greater WELLINGTON
THE REGIONAL COUNCIL

Report	**04.483**
Date	18 August 2004
File	N/50/03/01
Committee	**Policy, Finance and Strategy**
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Proceeds from the disposal of surplus land at Mabey Road, Lower Hutt

1. Purpose

To seek approval for the proposed method of debt repayment from the sale proceeds of Mabey Rd.

2. Background

On 30 October 2003 following consideration of Report PE 03.602, Council resolved that:

i) *the net proceeds from the disposal of the surplus property* [at Mabey Rd] *be allocated to retirement of Flood Protection Department debt.*

Although some of the disposal costs are still to be finalised, and the house is currently on the market, we estimate the final net proceeds to the Council to be approximately $3,300,000.

Flood Protection has a number of loans with different maturity dates and funding arrangements. These different arrangements are:

- Investigation (planning) loans - as per the Revenue and Financing Policy, all planning work in Flood Protection is funded 100% from the general rate.

- Construction/land loans - these are for construction projects or land purchases that are directly traceable to a particular area of benefit so the debt repayment is shared 50/50 between the river rate and general rate as per the Council's Revenue and Financing Policy.

- Grandparented loans - these are loans that were incurred prior to Wellington Regional Council being incorporated in 1989. There was not enough information to reliably allocate these loans to specific areas of benefit and thus they are 100% general rate funded.

- Ewen loans - these are for the Ewen floodway project and are funded 100% from the general rate as Hutt City Council paid its 50% share (equating to the 50% local share) at the time of construction.

Due to the different funding arrangements for Flood Protection debt, the selection of which debt to retire creates differing levels of benefits to different communities in the region.

3. Debt repayment options

We considered various combinations of debt to retire. Although each of the options has its own advantages and disadvantages, there are two options that appear to provide the fairest overall result. These options are:

i) retire the oldest debt no matter where the debt was incurred

ii) focus the debt retirement on the debt associated with the Hutt Valley.

Both of these options have similar impacts on the total regional rate line for the next 10 years when viewed from a net present value perspective. However, they do have different savings profiles by year and option two provides the greater total impact on the rate line (non-discounted).

3.1 Retirement of oldest Flood Protection Department debt

It has been our past practice to repay oldest debt first. Using this option for Flood Protection, the debt that would be repaid would be a combination of 100% general rate funded debt, and debt that is funded 50/50 by general rate and Greater Wellington ratepayers within Porirua City, Hutt City and Wellington City. There is no old Flood Protection debt allocated to Upper Hutt City or Kapiti Coast District.

This means that regional ratepayers in Porirua, Hutt and Wellington cities would all be direct beneficiaries of the disposal proceeds through lower debt repayment and interest savings over the next 10 years (resulting in lower river rates) as well as obtaining the benefits from a reduced general rate funding requirement.

The estimated share of the ongoing savings would be as follows:

Beneficiary	**Amount repaid**	**Share of savings (1)**
General ratepayers	$2,280,000	77%
GW ratepayers within Porirua City	$70,000	1%
GW ratepayers within Wellington City	$270,000	6%
GW ratepayers within Hutt City	$680,000	16%
	$3,300,000	100%

(1) percentage is based on actual savings, not debt repaid

Although this option is in line with the practice of repaying oldest debt first, it could be argued that it is inequitable to give a direct benefit to ratepayers within Hutt, Wellington and Porirua City areas but no direct benefit to Kapiti Coast or Upper Hutt residents. Upper Hutt City residents in particular should see a direct benefit given the land was purchased by the Hutt River Board which was part funded by Upper Hutt residents.

The estimated impact on total rates (not distinguishing between general and river rates) by year is as follows:

Year	**Total rate savings**
2005/06	$870,000
2006/07	$670,000
2007/08	$650,000
2008/09	$400,000
2009/10	$260,000
2010/11	$80,000
Total	$2,930,000

Note: There will also be a surplus generated in 2004/05 resulting from the debt repayment

3.2 Retirement of debt associated with the Hutt Valley

Application of this second option would recognise that the land at Mabey Rd was originally purchased by the Hutt River Board and would give a greater proportion of the benefit to Upper and Lower Hutt residents.

By using this option, we would be retiring a combination of 100% general rate funded debt and debt that is funded 50/50 by general rates and river rates paid by Upper Hutt and Hutt City residents.

Under this option, the methodology for the debt selection was the oldest Hutt Valley grandparented, construction and land loans first (for those debts incurred prior to 1995) and then the balance being allocated to Ewen loans (incurred in 1992). Construction and land debts incurred up to 1995 were selected before Ewen debt (1992) to ensure that Upper Hutt City residents were included in the direct benefit, as the first debt related to those ratepayers was incurred in 1994.

The estimated share of the ongoing savings would be as follows:

Beneficiary	**Amount repaid**	**Share of savings (1)**
General ratepayers	$2,450,000	78%
GW ratepayers within Upper Hutt City	$110,000	2%
GW ratepayers within Hutt City	$740,000	20%
	$3,300,000	100%

(1) percentage is based on actual savings, not debt repaid

This would seem to be the more equitable solution with the general ratepayers in the region receiving the majority of the ongoing savings, with a lesser direct benefit to the Hutt Valley ratepayers and no "windfall" direct benefit to ratepayers in other cities.

The estimated impact on total rates (not distinguishing between general and river rates) by year is as follows:

Year	**Total rate savings**
2005/06	$880,000
2006/07	$680,000
2007/08	$670,000
2008/09	$410,000
2009/10	$280,000
2010/11	$170,000
2011/12	$50,000
2012/13	$30,000
Total	$3,170,000

Note: There will also be a surplus generated in 2004/05 resulting from the debt repayment

4. Recommendations

That the Committee:

1. ***receive** the report*

2. ***note** the contents of the report*

3. ***recommend** to Council that the Flood Protection debt is retired as outlined in section 3.2 of this report.*

Report prepared by: | Report approved by: | Report approved by:

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