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Report 02.46

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Report to the Policy and Finance Committee
from Greg Schollum, Chief Financial Officer

Long-Term Financial Strategy 2000-2010:2002 Update (incorporating Council's 2002/03 Annual Plan)

1. Purpose

To provide the Committee with an overview of the financial aspects of the Long-Term Financial Strategy (LTFS), with particular emphasis on the 2002/03 year (the Council's next Annual Plan) as a result of managers updating their detailed budgets for the next eight years.

2. Background

Over the past few months, managers have been reviewing their detailed budgets for the next eight years with prime focus on the last remaining year of hard numbers (i.e. 2002/03). They have also been reviewing, and where necessary updating, their performance indicators.

Business Plans have been updated for each area and these will be reviewed by Standing Committees over the next few weeks.

The process undertaken by managers has essentially been an update of the information for the 2002/03 year, which was presented this time last year (i.e. a review of the inputs). The major changes to the inputs are as follows:

Increases in:

- Insurance
- Electricity
- Rates on Council lands
- Chemicals
- Salaries/wages
- Corporate overheads

(Although corporate overheads have reduced in total compared with plan, the base to spread such overheads has reduced with the loss of the WCW Network contract.)

Decreases in:

- Interest rates

In addition managers have, where appropriate, incorporated changes to the outyears (the seven years of soft numbers) within their business plans. These changes have been incorporated on the basis of improved information (e.g. the projected capital expenditure programme in water supply).

3. Results

There has again been some movement in individual budget areas (swings and roundabouts) but overall the Council is currently in a position of requiring a 5.3% increase in Regional rates in 2002/03 compared with the 5.1% increase signalled as part of the Long-Term Financial Strategy 2000-2010:2001 update (adopted by the Council in June 2001).

The bulk water levy is currently projected by officers to reduce by 3% from 2001/02 levels (compared with no change that was signalled in the LTFS 2000-2010:2001 update) although this needs to be reviewed in detail by the Utility Services Committee on 20 February 2002. The key issue for the Committee to consider is the balance between the bulk water levy and the level of water debt. A potential complication impacting the consideration of this year's bulk water levy is the likely increase in the costs of the water group as a result of many of the water assets becoming rateable for the first time. There is currently insufficient information available to amend budgets but this will need to be revisited before the annual plan is finalised in June 2002.

3.1 What were the main components of the 5.1% projected rate increase in 2002/03?

Table 1 below shows the main drivers of Council's projected increase in Regional rates for the 2002/03 year, as set out in the Long-Term Financial Strategy:2001 Update (i.e. before managers began updating budgets in the past few months).

TABLE 1

	2001/02 Budget \$000	2002/03 Budget 'old' \$000	Additional Funding Required	Contribution to overall rate increase
Transport	24,319	25,701	1,382	2.8%
Landcare	11,169	11,688	519	1.1%
Environment	6,841	7,065	224	0.5%
Other	6,762	7,147	385	0.8%
Total Regional Rates	49,091	51,601	2,510	5.1%

As can be seen from Table 1 the major component of the projected 5.1% rate increase related to Transport.

3.2 **Movements between the previously signalled 5.1% rate increase and the current position of 5.3%**

Table 2 below compares the proposed level of Regional rates in 2002/03 with what was forecast for the 2002/03 year in the Long-Term Financial Strategy:2001 Update.

TABLE 2

	2002/03 'old' Budget \$000	2002/03 'new' Budget \$000	Additional funding required \$000
Environment	7,065	7,085	20
Landcare	11,688	11,688	-
Transport	25,700	25,700	-
Wairarapa	6,250	6,305	55
Investment in Democracy	2,395	2,351	(44)
Other e.g. rates collection	1,583	1,614	31
Core operational responsibilities	54,681	54,743	62
Investments (excl Stadium)	(5,756)	(5,743)	13
Stadium	2,676	2,676	-
Total Regional Rates	51,601	51,676	75

NB: Internal dividends are all included within investments

As managers have endeavoured to stay within the rate funding guidelines set as part of the LTFS:2001 Update, the adjustments to funding required are all minor.

Additional funding is required in the Wairarapa and Environment budgets for the following new initiatives:

- Farm Environment Awards (Wairarapa) \$20,000
- Coastal strategy (Wairarapa) \$35,000
- Urban growth strategy (Environment) \$20,000

Reduced funding is required in Investment in Democracy primarily as a result of a reduction in the allocation of corporate overheads to Elected Members.

The estimated cost of rate collection has been increased primarily as a result of anticipated increases in the costs of valuation services.

Also, the contribution from investments has reduced slightly, primarily as a result of the reduction in projected interest rates. The reduction in projected interest rates results in a net loss of revenue for the investment area because in a low interest rate environment Port Investments Ltd generates a lower level of tax losses (for on-selling to other group companies e.g. CentrePort). This reduction has been largely offset by an increase in the dividend assumed from CentrePort.

3.3 Comparison of proposed Divisional Budgets between 2001/02 and 2002/03

Table 3 below compares the proposed updated Divisional budgets (rating impact) for 2002/03 with the 2001/02 budget figures.

TABLE 3

	2001/02 Budget \$000	2002/03 'new' Budget \$000	Additional Funding required \$000	Contribution to overall rate increase
Environment	6,841	7,085	244	0.5%
Landcare	11,169	11,688	519	1.1%
Transport	24,319	25,700	1,381	2.8%
Wairarapa	6,275	6,305	30	0.1%
Investment in Democracy	2,209	2,351	142	0.3%
Other (e.g. Rates Collection)	1,384	1,614	230	0.5%
Core Operational Responsibilities	52,197	54,743	2,546	5.2%
Investments (excl. Stadium)	(5,782)	(5,743)	39	0.1%
Stadium	2,676	2,676	-	-
Total Regional Rates	49,091	51,676	2,585	5.3%

As can be seen from Table 3 the major components of the projected 5.3% increase in Regional rates relate to Transport (2.8%) and Landcare (1.1%) with other minor requests for funding across the board. However, as noted earlier in this report the majority of the projected rate increase of 5.3% was signalled in the LTFS:2001 update (refer sections 3.1 and 3.2 of this report).

The upcoming review of business plans/budgets by Standing Committees will provide the opportunity to examine the key drivers of the projected increases outlined above.

Without wishing to pre-empt any review of rate collection arrangements, one area of the budget that the Committee may wish to review is the \$150,000 currently included within

the rate collection budget for the preparation of individually tailored letters to the Region's ratepayers. The intention of this initiative was to develop the systems/processes to enable the production of a personalised letter to be sent to each Regional ratepayer detailing the cost of Regional rates and the outcomes they fund.

Although this is still a viable option for the Council to pursue it now appears unlikely to proceed in the 2002/03 year. As such, \$150,000 could be deleted from the rate collection budget for the 2002/03 year. This would reduce Regional rates by 0.3%.

Officers expect to be in a position to present a report on rate collection arrangements within the next few months once the implications of the Local Government (Rating) Act, once enacted, are clear.

3.4 Comparison of projected rates and levies with the current year

Table 4 compares the proposed level of community charges in 2002/03 with these charges in the 2001/02 year.

TABLE 4

	2001/02 Budget \$000	2002/03 Budget \$000	Additional Funding \$000	% change
General Rates	19,693	20,670	977	5.0%
Transport Rates	24,319	25,700	1,381	5.7%
River Rates *	2,403	2,630	227	9.4%
Stadium Rates	2,676	2,676	-	-
Total Regional Rates (see Table 3)	49,091	51,676	2,585	5.3%
Scheme Rates **	1,096	1,107	11	1.0%
Pest Rates **	207	207	-	-
Total Rates	50,394	52,990	2,596	5.2%
Bulk Water Levy	22,776	22,093	(683)	(3.0)%
Total Community Charges	73,170	75,083	1,913	2.6%

* The projected 2002/03 River Rates are an estimate only at this stage. Any change to the River Rate will have an offsetting effect on the General Rate (hence there will be no change to the Total Regional Rate).

** Scheme and Pest Rates are not finalised until June/July. The final rates figures for Schemes in particular are likely to change.

How the projected changes in rates impact on different constituent districts and individual ratepayers is affected by Council's funding policies and property valuation changes. Information on the latter is not yet available.

3.5 **Projected Rates/Levies across the eight years**

The budgeted charges for scheme rates, pest rates and bulk water levies in 2002/03 are projected to be relatively flat across the remaining eight year period of the Long Term Financial Strategy.

However, there are future increases and decreases expected in regional rates over the eight year period (refer to **Attachment 1**). I anticipate that the "bumps" in the projected rate line will be ironed out as part of the next update of the Long Term Strategy. It is important to appreciate that overall the projected rate line leading into the next LTFS is flat.

4. **Areas of Uncertainty**

The Chairperson, in report 02.44, has referred to a number of significant issues facing the Council as it prepares its 2002/03 Annual Plan.

As the budget process continues officers will need to keep the key budget assumptions under review. If necessary changes can be incorporated into the final annual plan due to be adopted on, or about, 30 June 2002.

5. **Communications**

The impact on the prospective level of community charges (rates/levies) is expected to be fully reported by the media, albeit no proposed position has yet been taken by the Council.

6. **Recommendations**

That this report be received and referred to Standing Committees for consideration with their 2002-2010 Operating Plans (which support the Long-Term Financial Strategy 2000-2010:2002 Update).

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Chief Financial Officer

Attachment 1: Projected movement in Regional rates over the next eight years.