Council Briefing on budget review process	6-Nov-24	Not Started
Council initial decisions on budgets for DAP26 and direction on engagement approach	25-Nov-24	Not Started
Council briefing on engagement approach/content and DAP26 financials	3-Feb-25	Not Started
Council agrees to final DAP26 content and approves engagement approach and content	24-Feb-25	Not Started
Council adopts DAP26 and engagement material for the engagement process	25-Mar-25	Not Started
Community engagement	April 2025	Not Started
Council receives the feedback analysis for engagement.	14-May-25	Not Started
Council provides initial direction and progresses decisions to support DAP26 being finalised	16-May-25	Not Started
Council meets to make final decisions	4-Jun-25	Not Started
Council adopts Annual Plan 2025-26 and sets the rates	27-Jun-25	Not Started

Section B – Budgeting process, financial risks and uncertainties

Budgeting process

10. A comprehensive review and update of budgets was conducted for the LTP. The budgets established through the LTP will serve as the baseline for the DAP26, adjusted for the following specific circumstances:

    - unavoidable increases (such as known rent reviews, contractual cost escalations and reviews and salary increases).
    - known decreases (such as one-off items, items no longer required, known savings where operational costs are no longer required, eg maintenance costs related to any assets approved for divestment).
    - approved service level changes.
    - other justifiable approved changes.

11. This report outlines key forecasting assumptions for various financial risks identified during the preparation of the LTP, which remain relevant for the DAP26. These include considerations of inflation, interest costs and the deliverability of the capital programme. These factors will be integrated into the budgeting process.

12. Project costs will be reviewed during the DAP26 process to understand the latest information, including likely timing and estimated costs. These updates will be based on any asset management plans from business areas and will be reported to Council where changes are identified in timing or costs.

13. Any new funding requests will be submitted for Council decisions. This will provide an opportunity for the Council to potentially stop, pause, or delay projects, consider trade-offs, and review the planned service levels within the proposed programme. A Council briefing is scheduled for 6 November 2024 to facilitate early discussions before the formal decision-making process on 25 November 2024.

14. A range of cost pressures have been identified recently such as additional Water services works (repair for the Eastbourne Wastewater Rising Main at Days Bay, Western Hills wastewater main) as well as reduced funding from NZTA. These will be brought to Council for decisions once the further details of required works, costs and options have been developed. This will enable Council to consider trade-offs and choices on 25 November 2024.

15. Officers request that Council provides any early direction or guidance to officers ahead of the budget preparation process beginning. It is important to note that delaying capital expenditure (capex) for a year, results in lower debt and interest cost savings for each year the project is delayed. However, the capex may cost more to complete in later periods, potentially offsetting these savings.

Standard and Poors Credit rating

16. During the Annual Plan 2023-24 and the LTP processes, the risks of a potential downgrade of our AA credit rating from Standard and Poors (S&P) credit rating agency were highlighted. A downgrade in the credit rating would result in higher cost of borrowings. The published S&P rating actions show a number of New Zealand local authorities who have received a downgrade in their ratings in recent months.

17. The most recent S&P rating review for Hutt City Council began in early August 2024, and it is anticipated that there will be a downgrade. The outcome is expected to be known in late August 2024. The high-level impact of a downgrade is summarised below.

    - if our rating drops 1 notch (from AA to AA-) the impact is expected to be an additional 0.05% on our interest rate – or $5,000 per $10M of debt. Based on the current gross debt of $551.7M, it would result in additional interest costs of $275,500 per annum.

    - if our rating drops 2 notches (from AA to A+) the impact is expected to be an additional 0.10% on our interest rate – or $10,000 per $10M of debt. Based on the current gross debt of $551.7M, it would result in additional interest costs of $551,000 per annum.

    - gross debt is projected in the LTP to peak at $1.2B, so as the debt levels increase, the impact of the S&P rating will have a higher impact.

    Further details on the rating review and the outcome will be reported to this Subcommittee once the review is finalised with the potential impact on the financial projections.

Wellington region water service delivery transition

18. The regional model is in the early concept phase of development, and there is still a range of uncertainties to be worked through. The finalised details around the transition plan and agreement on the methodology to be applied for the financial impacts are yet to be fully formed.

19. Based on the range of uncertainties regarding the impacts of the changes and timing, at this point it remains appropriate to continue to assume council will continue to operate the three water services and, therefore, will include three waters in DAP26 forecasts and planning.

20. Separate analysis of the long term financial impacts will be performed throughout the planning process and reported when appropriate. Based on early modelling performed to understand the impact of the transition, budget projections present a favourable position overall. However, a range of assumptions factored into this modelling. Refer to Appendix 1 for further details.

21. There is an operational cost requirement for Council to continue to be part of the work on a regional water services model and associated development of a regional Water services delivery plan (WSDP), which is not factored into the budget. The estimated share of the costs from September 2024 to June 2025 is

expected to be around $0.5M. This estimate could change depending on other partner Councils choosing to opt out of the regional delivery model. The funding options are outlined in a separate report in this agenda.

Three waters depreciation

22. As part of the regular revaluation of Council assets to ensure the fair reporting of their value as required by accounting standards, assets are being revalued as part of the process for the Annual Report 2023-24. Draft reports indicate an unusual and significant increase in the value of water services assets, being much higher than anticipated through the LTP financial assumptions. The final asset valuation reports are due to be completed in late September 2024 and will then progress through an audit process by Audit NZ.

23. Depreciation spreads the capital cost of assets over their useful lives so that each generation of ratepayers pays for their share of the use of the asset.

24. Indicative financial modelling shows a much higher depreciation expense for three waters assets which would impact our balanced operating budget projections, with the target year for achieving a balanced budget moving out several years.

25. Officers will complete work to understand the changes once the valuation has been finalised; this will include considering the various options available to Council. Further advice will be provided to support Council decisions on 25 November 2024.

Section C - Operating and capital expenditure assumptions

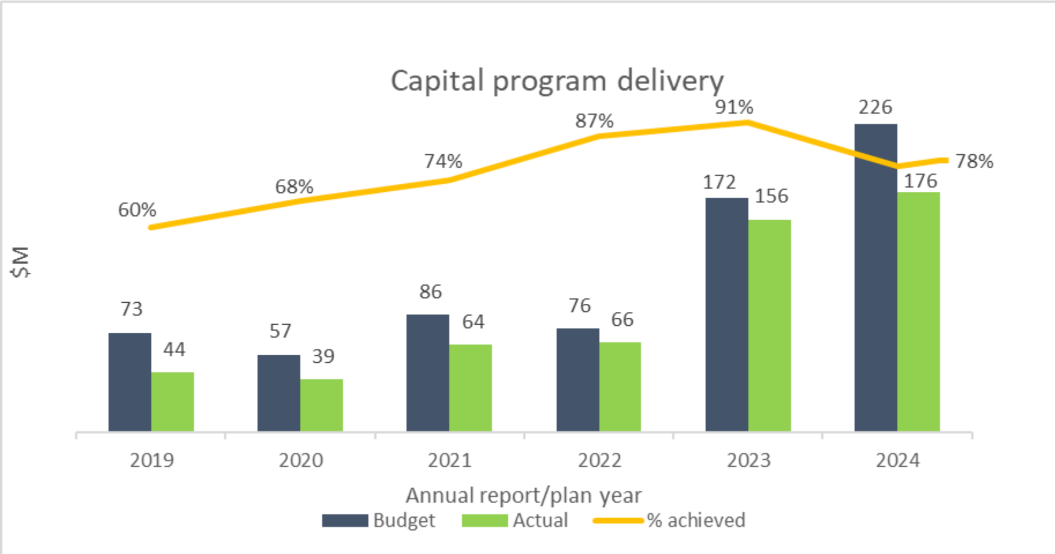
Capital investment

26. Council’s capital investment profile remains largely the same as in the LTP with some relatively minor adjustments to be made for budget carryovers/rephasing as outlined in the separate report on this agenda.

27. An assumption is being made for DAP26 that the Capital programme is deliverable over the life of the plan, refer to graph 1 below which outlines the trend in capital delivery over the last five years with unaudited results for 2023-24. Capacity constraints and deliverability of work programmes has been a challenge given labour supply regionally in the past few years, the significant number of big projects planned and the legislative environment with some significant uncertainties. The trend graph however shows increased actual delivery year on year. There is still a risk that the capital programme may not be delivered as planned resulting in cost escalations.

28. Officers will consider delivery risks of the capital investment programme and provide advice to support the Council decisions on 25 November 2024.

Graph 1 – Capital delivery trend



Inflation rates

29. The published BERL Local Government Cost Index for New Zealand (LGCI) is proposed to be applied. This is standard practice across New Zealand Councils, including Hutt City Council, where we have been using the BERL index to inflate budgets in the outyears for our Annual and Long-Term Plans.

30. Table 2 shows the current BERL projections as approved for the LTP compared to the interim BERL adjustors received in August 2024. The final BERL projections will be received in October 2024.

31. Officer advice is to update the inflation adjustors with the most up to date BERL projections for the DAP26.

Table 2: Inflation adjustors

	2026	2027	2028	2029	2030	2031	2032	2033	2034
Inflation rates in LTP (Source: BERL LGCI 2023)	2.20%	2.30%	2.30%	2.20%	2.10%	2.00%	2.00%	1.90%	1.90%
Interim inflation rates for DAP26 (Source: BERL LGCI 2024)	2.20%	3.20%	2.90%	2.70%	2.60%	2.50%	2.40%	2.30%	2.10%

32. Whilst these would be the defaults applied across budgets, where budget managers have actual known inflation cost adjustors different from this (for example, in contractual arrangements with different rates), then the base budgets would be updated accordingly and reported where cost variances are significant.

Interest rates

33. Specialist treasury advice is being provided to inform the DAP26. Initial base interest rate assumption comparison for borrowings is proposed in table 3. This is based on information from Council's treasury portfolio and market conditions as of August 2024 and will be reviewed regularly due to the continuing volatility in market conditions.

34. Officer advice is to change the assumptions in line with the latest advice, as presented in table 3 below. This will be reviewed and updated for the impacts of any credit rating adjustment and the DAP26 budget projections and reported back to this subcommittee in November 2024.

Table 3: Proposed assumption for interest costs of borrowings

	2026	2027	2028	2029	2030	2031	2032	2033	2034
LTP cost of borrowings (average 4.96%)	4.68%	4.75%	4.83%	4.93%	5.06%	5.12%	5.19%	5.31%	5.43%
Interim updated cost of borrowings (average 4.79%)	4.45%	4.40%	4.59%	4.71%	4.88%	4.93%	4.98%	5.08%	5.18%

Employee costs

35. No change is proposed to the assumptions adopted in the LTP. Staffing budgets include an assumption that all approved positions are budgeted for with a 6% vacancy, which means the budget presented is not a fully staffed budget.

Table 4: Proposed assumption for employee salary increase

	2026	2027	2028	2029	2030	2031	2032	2033	2034
LTP increase assumption	3.5%	3.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
DAP26 increase assumption	3.5%	3.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

Section D - Revenue Assumptions

New Zealand Transport Agency (NZTA) funding

36. Council receives significant funding through NZTA as our funding partner for transport related activities. In the LTP a funding assistance rate of 51% for almost all roading spend was assumed. NZTA is yet to confirm the full details of the actual funding available for the first three years of the LTP. Once this becomes available in September 2024 further advice about reprioritisations and deferrals will be provided to Council on 25 November 2024. The proposed ongoing assumption for DAP26 continues to be at 51% unless there is further specific information available for a project.

Fees and charges

37. The starting assumption for all fees and charges set through LTP was to allow for a minimum increase to cover assumed salary cost increases and the impacts of operational cost changes.

38. Officers propose that this assumption is maintained for the DAP26 with the exclusion of fees and charges set by other legislative means. Further changes may also be required following a detailed budget review for fee funded activities.

Capital grant funding

39. Our budgets include funding of $27M for Naenae Pool and $30M for Tupua Horo Nuku (Eastern Bays shared path) from Crown Infrastructure Partners through the COVID-19 response and recovery fund as well as $98.9M for Infrastructure Acceleration Fund (IAF) Stormwater projects. The total revenue expected for these projects remains a valid assumption. The timing of the revenue will be adjusted to reflect any updated phasing of these projects.

Estimated growth in the rating base

40. Rates income is expected to be received from growth in the rating base because of new builds and property investment. This will increase the net rates revenue earned without impacting existing ratepayers. The growth rate used in the LTP is shown in table 5 which is based on the Sense Partners growth forecast data issued in March 2023. This assumption remains valid until the next set of data forecasts is issued in March 2025.

Table 5: Proposed assumption for rates revenue from growth in the rating base

	2026-2034
Growth in the rating base	0.9%

Planned rates revenue increase

41. Council signalled in the LTP a rates revenue increase for 2025-26 of 13.4% (after growth); refer to table 6. Council decisions for DAP26 affecting service levels and any cost pressures that cannot be managed within the operating baseline will require consideration of the impact on rates, or it will impact Council's debt levels and a balanced operating budget.

42. Table 6 details the initial starting position for rates revenue increases planned in DAP26. Further advice will be provided to Council regarding rates increases as detailed budget reviews are completed and proposed investment plans are presented.

Table 6: Planned rates increases in LTP -starting position for DAP26

	2026	2027	2028	2029	2030	2031 - 2034
DAP26 planned rates increase, (after growth)	13.4%	12.6%	12.6%	12.4%	12.0%	7.0%

43. Officer advice at this initial direction setting stage of DAP26 is to maintain the rates increases approved through the LTP.

Section E – Strategic financial context

Balanced operating budget and financial prudence

44. In determining the rates revenue requirements for DAP26, the legislative requirements related to a balanced budget and financial prudence are fundamental considerations.

45. As part of the LTP, a direction was set to move Council towards achieving a balanced operating budget over the 10-year period. The LTP projects a balanced operating budget being achieved in 2028-29 with a balanced budget deficit of $24.3M in 2025-26 (year 1 of DAP26). Before any budget changes, new funding proposals, or unavoidable costs have been updated.

46. In preparing the DAP26, it is important that Council remains financially prudent and carefully considers the impacts of decisions. The officer's advice at this initial direction setting stage is that DAP26 should aim to continue targeting a gradual achievement of a balanced operating budget. Given the risks outlined in this report on water services asset value changes, the target may only be achievable several years later than the LTP anticipated.

47. There may be a need to reprioritise work programmes and revenue options being further investigated, including user fees and charges and rates revenue.

Financial Strategy debt limits

48. The overall net debt to revenue limit in the Financial Strategy, as agreed through the LTP, has been set at 250%, with interest expense at 25% of rates revenue and 15% of overall revenue.

49. The LTP included a significant uplift in Council's capital programme. Debt levels increased in line with this to fund the increased capital programme, but the borrowing limits set in the financial strategy were maintained.

50. At this initial direction setting stage of DAP26 no changes are proposed to the debt limits and the officer's advice is to continue to maintain the limits set through the LTP to retain debt headroom buffer to manage any emergency events, such as earthquakes or severe weather events.

Section F – Non-financial key assumptions

51. There are a number of non-financial key assumptions, challenges and opportunities that should be taken into consideration as a part of DAP26 planning process. Appendix 2 provides an initial view of these and the financial aspects.

Population growth

52. Population growth is a key assumption that underpins a number of factors, such as generating the need for investment in infrastructure. No change is proposed to the population growth forecasts adopted through the LTP. However, a risk exists that population growth could be higher or lower than forecast impacting on existing or planned infrastructure.

Asset condition

53. It should be noted that many of our assets are generally in poor condition due to historical under investment, and some are closed due to disrepair. Some of this is being addressed through the investment choices made in the LTP, and asset condition is assumed to improve over the period of the 10-year plan as renewals and repairs are progressed. This assumption is based on available asset condition information, historical trends and knowledge of the area. The useful lives of assets are estimated based on this condition information. Should assets deteriorate faster than anticipated, there is a risk of unbudgeted costs having to be met to renew the asset earlier and avoid asset failure.

Section G – Potential Rating Policy changes

Voluntary targeted rate introduction

54. Voluntary targeted rates (VTR) schemes have been used in the past by Councils to help ratepayers fund works on their properties, such as upgrading home heating or insulation. Instead of a contract requiring repayment, a VTR Scheme would provide for repayments to Council by setting a targeted rate for a fixed duration on the relevant property. This would benefit ratepayers who were unable to access funding from a traditional lender. For example, home insulation costs could be repaid via a targeted rate over a five-year period.

55. As part of the Draft LTP 2021-2031(DLTP21), in March 2021 Council approved for consultation a VTR scheme and rates postponement policy to fund repairs to private stormwater and wastewater pipes. Under the scheme consulted on, assistance would be by way of Council incurring the cost of repairs or renewals and reclaiming this from the property owner through a targeted rate. The equivalent Porirua programme was called "Knowing your Pipes".

56. For those property owners that elected to use the scheme:

    a. a charge would be registered against the property,

    b. processing fees and interest would be charged against the amount outstanding each year,

    c. an amount of $500 a year would be repaid through rates with the outstanding balance postponed.

57. Feedback was sought through the DLTP21 consultation process, although there was no feedback received from the community on the proposal. The Council at the time was very supportive of implementing this VTR as it would help enable repairs to private stormwater and wastewater pipes.

58. Subsequently, it became apparent that implementing the scheme may result in it being required to comply with the Credit Contracts and Consumer Finance Act 2003 (CCCFA). The Commerce Commission (ComCom) advised all councils to look at their VTRS considering the formal warning issued by them to Auckland Council. ComCom considered that Auckland Council's VTR scheme was a 'consumer credit contract' under the CCCFA and resulted in Auckland Council being required to repay interest and costs back to ratepayers. This was primarily based on the scheme charging interest, administration fees and taking a security interest.

59. At the 9 June 2021, the Annual Plan/Long Term Plan Subcommittee meeting agreed to progress the decisions on the rates postponement policy and VTR scheme outside the Long Term Plan 2021-2031 process following the receipt of legal advice and further investigation of options.

60. Officers engaged Simpson Grierson to provide advice on the VTR scheme and rates postponement policy. Because of the interest cost, administration fee and security interest of the scheme, it was likely the proposed VTR scheme would be subject to the CCCFA.

61. Following the recommendations from the Policy Finance and Strategy Committee meeting on 14 September 2021, Council made the following resolutions on 5 October 2021:

    (1) agrees not to proceed with the Voluntary Targeted Rating Scheme and rates postponement scheme as consulted on in the Draft Long Term Plan 2021-2031 process;

    (2) agrees to offer assistance on an individual contractual basis, as noted in option three contained in Report PFSC2021/4/198; and

    (3) agrees in principle that officers progress work with other councils to engage with the Ministry of Business and Innovation and seek an exemption for the Voluntary Targeted Rating Scheme from the Credit Contracts and Consumer Finance Act 2003.

62. Changes to the CCCFA were announced in April 2024. Effective from 25 April 2024 a new regulation 18 would exempt VTR schemes from being consumer credit contracts under the CCCFA. The exemption retained the condition that Council that sets the targeted rate must have a rates remission policy or a rates postponement policy which aims to assist ratepayers in financial difficulty.

63. Section 93C(2)(d) of the Local Government Act 2002 requires a consultation document for the LTP to describe any significant changes that are proposed to the way the local authority funds its operating and capital expenditure requirements, including changes to the rating system. The introduction of a new targeted rate is usually considered a significant change. The introduction of a VTR was not provided for in the LTP 2024-2034 consultation, although it was consulted on as part of the 2021 LTP.

64. Should Council wish to introduce a VTR ahead of the next LTP, this could be done in the DAP26 after consultation and an amendment to the RFP, as well as either an amendment to the Rates Remission Policy or the Rates Postponement policy to include provisions to assist ratepayers who are in financial difficulty.

65. Officers are seeking further direction from Council as to whether the introduction of a VTR in DAP26 should be progressed. If Council does want to proceed, a detailed report will be reported back for consideration in November 2024.

<u>Jackson Street targeted rate</u>

66. In the preparation of the LTP, the Council considered a request from the Jackson Street Programme (JSP) to:

    - increase the area from which the targeted rate is collected; and

    - increase the amount collected from those properties.

67. Background and further detail about this change is available in report LTPAP2023/5/390.

68. Council passed the following resolutions on 12 December 2023:

    (1) notes the Jackson Street programme targeted rate has been in place at Hutt City Council since 1991;

    (2) notes the revenue collected from the Jackson Street Programme targeted rate is set to increase by the rate of CPI each year;

    (3) notes the request from the Jackson Street Programme organisation to increase the revenue collected from the targeted rate from $158,000 in the 2023-24 financial year to $300,000 in the 2024-25 financial year and to extend the area the targeted rate is collected from;

    (4) notes that a change to the area that the targeted rate is collected from would require Council to undertake a Special Consultative Procedure in accordance with section 87 of the Local Government Act 2002;

    (5) notes that an increase to the revenue collected from this targeted rate without a change to the area the targeted rate is collected from, would result in a 91% increase in the targeted rate payable from the existing properties; and

    (6) agrees that the report be reconsidered as part of the Annual Plan process for 2025-26.

69. At the time, Council requested that this be considered instead for DAP26 and officers are seeking further direction from Council before proceeding. The JSP has confirmed that they would still like to proceed with their original request. If Council wants to proceed, a detailed report will be reported back for consideration in November 2024.

Consultation and engagement

70. A light community engagement is currently proposed for DAP26. Communications and engagement planning to support this process, will be reported at an appropriate time to Council.

71. Officers propose a light engagement approach at this stage which is commensurate to the changes outlined in DAP26. For example, if there are few deviations from the Long Term Plan, a significant engagement programme will not be required (or justified).

72. Should Council wish to proceed with a proposal to introduce a VTR scheme, consultation on this, as well as changes to either the rates remission or rates postponement (or both) ,will be required. The RFP will also need to be amended to reflect the new targeted rate which will also need to be included in the consultation.

Climate Change Impact and Considerations

73. The matters addressed in this report have been considered in accordance with the process set out in Council's Climate Change Considerations Guide. Climate change is a key assumption, and it drives the need to improve our city's resilience to climate change and more frequent and severe weather events.

    a) due to the nature of these being difficult to estimate, it could put significant pressure on our budgets and resources to deal with any adverse or emergency events that arise.

    b) while all new initiatives being proposed need to consider their contribution to the key priorities around climate change, an assumption has been made that the impact of climate change for the period of this plan, while relatively certain, is limited.

    c) a risk exists that the impact of climate change could be more severe than assumed, causing pressure on budgets (eg reduced useful life of assets) and resources.

Legal Considerations

74. The most relevant legislation includes the Local Government Act 2002, Local Government (Rating) Act 2002 and the Rating Valuations Act 1998.

Financial Considerations

75. There are no further financial considerations apart from those detailed in the report.

Appendices

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Water services transition

– Early indicative financial projections

Prepared 30 July 2024

Purpose

The purpose of this memo to explain financial modelling completed to understand the Council's financial outlook post transition to an assumed new water services entity, as part of the regional water services reform programme.

Summary

The memo provided details of assumptions, with key aspects being

- Assumed go live date of new water services entity for the Wellington region of 1 July 2027.
- Assumed repayment of HCC water services debt on this date in full, with no further payments for "no worse off" funding, such as stranded overheads.
- HCC revenue adjusted to remove all water services related aspects.
- All figures used are based on budgets in Long Term Plan 2024-34 (LTP).

The key results of the financial modelling show:

- Capex investment -significant drop of $1.2B over the 10-year period of LTP post transition to new entity (graph 1).
- Debt projections – the capex investment reduction has flow on impacts to debt levels. Net debt reduces to $434M by 30 June 2028, compared to LTP level of $891M (graph 2). Debt headroom improves in the same year by $87M higher than LTP and continues to increase to improved levels than the LTP (graph 3).
- Net debt to revenue – whilst the LTP has a high of 216%, the post transition results show a much-improved position with a peak of 151% (graph 4).

- Balanced operating budget – achieved in 2028-29, which is the same timeframe as the LTP.

Key risks include:

- Asset revaluation work for three waters assets currently underway for Annual Report 2023/24 with uncertainty as what the outcome for these will be.
- Cost escalations across both opex and capex.
- Capital investment delivery performance.

Further details

1. Rates revenue

The rates increase assumptions factored into the financial modelling is based on removing Three waters related rates in the LTP.

Table 1: Projected rates revenue increase (after growth assumption)

	2026	2027	2028	2029	2030	2031	2032	2033	2034
LTP 2024-34	13.4%	12.6%	12.6%	12.4%	12.0%	7.0%	7.0%	7.0%	7.0%
Post Water services transition	13.4%	12.6%	10.9%	10.2%	13.5%	6.5%	8.6%	7.9%	7.9%
Difference	-	-	1.70%	2.20%	(1.50%)	0.50%	(1.60%)	(0.90%)	(0.90%)

The dollar value decrease in rates revenue post transition is shown in table 2; with a total of $1.1B less in rates revenue over 7 years post transition compared to the LTP.

Table 2: Projected rates revenue

	2026	2027	2028	2029	2030	2031	2032	2033	2034
LTP 2024-34	209.9	238.2	270.4	306.3	345.8	373.2	402.7	434.5	468.8
Post Water services transition	209.9	238.2	154.6	171.8	196.5	211.1	231.1	251.5	273.6
Difference	-	-	(115.8)	(134.5)	(149.3)	(162.1)	(171.6)	(183.0)	(195.2)

The indicative rates impact per average property category is presented below. These are based on the rating information for 2024-25 and are subject to change in future years.

Table 3: Indicative rates per average property category

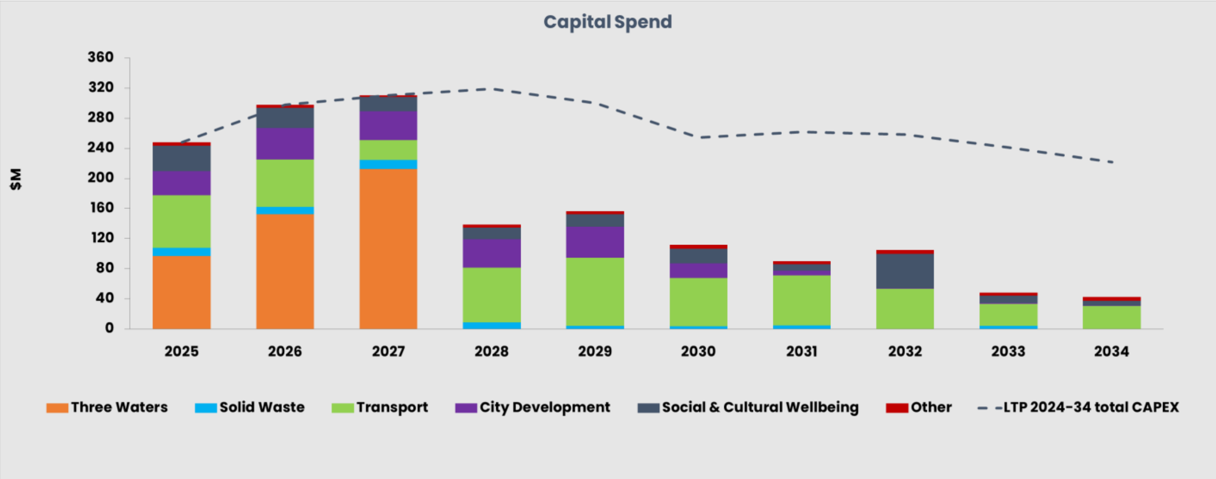
Property Category	2024-25 rates	LTP 2028 rates	Post transition 2028 rates	Annual change $	Annual change %	LTP 2034 rates	Post transition 2034 rates	Annual change $	Annual change %
Average Residential	$3,910	$5,760	$3,015	-$2,745	-48%	$9,781	$5,241	-$4,540	-46%
Average Commercial Central	$22,645	$30,859	$26,373	-$4,486	-15%	$52,691	$48,859	-$3,832	-7%
Average Commercial Suburban	$19,325	$26,195	$21,367	-$4,828	-18%	$46,143	$39,587	-$6,556	-14%
Average Rural	$2,696	$3,627	$3,376	-$251	-7%	$6,092	$5,909	-$183	-3%
Utilities	$28,311	$37,455	$34,562	-$2,893	-8%	$66,010	$64,032	-$1,978	-3%

2. Capital programme delivery

Our standard assumption is that 75% of the capital programme is delivered each year. Given the recent funding increases requested by Wellington Water Ltd (WWL)for the capital programme, together with improved delivery performance, we have assumed 100% delivery for Water Services capex for the purpose of these projections until 1 July 2027.

Based on this, the financial modelling includes $462M capex delivery over the three year period for Water Services. These projections include the Infrastructure Acceleration Fund projects, however there are a range of risks with these projects which are at an early stage (e.g., concept design works in progress).

Graph 1: Updated projected capital programme post transition



The forecast capital investment drops down post transition with an average per annum of $99M compared to an average of $265M in the LTP. This reduced capex impacts on the projected borrowings. There is a total reduction in capex of $1.2B over 10 years post transition compared to the LTP.

3. Asset transfer

All assets and work in progress related to Water Services are assumed to transfer as at 1 July 2027. The details of the specific assets to be transferred, particularly for Stormwater, will need to be worked through. The estimated transfer was expected to be around 37% of the total Council asset value across all activities when this modelling was last performed. The asset transfer value is expected to be around $724M at 1 July 2027 based on the LTP projections.

There is however an asset revaluation in progress for the Annual report 30 June 2024 and the asset transfer value cannot be reliably quantified at this stage. This is because there have been some early indications that the value of Water services assets have increased significantly higher than projected in the LTP. Once the revaluation and the audit process is completed this asset transfer value can be more reliably estimated and will be updated.

4. Operational costs and other funding

The financial projections included assume that no funding is received by Council other that repayment of debt directly attributable to water services. So there is no “worse off funding” as such. Once the regional position is developed and there is better clarity on this, then this assumption will be reviewed.

We have assumed for this modelling that all water services operational revenue and costs will transfer to the new entity or be fully offset by funding received from or related to the new entity as from 1 July 2027. The exception is stranded overheads (estimated to be $16.1M over 7 years), which have been assumed to be reallocated across the remaining activities with no additional funding assumed to offset this. This assumption will be further reviewed as the regional delivery model is developed.

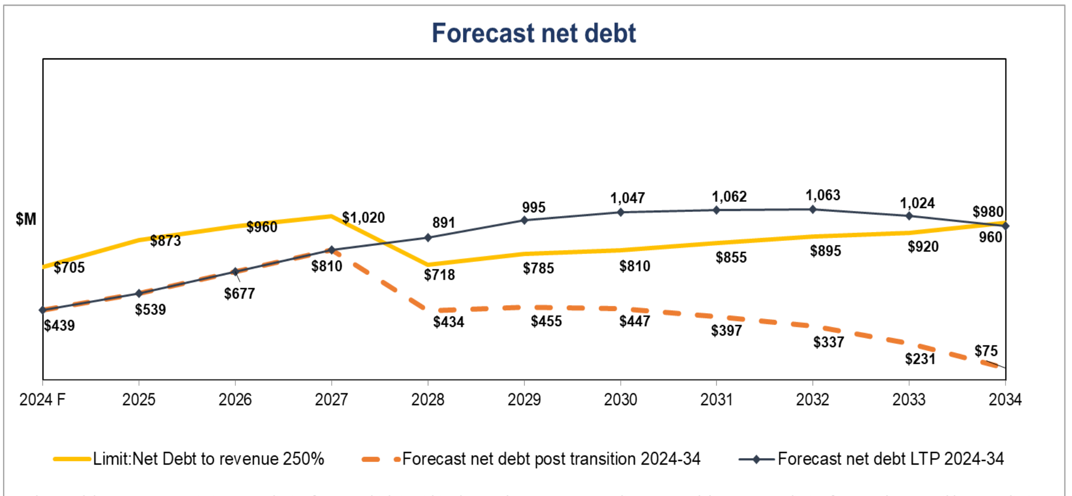
5. Debt and interest

Opening balance of debt for Three waters as at 1 July 2022 has been carried over from the work performed for the Three waters reform under the previous legislation, and as agreed with the National transition Unit of the Department of Internal Affairs in 2023.

The same methodology is being applied to the debt balances for the subsequent years. This is effectively an apportionment of total Council debt to the Three Waters Activities on the same basis as the debt calculations for the audited Annual Report Funding Impact Statements (i.e. debt funding for capital and operational expenditure not funded from operational revenue, excluding non-cash items like depreciation).

The debt and interest on borrowings is assumed to be repaid on transfer with the full payment being received on 1 July 2027. The debt is estimated to be around $429M as at the end of 30 June 2027. This is subject to change dependent on the actual revenue, capital and operating costs incurred until then. As the regional model is further developed this assumption will be reviewed and updated.

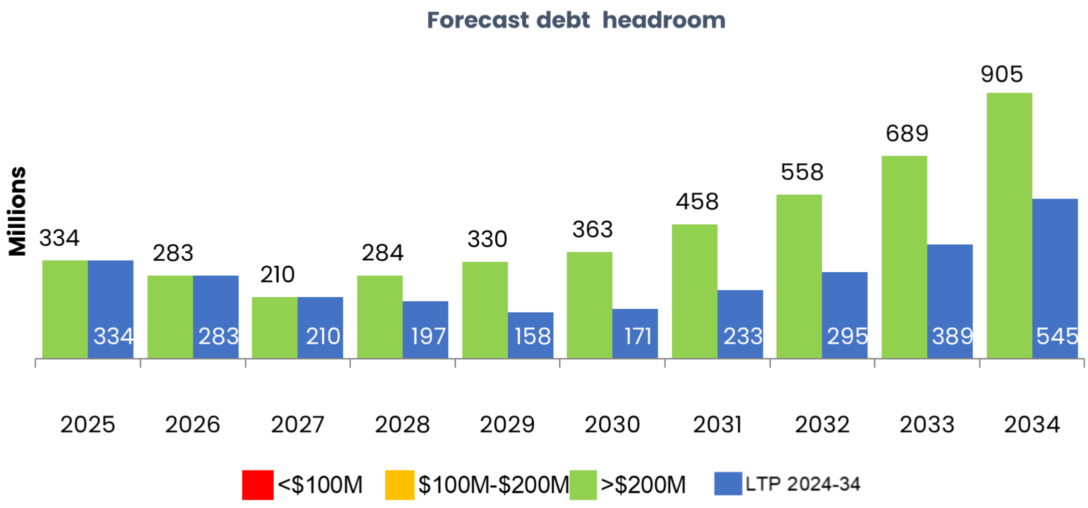
Graph 2: The comparison of projected debt pre and post transition is presented below, together with the debt to revenue limit post transition.



The net debt to revenue ratio is set at a limit of 250%, which is within the Local Government Funding Agency debt covenants limit of 280%. The Council has set a limit lower at 250% as it considers it essential to maintain headroom and the ability to fund the impacts of significant natural disasters should they occur, such as extreme weather events or earthquakes.

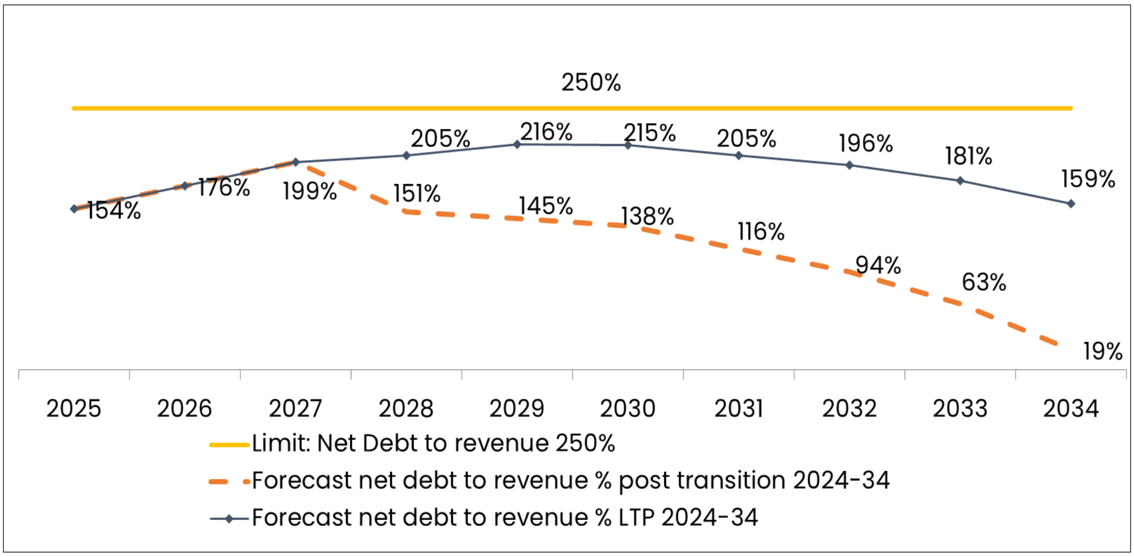
In the graph the blue line is the LTP (position including Water Services) and the orange dotted line graph being post transition, excluding Water Services. The assumed debt repayment of $429M, results in a drop in debt levels, which continue to reduce given the lower capex spend and assumed rates revenue settings.

Graph 3: The comparison of the debt headroom pre and post transition, i.e., projected debt compared to the net debt to revenue limit



The debt headroom is more favourable due to the assumed debt repayment in 2028 and remains above $200 million for all years.

Graph 4: The forecast net debt to revenue percentage against the limit of 250% pre and post transition is presented below.



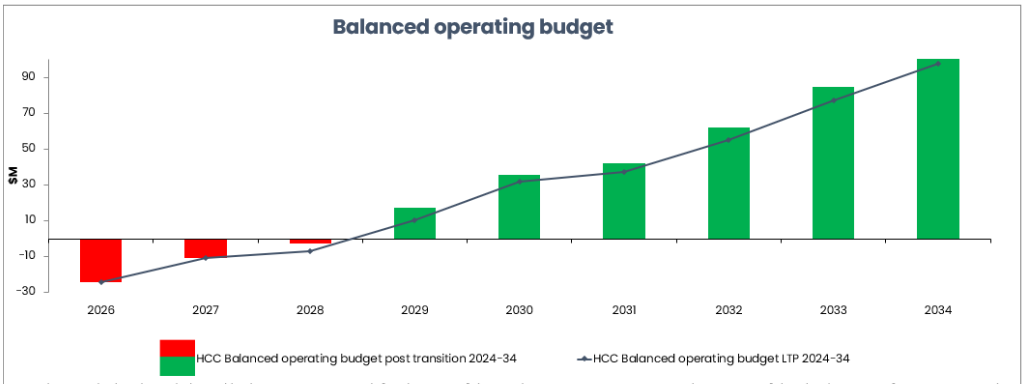
The projections show a significantly favourable outlook. The net debt to revenue ratios are much lower post transition with the highest being 151% in 2028 compared to a high of 216% for the LTP.

6. Balanced operating budget impact

The balanced budget post transition is projected to be achieved in 2028-29, which is the same as the LTP projections. This is largely dependent on:

- the debt repayment being received as assumed in the modelling,
- rates increases in future years being approved at the assumed increases, and
- no significant cost escalations beyond those currently approved and factored into the budgets.

Graph 5: Balanced budget position based on LTP 2024-34 budgets



Council meets the legislative balanced budget requirement as defined in s100 of the Local Government Act 2002 over the 10 years of the plan (you can refer to our Financial Strategy for further details). The legislative calculation includes capital grants and subsidies which can only be applied to capital projects and cannot be used to fund everyday operational costs over the period. As Council is projecting to receive significant capital grants and subsidies over the period of the plan, the legislative calculation makes it appear that there is more income available to meet everyday operational costs than there actually is. Therefore, we have excluded capital improvement subsidies and capital grants from the graph to only show the projected operating balanced budget for everyday operational income and costs.

Significant forecasting assumptions - Draft Annual Plan 2025-26

Assumption	Risk	Level of uncertainty	Reason for the uncertainty	Financial impact of the uncertainty
Environmental impacts				
The Draft Annual Plan is prepared on the basis that Council services are operating in an environment not impacted directly by any pandemic events like COVID-19. There is still increased inflationary pressure, rising costs and rising interest rates across the global economic environment post COVID-19. This is exacerbated by the impacts of the changing climate. Specific key assumptions have been made around interest rates, inflation, climate change and insurance costs related to natural disasters below.	Disruption caused by COVID-19 or a similar pandemic will result in changes or closure of Council operations, resulting in reduced revenue or delays in projects. Wider economic disruption will impact the affordability of rates and levels of non-payment.	Low	Pandemic events are by nature unanticipated; however any uncertainty will be higher in the short term and decrease over time.	Disruption to Council operations may result in reduced revenue from fees to fund Council activities. Project delays may result in challenges on delivering project timeframes and budgets.
Inflation				
Annual inflationary increases are based on the annual Local Government Cost Indices (LGCI), as published in the interim August 2024 BERL Report. LGCI for each year is detailed below. The final report will be published in October and these assumptions will be updated.	Actual LGCI for the year significantly differs from that included in the budgets.	Moderate	The LGCI estimates used are the forecasts issued by BERL in 2024.	Unanticipated inflationary pressure could arise outside of the forecast LGCI range which is not included in the Draft Annual Plan resulting in higher costs to deliver services or projects.

Year	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
LGCI %	2.20%	3.20%	2.90%	2.70%	2.60%	2.50%	2.40%	2.30%	2.10%

Assumption	Risk	Level of uncertainty	Reason for the uncertainty	Financial impact of the uncertainty
Employee cost assumptions				
The salary increase assumption is 3.5% for the first two years of the Draft Annual Plan with 2.5% for the remaining years. This is to enable Council to retain staff	The actual employee costs are significantly different from the projected costs or vacancy savings are not realised.	Moderate	Uncertainty exists as the ability to attract and retain staff is dictated by the labour market conditions.	Higher employee costs or lower vacancy savings will result in unbudgeted financial pressures.

Assumption	Risk	Level of uncertainty	Reason for the uncertainty	Financial impact of the uncertainty
and meet market conditions as well as our obligations as a Living Wage accredited employer. This is offset with a vacancy savings assumption of 6%.				
Growth				
Council projections for income from rates revenue include an allowance for growth and inflation. Average growth of 1.1% per annum in the rating base is assumed in year 1 with 0.9% in out years. This is considered to be a reasonable estimate given population growth forecasts and increases in the number of households in Lower Hutt and Sense Partners data from March 2023. When the next dataset becomes available in March 2025 this assumption will be reviewed.	The actual rates for growth are significantly different from the projected rates of growth.	Moderate	Uncertainty exists as the projected increases in population and the associated number of houses may not be realised.	Rates of growth that vary significantly from the assumed level will result in unbudgeted financial pressures.
Population growth				
The population of the city at the 2018 Census was 104,532. Our current population at the 50th percentile is estimated at 113,034 (8% increase) and is projected to reach 125,000 around 2033 and 149,760 in 2053. This is based on Sense Partners data from March 2023. When the next dataset becomes available in March 2025 this assumption will be reviewed.	Population growth rates exceed or are less than forecast.	Moderate	Uncertainty exists as the projected increases in population and the associated number of houses may not be realised.	Rates of growth that vary significantly from the assumed level will result in unbudgeted financial pressures.
Interest rates				
The long-term cost of borrowing is assumed to be an average of 4.78% through the period of the Draft Annual Plan.	Interest rates and swap rates are significantly different from those budgeted.	Moderate	Council has interest rate swaps in place to minimise the fluctuation of interest rate movements. As debt projections are forecast to	Higher interest rates provide the ability to earn higher income from cash holdings. Higher interest rates may lead to higher interest cost on debt.

Assumption	Risk	Level of uncertainty	Reason for the uncertainty	Financial impact of the uncertainty
Due to the volatility in market conditions this will be reviewed and updated throughout the planning process.			increase significantly over the remaining period oof the plan there will be further interest rate swaps to be put in place; there is uncertainty about the future market conditions that will exist.	Based on Council's proposed borrowing profile, a 0.1% movement in interest rates will increase/decrease annual interest expense by between $500k to just over $1M per annum across the 9-year period of this plan. The impact of this annual change would translate to an indicative rates impact of around 0.4% - 0.7%.
Natural disasters and insurance costs				
Council has comprehensive insurance policies, which are designed to provide substantial, but not total, cover from the financial impact of natural disasters. The level of insurance cover is calculated by extensive loss modelling, which estimates the maximum probable loss. Council collectively purchases insurance with the Wellington Councils Insurance Group (includes Kāpiti Coast District, Porirua City, Upper Hutt City and Greater Wellington Regional Councils).	The damage exceeds the cover obtained by Council and its ability to fund the repair/reconstruction out of normal budgetary provisions. The cost of insurance increases more than budgeted.	Moderate	The timing or scale of a natural disaster event cannot be predicted. Should an event occur, there is uncertainty over whether the city is able to recover sufficiently or quickly enough in order to prevent long-term adverse effects on the population or local economy.	The damage exceeds the cover obtained by Council and its ability to fund the repair/reconstruction out of normal budgetary provisions. The cost of insurance increases more than budgeted.
Asset revaluation				
It is Council's policy to assess the carrying value of its revalued assets annually to ensure they do not differ materially from the assets' fair value. Revaluations are carried out every three years. For further information see council's accounting policies. Council engaged two valuers to independently value various significant classes of Council assets in accordance with its accounting policies to support the preparation of the Annual report 30 June 2024. The valuers are only expected	Asset revaluations differ from those budgeted; depreciation charges resulting may differ.	High	Market buoyancy and property pricing influences the value of the property assets. Contract and construction prices influence the value of infrastructure assets.	A higher level of asset valuation means more depreciation to use to fund asset renewals and some improvements, however this is limited by the actual level of depreciation funded through rates. Lower levels of valuation and depreciation reduce Council's ability to fund capital from depreciation and place more reliance on funding improvements from other funding mechanisms, such as debt or rates.

Assumption	Risk	Level of uncertainty	Reason for the uncertainty	Financial impact of the uncertainty
to finalise their work in October 2024. There are indications that the value of three waters assets and future depreciation costs could increase significantly. Once the valuers' work is completed, we will undertake an extensive exercise to understand the information presented, the reasons for any significant increases in value and whether the results are reasonable Following this exercise, it is expected that the report will be finalised and appropriately reflected in the Annual report for year ended 30 June 2024, due for publication in October 2024. At this time Council will consider the impacts and incorporate any changes required in the Annual Plan 2025- 26 preparation. The prospective Financial Statements currently include estimated revaluations at a rate of 7.5% based on indicative information received from our valuers as at March 2024. This assumption is unchanged from the Long Term Plan 2024-34.				Depreciation rates are contained in accounting policies
Asset sales				
A small amount of asset sales is planned for surplus land following completion of Council projects.	Property prices are higher or lower than the planned sales amount	Moderate	Market buoyancy and property pricing influences the value of the property assets.	A higher sales price would result in a gain on the sale made by the Council. Lower prices would result in greater costs having to be absorbed by rates.
Asset lives				
The estimated useful lives of significant assets will be as shown in the Statement of Accounting Policies. The assets will continue to be revalued every three years. It is assumed that assets will be	Assets wear out earlier or later than estimated.	Moderate-Low	The level of certainty of useful lives of assets ranges across different asset types. Underground assets that are not easily accessible have lower	Depreciation and interest costs would increase if capital expenditure was required earlier than anticipated.

Assumption	Risk	Level of uncertainty	Reason for the uncertainty	Financial impact of the uncertainty
replaced at the end of their useful life. Ranges in average ages relate to the variability of component parts of assets and changing material and design of assets over time.			levels of confidence on their current condition and therefore expected remaining useful lives whereas aboveground assets have more certainty on their condition assessment and the useful life.	
Asset condition				
The condition of the network is expected to improve over the period of the 10 Year Plan. Assumptions have been made regarding the average useful lives (per assumption around asset lives above) and remaining lives of the asset groups, based on the current local knowledge and experience, asset condition information and historical trends.	Detailed condition assessments for underground three waters assets may reveal that they have aged faster than our theoretical modelling anticipates.	Moderate	By their nature underground assets are not visible and therefore condition information of these assets is not easily obtainable. In the Draft Annual Plan additional funding continues to be assigned for investigative works to ensure we have a sufficient understanding of our underground assets.	Assets that have aged faster than planned may result in the requirement for renewal work to be brought forward to avoid the impact of asset failures.
Sources of funds				
See Council's Revenue and Financing Policy, included in the 10 Year Plan 2024-2034.				
Waka Kotahi NZ Transport Agency (NZTA)				
The Waka Kotahi New Zealand Transport Agency subsidy is 51% for both operating and capital works. For projects not fully subsidised by NZTA, a lower subsidy applies. There is uncertainty around funding priorities based on the direction set by the new government and funding approvals have not yet been finalised. This assumption will be reviewed once	Current funding patterns and subsidy percentages may change during the life of the Draft Annual Plan.	High	The impact of funding priorities on projects may change criteria based on the Government Policy Statement on land transport (GPS).	Any reduction in subsidy rate would lead to a reduction in the work programme, reprioritisation of projects or Council having to fund a higher share of the costs.

Assumption	Risk	Level of uncertainty	Reason for the uncertainty	Financial impact of the uncertainty
the funding decisions are communicated to Council.				
Fees and charges				
Fees and charges are expected to be increased at a minimum to cover the costs of operating the activity (in line with the Revenue and Financing policy) and factor in rising costs.	Fees and charges do not increase in line with the Revenue and Financing policy recovery rates.	Low	Funding choices for individual activities lead to lower than required increases in fees and charges. Fees and charges recovery rates are estimated at a point in time and may differ as the year progresses and other overhead costs increase.	Cost increases at a higher rate than the increases set for fees and charges would result in the need for funding from other sources such as rates to cover shortfalls.
Central government funding				
Budgets have been prepared including funding from the COVID-19 Response and Recovery Fund for Naenae Pool ($27M) and the Eastern Bays Shared Path ($30M). Budgets also included funding from the Infrastructure Acceleration Fund of $99M towards growth wastewater and stormwater projects on the valley floor.	Funding requirements are not met and therefore funding from central government does not eventuate.	Low	Receipt of this funding is dependent on continued government support for the scheme, as well as Council meeting specific milestones as the projects are completed.	Any change in the level of grants received would require the funding gap to be made up from borrowing or for projects to reduce in scope.
Level of debt				
The Financial Strategy sets limits on net debt* at 250% of total revenue* for the period of the 10 Year Plan. Net interest must be less than 15% of total revenue* and less than 25% of rates revenue. *as per the Financial Strategy	Higher debt levels lead to higher servicing costs.	Moderate	Council's ability to service debt from existing funding sources reduces.	Change in the capital programme, the service levels offered by Council or rates revenue requirements may lead to a change in debt levels.
Climate change				
The changing climate will affect the city and Council infrastructure due to a wide variety of climate impacts.	Climate change impacts such as sea-level rise and increased rainfall	Moderate	In the short to medium term (10–30 years), impacts are relatively certain (e.g., the sea	Initiatives to optimise environmental outcomes for Lower Hutt inhabitants may be too expensive to progress in a

Assumption	Risk	Level of uncertainty	Reason for the uncertainty	Financial impact of the uncertainty
	intensity will impact on the city, including Council infrastructure. This has flow-on effects, such as capital and operational cost increases to maintain functional infrastructure. Social, economic, cultural and environmental impacts will also be felt by residents, businesses and visitors.		level is rising slowly), but resulting impacts are still fairly limited. Impacts are less certain in the longer term, but likely to be more severe. The timing of when climate change impacts will significantly impact the city and Council's infrastructure is relatively uncertain. In addition, if global emissions are not reduced quickly, the scale of impacts is likely to increase beyond those that are already reasonably certain.	financially constrained environment; but lack of investment now is very likely to lead to worse outcomes in the future (e.g. reducing emissions quickly comes at a cost but can avoid those climate impacts that are not yet locked in). Uncertainty of the timing and ultimate scale of impacts will affect the timing and scale of forecast capital and operational expenditure, asset impairment and reduced useful life of infrastructure assets in areas vulnerable to the harm of climate change-related events.
Water Services transition				
The Water Services transition programme with Council moving to a new entity with a Regional Water Services Delivery Plan (WSDP) is in the early stages of planning with a range of uncertainties. It is important that planning for the council's three waters assets is continued in the interim and included in the Draft Annual Plan. On this basis, the Draft Annual Plan will be prepared with Council's three waters services included in all the years of the Draft Annual Plan 2024-34 to ensure we can provide certainty to our communities around this investment and the rates impact. Once the Regional model is further progressed	The delivery model may not be feasible resulting in the transition not being progressed or may not result in as large finance benefits for Council as envisaged.	Low	There is a some degree of uncertainty around the nature of this change.	Any resulting change may impact revenue, expenditure assets and liabilities that Council presents, however the activity will continue, led by any new entity created.

Assumption	Risk	Level of uncertainty	Reason for the uncertainty	Financial impact of the uncertainty
this assumption will be revised and updated to reflect any approved changes.				
Capital programme achievability				
Our plan largely assumes that the programme can be achieved over the life of the plan with an adjustment to budgets to reflect 75% funding and delivery assumption per year. Three Waters programme is assumed to be 100% delivered for the first two years of the plan and reverts to 75% delivery per year thereafter. Council is projecting a significant increase in its capital programme to achieve the outcomes proposed in its Long Term Plan 2024-34.	The planned capital programme is not able to be fully achieved over the life of the Draft Annual Plan. The increase in demand on contractors to achieve the programme may result in cost increases.	High	While investments have been made in funding resources to support delivery and taking actions alongside our partners to manage the increased expenditure effectively there are risks due to the increase in scale of the capital programme that there is not sufficient contractor availability or internal Council resource to support the delivery of the programme within the timeframes and projected costs included in the Draft Annual Plan.	Delays in projects can result in additional costs, including costs of retaining project staff for longer periods and inflationary impacts. The additional demand for contractors from the Council and in the region may impact market conditions and increase the cost of obtaining contractor services.

Long Term Plan/Annual Plan Subcommittee

06 August 2024

Report no: LTPAP2024/4/233

Jackson Street Three Waters Renewals

Purpose of Report

1. This report considers the financial options and implications on the 2024-2034 Long Term Plan of simultaneously undertaking the renewal of three waters infrastructure in Jackson Street, Petone.

Recommendations

That the Subcommittee recommends that Council:

(1) notes the Council resolution of 25 July 2024 that the renewal of three waters infrastructure within a 560-metre stretch of Jackson Street, Petone be undertaken simultaneously;

(2) notes that, apart from a $3.5M stormwater carry-over from 2023-24 to 2024-25, the cost of these works, estimated to be $24.35M over a three year period has not been included as a specific renewal project within the 2024-2034 Long Term Plan;

(3) notes the options identified in this report to fund this renewal project;

(4) agrees to either;

  (a) bring forward budget provision from the three water renewals budget in years 4 and 5 of the Long Term Plan to undertake this work; or

  (b) direct officers to provide further advice to the next meeting of the subcommittee on projects, other than within the three waters activity, that might be deferred to offset the cost of this work; and

(5) notes the overall financial impact of the bring forward of budget option for three water renewals will result in additional interest cost for debt funding, with a rates impact of approximately 0.7% in 2026-27.

For the reason that bringing forward generic budget has the least impact overall on the work programme, rates and managing risk.

Background

2. At its meeting of 11 July 2024, the Infrastructure and Regulatory Committee recommended that Council agree to proceed in principle with undertaking the renewal of aged water, wastewater, and stormwater pipes simultaneously, in a 560-metre stretch of Jackson Street between Queen and William Streets. Council confirmed this recommendation at its meeting of 25 July 2024.

3. The funding of the works, estimated to be $24.35M and largely not provided for in the 2024-2034 Long Term Plan, (LTP), apart from a carry-over of $3.5M for stormwater renewal, has been referred to this sub-committee for consideration.

4. The earliest this capital renewal project could commence would be in the 2025/26 financial year and is estimated to take between 2.5 to 3.5 years to complete.

5. Contingency and funding risk have been included in the estimates, noting that for both the wastewater and drinking water renewals these are based on concept design with stormwater fully designed so has a higher level of certainty.

Options

6. There are four options which Council could consider funding these renewal works. These are:

   a. bring forward budget provision from generic three water renewal budgets for this work;

   b. defer or scrap other capital projects and re-allocate that funding to these works;

   c. agree to make new budget provision for these works; or

   d. any combination of options a, b, and c.

Discussion

7. The LTP includes unspecified generic renewal funding allocations in years 4-10 on the basis that specific renewal projects for those years have yet to be determined/prioritised.

8. This option would be for Council to bring forward funding from years 4 and 5 to undertake this work. The generic drinking water renewal budget has a combined sum of $23.9M in years 4 and 5, some of which could be brought forward by one year and re-purposed across all three networks for this work.

9. An estimate of the costs for each water renewal type is: Water $12.3M, Stormwater $7.7M and Wastewater $4.3M. A breakdown of the indicative budget requirements per year per water (cashflow) is shown in the table in the financial considerations section of the report.

10. The financial implications of this option are shown in the financial considerations section of the report.

11. Bringing forward the water renewal budget would require an estimated total of $8.5M to be reallocated to stormwater ($4.2M) and wastewater ($4.3M).

12. A second option is to defer other projects within the three waters activity, to re-prioritise budget provision for this work. Wellington Water advice is that three waters capital projects for the first three years of the LTP are generally works that have a high priority and would result in increased risk if not

undertaken. While this option is not recommended, Council could consider projects such as;

a. Eastern Hills reservoir defer part of the work for a further year. ($19.7M in year 3)

b. Wainuiomata Wastewater Network Improvements deferred ($7M over first 3 years).

c. Universal Water meters – defer a portion of this work in year 3 of the LTP ($18M).

13. A third option is to add new budget provision. The financial implications of doing this are outlined in the financial considerations section of the report.

Climate Change Impact and Considerations

14. Climate considerations were considered as part of the earlier report to the Infrastructure and Regulatory Committee. This report is confined to the funding of the works.

Consultation

15. There has been no consultation on the funding of these works. Jackson Street Programme (JSP) supports in principle the renewal of the different water networks simultaneously.

Legal Considerations

16. There are no legal considerations.

Financial Considerations

17. The indicative cashflow for the project is shown in the following table, based on assumptions that the physical works will commence in February 2026 and take 3 years and 2 months to complete.

Jackson Street Three Waters Renewals - Indicative Cashflow ($M)				
	SW	WW	WM	Total
FY24/25		0.25	0.30	0.55
FY25/26	1.10	0.65	1.50	3.25
FY26/27	2.60	1.30	4.00	7.90
FY27/28	2.60	1.30	4.00	7.90
FY28/29	1.40	0.80	2.50	4.70
	7.70	4.30	12.30	24.30

18. There are interest costs associated with bringing forward or adding additional funding as the debt would be incurred earlier. There are also depreciation costs associated with adding in new funding.

19. The financial changes to the LTP of bringing forward budget provision from generic budgets or adding new budget provision to undertake these works is shown in the following table with an assumption that $3.5M is funded from carryovers from 2023-24 for Stormwater works.

Options	Debt impact $'M	Estimated operating cost impact over 10 years $'M	Estimated rates impact over 10 years (no impact for 2025-26)
Bring forward funding	0	2.21	0.7% increase in 2026/27
New funding	20.8	28.20	3.2% increase, phased in from 2026/27

20. There could be a further option where Council could choose to defer projects in activities other than Water Services. This could be looking at deferrals of service level improvement projects or all projects.

21. Officers are seeking early direction on whether Council would like further advice and options around projects to be deferred at the meeting on 25 November when all budget decisions for the Draft Annual Plan 2025-26 will be considered.

22. As Council is aware there are debt headroom constraints in the LTP, with additional investment creating more pressure on this headroom and risks.

Appendices

There are no appendices for this report.

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Director Environment and Sustainability

Long Term Plan/Annual Plan Subcommittee

31 July 2024

Report no: LTPAP2024/4/234

Three Waters Capital Carry-Overs

Purpose of Report

1. This report outlines the proposed carry-overs for the three waters activity for Council consideration and approval.

Recommendations

That the Subcommittee recommends that Council:

(1) notes that for the 2023/24 financial year the three waters CAPEX budget was underspent by $10.4M;

(2) notes that the main items contributing to this variance were:

  (a) Jackson Street Stormwater Renewal due to deferral while investigations carried out into widening the scope of the project;

  (b) Naenae stormwater investigations that were not completed;

  (c) Pressure Management works as approved by Council in February 2024, which took longer to commence than planned;

  (d) Howard Road watermain renewal due to delays with the programme;

  (e) Eastern Hills Reservoir required to obtain resource consents from both Hutt City Council and Greater Wellington Regional Council; and

  (f) Wastewater works which include trunk main outfall overflow consent investigations, Petone Collecting sewer and trunk main renewal (Totara Park); and

(3) agrees to carry-over to the 2024/25 financial year a sum of $5.9M and to the 2025/26 financial year $4.5M in respect of these underspent budgets.

Background

2. The three waters capital projects budget for 2023/24 was underspent by $10.4M. This follows a request for additional funding, approved by Council in February 2024, to allow for additional capital works, some new and others brought forward from future years.

3. While year-end actuals reflect that some projects aren't as far advanced as forecast earlier this year, it has enabled most of the additional projects to commence and has provided a springboard for their delivery this financial year, subject to carry-over.

4. The main projects for which carry-overs are being sought are as follows:

    a. Jackson Street Stormwater Renewal, which was put on hold while investigations were undertaken to assess the coordinated renewal of all three water networks in this part of Jackson Street and which is the subject of a separate report to this Subcommittee.

    b. Investigations into stormwater renewals at Buller Grove, Horlor Street, Pilcher Crescent, Seddon Street, and Cleland Crescent in Naenae, which is yet to be completed.

    c. Pressure Management works, which have been identified by WWL as high priority in managing water loss. This work involves the installation of pressure reduction valves around identified network zones with higher than required pressure. Lowering the pressure means that vulnerable pipes in poor condition are less likely to fail. This work, which was authorised by Council in February 2024, commenced later than expected due to delays with awarding contracts.

    d. Howard Road watermain renewal work for which there have been some delays with the upper section of the works through reserve land in gaining required consents.

    e. Consents for the new Eastern Hills Reservoir (required from both HCC and GWRC) have been pushed out with the physical works now programmed to commence later than originally planned.

    f. Planning and investigative work on the main wastewater outfall pipe was partially unspent while focus has been on working with Mana Whenua on agreed outcomes to drive a preferred solution. A smaller sum of $330k is also being carried over to complete the wastewater main renewal over the Totara Park Road bridge.

Discussion

5. Carrying over the unspent three waters capital budget will enable the projects to continue without impacting the overall work programme.

6. WWL advice on investment required for the 2024 – 2034 Long Term Plan was based on the budget provision for 2023/24 being fully utilised.

7. If the carry-over is not approved the capital works programme will need to be re-visited to accommodate changes equivalent to the amount of the carry-over.

Options

8. Council could decide not to approve the carry-overs, but this would result in there being less available budget of $10.3M resulting in a need to re-prioritise the three waters capital work programme.

Climate Change Impact and Considerations

9. The decision to carry-over funding to enable the envisaged capital works programme has no climate change consideration that has not already been considered.

Consultation

10. There is no consultation requirement in considering these carry-overs.

Legal Considerations

11. There are no legal considerations.

Financial Considerations

12. The details of the specific carryovers are shown in the following table:

Project Name	2024/25 $000	2025/26 $000	Total $000
Water Supply			
Pressure Management	1,500	390	**1,890**
Eastern Hills Reservoir	700	-	**700**
Howard Road Renewals	1,400	**-**	**1,400**
Wastewater			
Main Outfall Pipeline consent works	700	800	**1,500**
Totara Park Bridge Trunk Renewal	640	-	**640**
Petone Collecting Sewer	-	370	**370**
Stormwater			
Jackson Street Renewals	560	2,940	**3,500**
Naenae Investigations	400	-	**400**
Totals	**5,900**	**4,500**	**10,400**

Appendices

There are no appendices for this report.

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Long Term Plan/Annual Plan Subcommittee

07 August 2024

Report no: LTPAP2024/4/235

Micromobility Programme

Purpose of Report

1. The purpose of this report is to seek approval to proceed with a Micromobility programme of works without NZTA subsidy.

Recommendations

That the Subcommittee recommends that Council:

(1) receives and notes the report;

(2) notes the June 2024 report LTPAP2024/3/140 Micromobility Options 2024/25 Onwards was considered by the Long Term Plan/Annual Plan Subcommittee; and

(3) approves a $7.28M unsubsidised budget available over the 2024-2027 Long Term Plan period to fund Micromobility projects.

Background

2. Council submitted nine Micromobility programme projects (total value $47.5M) in the NLTP 2024-27, seeking NZTA funding subsidy of 51%.

3. The Government's Policy Statement (GPS) for transport does not prioritise micromobility projects for funding.

4. Council's Long Term Plan (LTP) includes a $14.86M total budget over the 2024-27 period for Micromobility projects. This budget assumed a 51% subsidy from NZTA. Without the NZTA subsidy a $7.28M budget is available for projects funded by Council. The budget, by year, is set out in Table 3.

5. The self-funding reduces capital spend by $7.58M (so only $7.28M capital is spent) to offset reduced revenue by $7.58M with no NZTA subsidy approved. The net effect is that the cash or debt required position is equal to spending $14.86M capital and receiving the NZTA subsidy of $7.58M.

6. At the Long Term Plan/Annual Plan Subcommittee meeting on 4 June 2024, it was recommended that Council retain a self-funded $7.28M budget for the 2024-27 period to fund Micromobility projects without subsidies.

7. It was also recommended that Council prioritise projects ready for construction. These projects being the Avalon and Taita school cycleways.

Discussion

8. The cycleway strategic review, along with the Avalon and Taita projects costs, are being revalidated and this will be reported back to the Infrastructure and Regulatory Committee on 12 September 2024.

9. The National Long Term Plan (NLTP) funding pool is constrained, and it is highly likely that the Micromobility projects will not rank highly enough to receive funding in the 2024-2027 period. The NLTP will be published in the last quarter of 2024.

10. Table 1 sets out the proposed projects to proceed within the requested budget.

Table 1: Micromobility Projects

Ref	Description	Value (est)
1	Single-stage business case – Cycleway strategic overview	$500,000
2	Implementation – Avalon Cycleway	$4,400,000
3	Implementation – Taita Cycleway	$2,380,000
		$7,280,000

Climate Change Impact and Considerations

11. The matters addressed in this report have been considered in accordance with the process set out in Council's Climate Change Considerations Guide.

Options

12. The options have been through prior Council's decisions which include climate change impact implications.

Consultation

13. The projects in this report were included in the NLTP 2024-27 and covered within the RLTP consultation process. Community engagement was undertaken for the Avalon and Taita Micromobility projects in 2023. Further project consultation will be undertaken as the projects move forward.

Legal Considerations

14. There are no legal considerations required.

Financial Considerations

15. There is no revenue allocation associated with this capital expenditure. The updated revenue spend profile is outlined in Table 2. The tables below do not include any carryover from 2023-24.

16. The predicted capital expenditure profile for delivering the Micromobility programme brings expenditure forward into the 2024-26 period. The updated spend profile is outlined in Table 3.

Table 2: Micromobility Revenue Budget

The presented figures are inflated				
Description	2024/25 $M	2025/26 $M	2026/27 $M	Total 2024/27 $M
LTP 2024-34	4.01	2.02	1.54	7.58
Annual Plan 24/25	0.00	0.00	0.00	0.00
Variance	(4.01)	(2.02)	(1.54)	(7.58)

Table 3: Micromobility Capital Expenditure Profile

The presented figures are inflated				
Description	2024/25 $M	2025/26 $M	2026/27 $M	Total 2024/27 $M
LTP 2024-34	$7.86	$3.97	$3.02	$14.86
Annual Plan 24/25	$5.10	$2.18	$0	$7.28
Variance	$2.76	$1.79	$3.02	$7.58

17. Proceeding with the above capital spending profile will result in an additional interest cost impact of $400k.

Appendices

There are no appendices for this report.

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Long Term Plan/Annual Plan Subcommittee

12 August 2024

Report no: LTPAP2024/4/236

Proposed budget changes for 2024-25 and later years

Purpose of Report

1. To seek approval for budget changes to 2024-25 and later years.

Recommendations

That the Subcommittee recommends that Council:

(1) notes the 2023-24 year-end budget changes to projects as outlined in the report;

(2) agrees to amend the operating and capital budgets for 2024-25 and later years as detailed in this report due to the budget changes that have been identified, refer to Tables 1 and 2 contained in the report and Appendix 1 attached to the report; and

(3) agrees to the operating and capital budget changes for 2024-25 and future years as detailed in Table 3 of this report to be included in the Revised budget 2024-2025 and the Draft Annual Plan 2025-2026.

Section A: Background

2. The Long Term Plan 2024-34 (LTP) was adopted by Council on 27 June 2024. The budgets included in the plan were based on the latest financial information and estimates available at the time of the preparation of the plan. Several budget changes from 2023-24 were identified early and therefore approved to be included in the LTP.

3. Through the review of the year-end financial results for 2023-24 there have been additional changes identified which have budgetary impacts for 2024-25 and out years. These changes relate to project delays or early delivery of some projects. The budget in 2024-25 and out years is proposed to be updated to reflect the timing difference based on the latest available information.

4. In recent years, where budget changes to existing approved budgets have been required, the change to the budget has been treated as a 'Revised Budget.' This report seeks Council approval related to a Revised Budget for 2024-25 to reflect the inclusion of the new budget carryovers and changes

required to improve the accuracy of budgets and the associated reporting of variances.

Section B: Performance reporting

5. Council is legislatively required to prepare an Annual Report and for this report to include financial results which compare to the Annual /Long Term Plan budgets. There is no change proposed in relation to this process.

6. From a financial performance monitoring perspective, the quarterly reporting to the Policy, Finance and Strategy Committee will include both information on Annual Plan budgets and the Revised Budgets which have been approved by Council. The focus of performance monitoring will be on financial results compared to the Revised Budgets as this would be the most meaningful and useful from a performance perspective. This is in line with the process applied in past financial years.

7. Monthly internal performance monitoring processes for Council will focus on delivering the work programme against the Revised Budgets.

8. There could be further changes to the Revised Budget during the year. For example, Council may decide during the year to progress a new priority initiative and reprioritise funding. This will be included as a Revised Budget change which would provide officers with the authority to progress the initiative.

Section C: Year-end carryovers/deferrals and budget changes

9. Council delivered $176M of capital expenditure in 2023-24, which was 78% of the $225.7M Annual Plan budget and 83% of the $211.5M Revised Budget.

10. As part of the LTP considerations and final adoption, Council approved several changes to operating and capital budgets from 2023-24 to 2024-25 and later years or vice versa. These were prepared based on best information available at the time.

11. As part of the 2023-24 year-end process, officers have reviewed the final results against the Revised Budget and re-assessed the need to carryover unspent budgets into the subsequent financial years or bring forward funding where there has been early delivery. The assessment is based on specific criteria:

    a) deferrals are for projects that are in the execution phase but have experienced unexpected timing changes.

    b) deferrals relate to specific circumstances, for example grants committed to third parties etc.

    c) ongoing development and renewal programme budgets cannot be carried forward unless they meet the requirements of a) above.

    d) savings and unused contingencies of completed projects cannot be carried forward or be used to offset other projects.

    e) the whole of life project cost cannot be changed unless there is an approved variation. The budget changes represent a timing change only.

12. Alongside these criteria is the need to assess overall financial performance and check whether there are any other reasons not to progress the carryover of budget.

13. Carryovers being requested are required to address the state of some of Council's assets. Many projects have been delayed due to delays in material shipping, contractor availability, and internal resource shortages.

14. Appendix 1 to the report provides a detailed project listing of the proposed year-end budget changes for which approval is sought. Council approval is sought to revise the 2024-25 budgets to include these carryovers to enable improved performance monitoring of project budgets. The overall financial impact of these changes is minor as they are timing changes only.

Section D: Summary financial impact on 2024-25 of all budget changes from 2023-24

15. The following table shows a summary of the financial impact of changes proposed (refer to Appendix 1 of this report) to year 1 of the Long Term Plan 2024-34, ie Annual Plan 2024-25.

Table 1: Financial impact summary for 2024-25

Detail	Net operating position	Capital investment
Approved Annual Plan 2024-25 Year	$34.4M Surplus	$248M
Carryover change impact from 2023-24	$3.6M Net Opex increase	$22.2M
Other budget change impact (Refer table 3)	0.1M Net Opex increase	($2.8M)
Revised Budget 2024-25 Year	$30.7M Surplus	$267.4M

16. The impact of the capital budget changes is only on the timing of borrowings across years and interest cost changes.

17. Table 2 that follows provides an overview by activity of the proposed budget changes.

Table 2: Summary by activity of proposed budget changes

	2024-25		Later years 2026-2034		
Activity	Opex $'M	Capex $'M	Opex $'M	Capex $'M	Commentary
Community Partnering & Support	0.0	(0.9)	0.0	0.0	Capex carryover is mainly to preserve the funding for community panel projects and the Walter Nash center.
Open Spaces, Parks & Reserves	0.0	(1.2)	0.0	0.0	Carryover is related to a range of capital projects which are delayed because of resourcing and contractor capacity constraints.
Solid Waste	0.0	(0.6)	0.0	0.0	Carryover is related to landfill project which is delayed because of weather issues.
Connectivity, Creativity, Learning & Recreation	(0.8)	(6.0)	0.0	0.0	Opex is related to community funding for Naenae town centre linked to coincide with capital works completion. Capex is mainly for Naenae pool delays and timing differences.
City Development	(3.1)	(2.1)	1.2	(3.0)	Opex mainly relates to the carryover of unspent portion of the Development Stimulus fund which is impacted by the construction market. Capex largely relates to RiverLink where the work programme scoping and split between Alliance and Council is still being finalised. There is also carryover of funding for the Wise Street extension project which is delayed due to engagement processes with developers and private landowners.

	2024-25		Later years 2026-2034		
Activity	Opex $'M	Capex $'M	Opex $'M	Capex $'M	Commentary
Transport	0.4	(4.6)	(1.1)	(1.6)	Opex is grant and subsidies related to capital projects. Although some of the subsidy funding is being carried over, these funding assumptions would need to be reviewed and any changes reported on together with other funding decisions in November. Capex is for projects which are delayed due to a range of reasons. The largest of these is Slip remediation, Traffic Safety and Micromobility.
Three Waters	0.4	(5.4)	0.4	(4.5)	WWL carryovers are outlined in a separate report in the agenda with details of project. IAF projects have slight timing changes with earlier delivery of some aspects and delays in others
Corporate Services	(0.5)	(1.3)	0.0	0.0	Opex is largely due to delays to the community engagement and homelessness strategy programmes. Capex carryover is mainly for building renewal works.
Total budget changes from 2023-24	**(3.6)**	**(22.2)**	**0.5**	**(9.1)**	

Section E: Other budget changes

18. Table 3 below presents revisions to LTP budgets required due to changes related to funding approvals, cost increases and changes in scope of works. These budget changes are not included in the LTP and will be reflected as a revised budget change for 2024-25 and future years.

19. The overall financial impact of these changes is presented in the table below including any assumed subsidy impacts.

Table 3: Budget matters for consideration by Council, requiring a decision

	Brief Description	Financial impact over the ten years of the LTP and officer recommendation	Further information
1.	Water services – Jackson Street Programme renewal Infrastructure and Regulatory Committee recommended at its meeting on 11 July 2024 that Council proceed in principle with undertaking the renewal of aged water, wastewater, and stormwater pipes simultaneously, in a 560-metre stretch of Jackson Street between Queen and William Streets. The separate report included in the agenda outlines four options for funding this work programme.	Capex of $3.5M in 2024-26 will be met from carryovers from 2023-24. Additional capex increase of $20.6M is proposed for the project on top of the carryover. Officers recommend Council considers the funding options outlined in the separate report and provides direction on how this project should be funded.	Refer to a separate report in agenda.
2.	Regional water services delivery plan (WSDP) There is an operational cost requirement for Council to continue to be part of the work on a regional water services model and associated development of a joint WSDP which is not factored into the budget.	The estimated share of the costs from September 2024 to June 2025 is expected to be around $0.5M. This estimate could change depending on other partner Councils choosing to opt out of the regional delivery model. Officers recommend this funding is reprioritised from the operating budget approved through the LTP.	N/A

	Brief Description	Financial impact over the ten years of the LTP and officer recommendation	Further information
3.	Transport – Micromobility Rephasing of projects to deliver some projects in the first three years as approved on 27 June 2024. Proposal to exclude Waka Kotahi funding in the programme for the first three years.	Capex reduction of $2.8M in 2024-25 ($7.58M over 3 years) is proposed. Revenue reduction of $4.01M in 2024-25 ($7.58M over 3 years) is proposed. This would have an estimated opex impact of $0.1M in 2024-25 ($0.4M over 10 years) related to additional interest costs for funding brought forward. Officers recommend Council approves this change.	
4.	Cuba Street overbridge Following a seismic assessment Cuba Street overbridge has been assessed as expecting to have significant damage after a 1 in 20 year earthquake (similar strength to the 2016 Kaikoura earthquake). Strengthening works is proposed to lift the bridge from being 25 times more likely to collapse in a large earthquake to 5-10 times more likely to collapse when compared to a new bridge. Additional budget is required to increase the safety and resilience of Cuba Street Overbridge.	Capex increase of $0.9M in 2024-25 is proposed with funding re-allocated from the Cross Valley Link programme as this work is interconnected to the priorities of that programme. Officers recommend Council approves this change.	Refer to Appendix 2

Climate Change Impact and Considerations

20. The matters addressed in this report have been considered in accordance with the process set out in Council's Climate Change Considerations Guide.

Consultation

21. Consultation was carried out when preparing the LTP.

Legal Considerations

22. The most relevant legislation includes the Local Government Act 2002.

Financial Considerations

23. The financial considerations are detailed in this report.

Appendices

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Group Chief Financial Officer

Approved By: Jo Miller
Chief Executive

Appendix - Budget changes for 2023-24 with impacts on 2024-25 and out years

The budget changes being proposed are reflected below. This table is comparing the 2023-24 full year spend in column A to the annual revised budget in Column B with the favourable or unfavourable variance in column C.
Column D represents the change in budget required to be approved for 2024-25 and out years.
Columns E and F reflect how Column D is being spread across 2024-25 and out years.

	A	B	C	D		E	F
Solid Waste						**Budget change Spread**	
Carryover listing	**Full Year Actual $000**	**Annual Revised Budget $000**	**(Over)/Under Spend $000**	**Budget change requiring approval $000**	**Reasons for carryover from 2023-24 to later years**	**Budget change to 2024-25 $000**	**Budget change to Later years $000**
Capital Projects							
Silverstream LF Stg 2 Design & Const	7,787	8,470	683	(683)	While officers estimated that up to $8.5M might be spent in 23/24 which included bringing forward $1.5M of funding, capex works at the landfill are highly dependent on a range of factors, including weather conditions. This has resulted in a variance.	683	0
Silverstream Landfill EV Charging Station	419	300	(119)	119	Progress has been made on finalising the design of the EV Charging Hub, and ordering of the transformer to enable the hub. Some costs were realised earlier than originally anticipated. The project is on track for completion during 24/25.	(119)	0
Total	**8,206**	**8,770**	**564**	**(564)**		**564**	**0**

Corporate Services						Budget change Spread	
Project	Full Year Actual $000	Annual Revised Budget $000	(Over)/ Under Spend $000	Budget change requiring approval $000	Reasons for carryover from 2023-24 to later years	Budget change to 2024-25 $000	Budget change to Later years $000
Operating budgets							
Go Digital Program	1,683	1,780	97	(97)	Extra time has been taken to ensure due diligence across procurement and contract negotiations for the CRM, Bookings, Pools and Fitness Projects, and Hybrid Cloud. The delivery of the HRIS/Payroll project has also been delayed and pushed into 2024/25. This has meant these projects start dates with the providers have been delayed meaning costs associated with establishing and delivering these projects have been pushed further into the 2024/25 Financial Year.	97	0
Community Engagement Research	25	322	235	(235)	The project was delayed due to a vacancy which was filled in May 2024. The project plan has now been established to deliver the city strategy and work is underway with the first milestone being the delivery of the city summit in September 2024, followed by a comprehensive engagement programme and development of the strategy.	235	0
Homelessness Strategy	527	738	211	(211)	The works are in progress and carryover required to ensure the committed contract can be completed.	211	0
Total	**2,235**	**2,840**	**543**	**(543)**		**543**	**0**
Capital Projects							
The Pavilion Improvements	131	257	126	(126)	Proposing to carryover to finish the general building improvements including ceiling tiles, carpet tiles, kitchen and bathroom upgrades and essential works on generator. Unable to be completed in FY due to resourcing.	126	0
Contingent Facilities Management Fund	414	1,538	1,124	(1,124)	The carryover will cover the cost of renewal of buildings.	1,124	0
Total	**545**	**1,795**	**1,250**	**(1,250)**		**1,250**	**0**

Water Supply						Budget change Spread	
Project	**Full Year Actual $000**	**Annual Revised Budget $000**	**(Over)/Under Spend $000**	**Budget change requiring approval $000**	**Reasons for carryover from 2023-24 to later years**	**Budget change to 2024-25 $000**	**Budget change to Later years $000**
Capital Projects							
Total capital	**31,665**	**35,653**	**3,988**	**(3,988)**	Refer to separate report for WWL budget carryovers and details of projects.	**3,600**	**388**

Wastewater						Budget change Spread	
Project	**Full Year Actual $000**	**Annual Revised Budget $000**	**(Over)/Under Spend $000**	**Budget change requiring approval $000**	**Reasons for carryover from 2023-24 to later years**	**Budget change to 2024-25 $000**	**Budget change to Later years $000**
Operating budgets							
Capital subsidy - revenue	0	(753)	(753)	753	Subsidy related to Joint venture projects with UHCC which are being carried over.	(402)	(351)
Capital Projects							
WWL capital	36,992	39,498	2,506	(2,506)	Refer to separate report for WWL budget carryovers and details of projects.	1,340	1,166
Wastewater Valley Floor Infrastructure Growth	1,430	600	(830)	830	Bring forward of budget to reflect overspend against the revised budget, which reflected our best estimate for delivery by 30 Jun 24. However, work program was accelerated more than expected, overall budget remains within LTP approved budget.	(830)	0
Total capital	**38,422**	**40,098**	**1,676**	**(1,676)**		**510**	**1,166**

Stormwater						Budget change Spread	
Project	**Full Year Actual $000**	**Annual Revised Budget $000**	**(Over)/Under Spend $000**	**Budget change requiring approval $000**	**Reasons for carryover from 2023-24 to later years**	**Budget change to 2024-25 $000**	**Budget change to Later years $000**
Capital Projects							
WWL capital	3,155	7,049	3,894	(3,894)	Refer to separate report for WWL budget carryovers and details of projects.	950	2,944
Stormwater Valley Floor Infrastructure Growth	753	1,100	347	(347)	Carryover to reflect underspend against the revised budget reflected our best estimate for delivery by 30 Jun 24. However, work program was accelerated more than expected, overall budget remains within LTP approved budget.	347	0
Total	**3,908**	**8,149**	**4,241**	**(4,241)**		**1,297**	**2,944**

Three waters capital total	**73,995**	**83,900**	**9,905**	**(9,905)**		**5,407**	**4,498**

Transport						Budget change Spread	
Project	Full Year Actual $000	Annual Revised Budget $000	(Over)/Under Spend $000	Budget change requiring approval $000	Reasons for carryover from 2023-24 to later years	Budget change to 2024-25 $000	Budget change to Later years $000
Operating budgets							
Revenue - subsidies and grants	11,917	12,641	(724)	(724)	Subsidy related to capital carryovers for Bridge Seismic Strengthening Cuba Street Overbridge and Slip Remediation projects. Reduction of subsidy and grant in later years for Tupua Horo Nuku accelerated works.	(405)	1,129
Total	**11,917**	**12,641**	**(724)**	**(724)**		**(405)**	**1,129**
Capital Projects							
Bridge Seismic Strengthening Cuba St. Overbridge	99	450	351	(351)	Unforeseen complexity has led to delay in obtaining appropriate technical assessments. These are still being negotiated, with a decision expected in Sep 2024 and physical work commencing around Dec 2024.	351	0
Traffic Safety Improvements	806	1,828	1,022	(1,022)	Underspent due to delays in finalising contract terms. Funding carried over to complete signalisation on High x Boulcott in 2024-25.	1,022	0
Slip Remediation	177	3,460	3,283	(3,283)	Underspend due to delays in securing suppliers to undertake construction. This is now underway, with the works expected to be completed by Dec 2024.	3,283	0
Wainuiomata Coast Road Rehabilitation	0	1,500	1,500	(570)	The carryover is due to changes in the timing of priority sites.	570	0
Micromobility	6,255	10,108	3,853	(1,888)	Carryover of budgets required to complete existing initiatives in 2023-24 with the balance carried forward to 2025/26 as Year 2 of programme.	400	1,488
Cross Valley Connections	68	200	132	(132)	Work on the Cross Valley Connections programme was paused until NLTP funding direction was received.	0	132
Network Resilience - Eastern Hutt Road	4,888	5,039	151	(151)	The carryover is due to the defects liability period which continues into 2024-25.	151	0
Tupua Horo Nuku (Eastern Bays Shared path)	19,930	18,800	(1,130)	1,130	Carry back from 2024-25 to account for orverspend related to acceleration of work on all milestones in 2023-24.	(1,130)	0
Total	**32,223**	**41,385**	**9,162**	**(6,267)**		**4,647**	**1,620**

City Development						Budget change Spread	
Project	Full Year Actual $000	Annual Revised Budget $000	(Over)/Under Spend $000	Budget change requiring approval $000	Reasons for carryover from 2023-24 to later years	Budget change to 2024-25 $000	Budget change to Later years $000
Operating budgets							
Capital subsidy - revenue	(1,256)	(2,805)	(1,549)	1,549	Subsidy related to Te Wai Takamori o Te Awa Kairangi - RiverLink project underspend.	0	(1,549)
Development Stimulus Package	415	3,546	3,131	(3,131)	Underspend is due to developments under agreement with Council are yet to be realised. The budgets and forecasting is based on timelines of developments cited in remissions agreements. We are continuing to re-engage with owners and developers to more accurately determine completion of developments.	2,819	312
CBD Place Maker	6	105	99	(99)	The carry over is due to the delays in the Te Wai Takamori o Te Awa Kairangi RiverLink programme and will be used to support activities that bring people into the CBD during construction.	99	0
City Safety Fund	0	150	150	(150)	Business Safety Support Fund was delayed and opened in August 2024. The funds are expected to have been allocated by December 2024.	150	0
Total	**(835)**	**996**	**1,831**	**(1,831)**		**3,068**	**(1,237)**
Capital Projects							
Urban Growth Strategy Improvements	22	1,560	1,539	(1,539)	To be carried over and spent on extension to Wise Street. Estimated cost to complete is in excess of carryover amount. Delays due to engagement with developers and private landowner.	1,539	0
Te Wai Takamori o Te Awa Kairangi -RiverLink	11,754	14,320	3,016	(3,016)	Carry forward into 2025/26 to account for underspend to revised budget. Delay as awaiting clarity on Alliance-delivered component	0	3,016
Wainuiomata Queen Street Development	410	1,085	675	(100)	This project was completed in 2023/24 apart from some work that is outstanding as a result of the safety audit. The carryover is required to complete the work required as a result of the safety audit.	100	0
Wainuiomata Town Centre reserve development	0	500	500	(500)	Funding was made available from Parks and Reserves to undertake landscape works as a part of the Wainuiomata Streetscape Plan however this budget was not required for this work. The budget needs to be carried over to provide for other reserve development projects as a part of the Reserve investment strategy.	500	0
Total	**12,186**	**17,465**	**5,730**	**(5,155)**		**2,139**	**3,016**

Community Partnering & Support						Carryover Spread	
Project	Full Year Actual $000	Annual Revised Budget $000	(Over)/Under Spend $000	Carryover requiring approval $000	Reasons for carryover from 2023-24 to later years	Carryover to 2024-25 $000	Carryover to Later years $000
Capital Projects							
Walter Nash Centre Equipment and Fitout	0	95	95	(95)	Carryover required to cover items ordered but not delivered	**95**	**0**
Walter Nash Taita Centre Furniture	0	53	53	(53)	The delay in spend is due to limited resources and prioritisation of wok on other projects throughout the year	**53**	**0**
Community Panel Projects	0	576	576	(576)	Carryover required to fund P&R track at Te Whiti Park, to contribute to Naenae Skate Board - half pipes and Community Climate Action Fund which is ready for public release in Q 1 2024.	**576**	**0**
Walter Nash Centre Renewal	134	242	108	(108)	The delay in spend is due to limited resources and prioritisation of work on other projects throughout the year	**108**	**0**
CCTV Replacement	0	90	90	(90)	CCTV replacement to be carried into 2024/25. CCTV programme is currently under a review which is investigating an all of council approach to cameras rather than isolated local networks. This budget is required to purchase and relocate new CCTV's once this work is completed.	**90**	**0**
Total	**134**	**1,056**	**922**	**(922)**		**922**	**0**

Open Spaces, Parks & Reserves						Carryover Spread	
Project	Full Year Actual $000	Annual Revised Budget $000	(Over)/Under Spend $000	Carryover requiring approval $000	Reasons for carryover from 2023-24 to later years	Carryover to 2024-25 $000	Carryover to Later years $000
Capital Projects							
Black Creek reserve development	44	270	226	(226)	This work was identified in the Reserves Investment Strategy which is a strategic piece of work. Black Creek could not be completed last financial year because of lack of staff and contractors.	226	0
Wainuiomata Garden Of Remembrance	1	225	224	(224)	This work needed to be retendered which is why it didn't happen last year. The project sees an additional 260 (approx.) ash plots created at the Gardens. It is urgent as we have ten people on the waiting list and only three available plots. The work has already been tendered and signed with contractors on site mid-august.	224	0
Meadowbank Reserve Development Belmont	(2)	228	230	(230)	This work was identified in the Reserves Investment Strategy which is a strategic piece of work. It could not be completed last financial year because of lack of staff and contractors.	230	0
Petone Wharf	73	300	227	(227)	This will be utilised to undertake the conditional assessment and options plan for the remediation of the wharf that came out of the 2024-2034 LTP.	227	0
Track Renewal	92	207	116	(116)	This will be utilised for a replacement bridge at the Singers/Galbraith Gulley track bridge. Delays due to resourcing capacity.	116	0
Point Howard Wharf	27	200	173	(173)	Demolition to commence within next two weeks as there have been delays due to consenting processes. Carryover required to preserve funding to ensure demolition of asset.	173	0
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]

Connectivity, Creativity, Learning & Recreation						Carryover Spread	
Project	**Full Year Actual $000**	**Annual Revised Budget $000**	**(Over)/Under Spend $000**	**Carryover requiring approval $000**	**Reasons for carryover from 2023-24 to later years**	**Carryover to 2024-25 $000**	**Carryover to Later years $000**
Operating budgets							
Community Funding - Naenae	1,009	1,803	794	(794)	Funding for activation and resilience of the Naenae Town Centre. Funding to be preserved for activation of town centre over Q 1 and 2 2024 ahead of the Naenae Pool reopening and Capital investment works being completed	**794**	**0**
Total	**1,009**	**1,803**	**794**	**(794)**		**794**	**0**
Capital Projects							
Naenae Pool & Fitness Rebuild	22,373	28,009	5,636	(5,636)	Overall project progress is on track. Carryover is required to preserve funding and ensure the project is delivered on time.	**5,636**	**0**
Naenae Fitness Suite Equipment Purchase	55	158	103	(103)	Overall project progress is on track. Carryover is required to preserve funding and ensure the project is delivered on time.	**103**	**0**
RFID Robotic Returns Sorter	0	165	165	(165)	Carryover to align with WML renewal works, Budget required to replace sorter which is at the end of its life.	**165**	**0**
Furniture and Equipment Replacement Programme Libraries	13	101	87	(87)	23/24 underspend relates to the furnitures for Moera Library, the delay is mainly due to Moera furniture ordered but not arrived. Carryover required to preserve funding to ensure the purchase of asset.	**87**	**0**
Replace Library Shelving	10	53	43	(43)	23/24 underspend relates to the shelving for Moera Library, the delay is mainly due to Moera shelving ordered but not arrived. Carryover required to preserve funding to ensure the purchase of asset.	**43**	**0**
Total	**22,451**	**28,486**	**6,034**	**(6,034)**		**6,034**	**0**

Cuba street Overbridge		
Business unit	Transport	
LTP Activity	Transport	
Budget type	Capital	
Requested by:	Paul Hewitt	15/08/2024
Approved by director:	Jon Kingsbury	15/08/2024

1. Description of the project

Cuba Street is a two-lane arterial road which provides north-south connectivity between Ewen Bridge and Petone. It ranks within the top 10 roads in Lower Hutt for traffic volume and provides an evacuation route following a significant seismic event. Located on this road, the Cuba Street Overbridge was constructed in 1928 and spans Wakefield Street and the Hutt Valley/ Wairarapa rail line.

The Cuba Street Overbridge is on the most likely alignment for the Cross Valley Link Road. Therefore, the proposed options for remediating the Overbridge should be considered on the basis that the bridge may be demolished in the future. Annual inspections of the Cuba Street Overbridge have identified several points of deterioration which may indicate that the structure of the bridge is being undermined.

A Detailed Seismic Assessment has been carried out on the current structure and indicates an earthquake rating of 19% Ultimate Limit State (ULS). ULS is defined as the state beyond which a structure cannot maintain equilibrium and becomes unstable, which means that in its current state, Cuba Street Overbridge can be expected to experience significant damage after a 1 in 20-year earthquake (of a similar strength to the 2016 Kaikoura earthquake) centred on the Wellington Fault. It is important to note that this assessment has focused on how the bridge might perform in an earthquake and not how it performs in the ordinary course of events.

On 19 August 2024, CLT approved undertaking urgent concrete repairs, installing monitoring equipment and the addition of steel plates and ground anchors to the existing overbridge. This will strengthen the overbridge to 67% ULS.

2. Overview of project costs and funding option

A preliminary Present Value End of Life (PVEOL) exercise has been completed and the costs are as follows:

- Urgent concrete works $115,000
- Installation of monitoring equipment $10,000
- Addition of steel plates and ground anchors to the current structure $2,002,000

The estimated cost of remaining work is $2,127,000.

The 2023-2025 budget for this project is $1.368M with spend to date of $0.1M. The funding shortfall of $0.9M is proposed to be transferred from the Cross Valley Connections programme to the Cuba Street overbridge project, given this bridge is within the scope of that programme.

3. Consultation

Cuba Street has an average daily traffic count of 18,000, of which 6% are heavy vehicles. Early indications are that the Cuba Street Overbridge would not need to be closed in order to complete the works.

The traffic audit results show that this would have a manageable impact on the network, if done during

January. Any full or partial closure of Cuba Street would need to be aligned with surrounding infrastructure projects to minimise the overall impact to the network.

Cuba Street Overbridge spans the Wairarapa line which carries around 570,000 commuters a year.
The line is also used to transport approximately 370,000 tonnes of freight annually, which cannot be rerouted via the Kapiti line because of weak bridges along that route. There is an opportunity to minimise the impact to rail services by aligning remedial works with the upcoming Christmas/new year closedown.

We will provide advice to elected members, local businesses and the community before the urgent concrete repairs occur. Upon receiving and assessing the final Detailed Seismic Assessment we will enter into formal engagement with key stakeholders before undertaking an information campaign to let key stakeholders, regular bridge users, and the general public know about what, if any, works will be undertaken and the impacts on access to the area.

4. Key risks

The key risk is that of structural failure, with associated disruption to the rail corridor and emergency egress.

Once strengthened, the overbridge will be 67% ULS, meaning that impacts will be reduced.

Further budget information ($M)

No changes to subsidy assumptions is proposed. This will be reviewed and presented on 25 November.

Table 1: Cuba street overbridge capital expenditure budget

The presented figures are: Inflated												
$M	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	**Total**
Long Term Plan 2024-2034	0.5	0.9	-	-	-	-	-	-	-	-	-	**1.4**
Annual Plan 2025-2026	0.1	2.1	-	-	-	-	-	-	-	-	-	**2.2**
Variance	0.35	(1.21)	-	-	-	-	-	-	-	-	-	**(0.9)**

Table 2: - Cross valley connections capital expenditure budget

The presented figures are: Inflated												
$M	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	**Total**
Long Term Plan 2024-2034	0.2	3.4	1.2	-	47.1	54.7	28.4	28.6	24.2	-	-	**187.7**
Annual Plan 2025-2026	0.2	2.52	1.2	-	47.1	54.7	28.4	28.6	24.2	-	-	**186.8**
Variance	-	0.9	-	-	-	-	-	-	-	-	-	**0.9**