

Report **06.6**
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Committee **Policy, Finance and Strategy Committee**
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Proposed 2006/16 Long Term Council Community Plan (LTCCP) and 2006/07 Annual Plan

1. Purpose

To seek approval for the proposed rate and levy numbers for inclusion in the Council's draft 2006/16 LTCCP.

2. Significance of the decision

The subject matter of this report will lead to the Council making a "significant" decision within the meaning of the Local Government Act 2002. The process of adopting an LTCCP and the Annual Plan will include use of the special consultative process. The documentation to be considered on 9 March will cover the options considered and the consultative process the Council is undertaking.

3. Background

Over the last six months management have been working towards the Council's 2006/16 LTCCP which also includes the Annual Plan as the first year. A number of workshops have been held with Councillors on what projects should be included in the LTCCP.

There are two major changes to this LTCCP as compared with previous years;

1. The detailed (and summary) LTCCP document will be audited by the Audit Office.
2. Inflation will be included in the numbers for all years, previously this was only done for the first year. Adjusting the numbers for inflation is a requirement of the Audit Office.

As noted above, the Council is approving the rate and levy numbers for inclusion in the draft LTCCP. The approval of the detailed LTCCP document will be at the Policy, Finance and Strategy meeting on 9 March. At this time

the Audit Office will give their opinion on the proposed LTCCP. It is intended that the Auditors will get a copy of the completed document on 17 February.

4. Rail Fare Increases

The projected numbers include a 15% fare increase from 1 July 2006. This equates to a reduction in the Transport rate requirement of \$1.5 million over a full year. A 10% fare increase reduces the rate requirement by \$1.0 million.

With this fare increase, the fare box contributes 60% to the cost of running the rail services. The Council's Revenue and Financing Policy provides that at least 50% of the cost of the services should be paid for by the users (passengers). Without the fare increase 55% of the cost would be provided by the users.

The proposed fare increase is the first since July 2002, when a 9% fare increase was put in place. Since that time there have been substantial increases in the costs of diesel, electricity and staff costs. The cost of running a private car has increased dramatically over the four years. Including the 15% fare increase, the cost of an average return rail trip is approximately 35% of the equivalent cost of return car trip. In addition, the majority of the increased transport rate requirements in 2005/6 and in the 2006/16 LTCCP relates to rail investments.

Therefore, to retain a level of equity between passengers and ratepayers while also complying with our Revenue and Financing Policy rail fares need to increase in future years.

The proposed increases are:

2006/07	15%
2009/10	10%
2011/12	10%

5. Inflation Indices

The numbers will be inflated by a series of indices as detailed below. The indices were prepared by BERL, an economic research organisation. This work was commissioned by SOLGM. Only three indices will be used by Greater Wellington, namely staff costs, transport and other.

Information which makes up the transport indice was prepared especially for ourselves and Auckland and is based on the Land Transport indices which are used to inflate the bus, rail and trolley bus contracts.

This indice will be applied to both the grant revenue and grant expenditure of Transport.

The “other” indice will be applied to all costs not inflated by the previous two indices.

Capital expenditure has been inflated using the “other” index. In respect of the Council’s fixed assets which are subject to revaluations on a cyclical basis, these have been inflated, also using the “other” index.

The indices to be used are:

	%		
	Staff	Other	Transport
2007/8	2.50	3.10	3.70
2008/9	2.40	2.90	3.50
2009/10	2.20	2.70	3.20
2010/11	2.00	2.50	2.90
2011/12	1.80	2.30	2.60
2012/13	1.70	2.10	2.40
2013/14	1.50	1.90	2.20
2014/15	1.30	1.60	1.90
2015/16	1.30	1.60	1.90
2016/17	1.30	1.90	1.90

6. Projected Rates and Water Levy Increases for 2006/16

The overall rate increase for 2006/7 is 6.3%, Transport is 10.3% and Other rates are 2.2%. Water Levy remains unchanged.

The divisional breakdown for the first year are noted below.

\$000s	2006/07	2005/06	Additional	%
	Annual Plan	Budget	Funding	Change
Environment Division	8093	8097	-4	-0.1%
Landcare Division	13502	13157	345	2.6%
Transport Division	32275	29255	3020	10.3%
Utility Services Division	-150	-150		0.0%
Wairarapa Division	9165	9124	41	0.4%
Other	3340	3282	59	1.8%
Investment Management.	-4605	-4809	204	-4.2%
Total Regional Rates	61620	57956	3664	6.3%
Water Supply Levy	22776	22776		0.0%
Total Community Charges	84396	80732	3664	4.5%

There have been no changes from the numbers previously discussed at the workshops.

6.1 Regional Rates

The rate increases for the 10 years (uninflated) are noted on **Attachment 1**

As noted elsewhere in this report, the major reason for these increases over this period is the Council's investment in public transport infrastructure, specifically rail.

6.2 Water Levy

The Water Levy will remain at \$22.7 million for 2006/7 but is forecast to increase from 2007/8.

The base increase in the Water Levy is 3% for two years following 2006/7 and then 5% for the four subsequent years.

There are two major reasons for the Water Levy increases:

- An increasing capital expenditure program has resulted in operating deficits which now require an increase in the levy
- Based on the region's population growth and water usage it is expected that a new water source will have to be developed by 2012/13. The expected costs of this is in excess of \$60 million. If the new water source could be delayed then the level of increases in the water levy could be reduced

Two main factors (apart from the weather) will determine the timing of any new water source.

- A decrease in water usage, from water demand management, conservation etc
- The population increase for the region is slower than forecast

7. Capital Expenditure, Investments and Debt

Attachment 2 detail, amongst other things, the Council's position over the next 10 years in respect of capital expenditure, investments and debt.

The Council is expected to spend substantial amounts in capital expenditure and investments over the 10 year period.

As Councillors will be aware, the Council's investments in public transport infrastructure (rolling stock, stations etc) will be held by one of Greater Wellington's Council Controlled Trading Organisations (CCTO). Therefore, Greater Wellington's expenditure on these items will be accounted for as increases in investments. The relevant CCTO will account for them as capital expenditure.

The investment additions which relate to rail will have a significant funding from the Government with a smaller share funded by the Council.

This is evident in the rise in other operating revenue which peaks at \$151 million in 2009/10 due to increases in Government grants.

In brief, the major items of investments over the 10 years are;

- New rolling stock
- Ganz Mavag refurbishment
- Wairarapa carriages
- Station upgrades
- Service improvements
- Rail/bus interchanges

In respect of capital expenditure the major items are:

- Flood Protection – acceleration of Hutt Valley flood scheme, Lower Valley Scheme Wairarapa.
- Parks – purchase of Waitangirua farm, development of Wairarapa wetlands.
- Water Supply - ongoing capital expenditure program and the development of a new water source.

As a result of the increased expenditure on capital and investment items the Council's debt is forecast to increase from \$58 million currently to a peak of \$169 million in 2014/15.

8. Process from here

The process from here regarding the completion of the LTCCP are;

- | | |
|--------------------|---|
| 8 February | Council approves the overall rates and levy numbers for inclusion in the proposed LTCCP . |
| 17 February | Proposed detailed, policies and summary LTCCP documents given to the Audit Office for review. |
| 2 March | Audit Office give verbal clearance on the detailed document. |
| 9 March | Council approves the proposed detailed, policies and summary and LTCCP documents.

Audit Office issues their opinion.

Council adopts the proposed LTCCP. |
| 31 March | LTCCP summary document sent to all households in the region.

LTCCP detailed document available. |
| 16-18 May | Hearings of submissions. |
| 1 June | Council approves the overall rates and levy numbers. |
| 29 June | Approval of final LTCCP and striking of the rates/levies |

9. Communications

A press release is being prepared and will be circulated to Councillors separately.

10. Recommendations

That the Committee:

- 1. Receives the report.*
- 2. Notes the content of the report.*
- 3. Approve for inclusion in the Council's Proposed 2006/16 LTCCP and 2006/07 Annual Plan the projected rates and levy numbers included in Attachment 1 (as may be amended by the Committee).*

4. *Approve the inflation indices as detailed in this report to be applied to the numbers detailed in **Attachments 1 & 2.***

Report prepared by:

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Attachment 1: Proposed LTCCP 2006-16 Community Charges (Uninflated)

Attachment 2: Ten Year Financial Forecast (Uninflated)