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**Report 02.44**

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Report to the Policy and Finance Committee  
from Margaret Shields, Chairperson

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

**1. Purpose**

To background the key elements of the Long-Term Financial Strategy *Investing in the Future 2000-2010:2002 Update* (which also incorporates Council's 2002/03 Annual Plan) in order to provide Councillors with an overview, prior to the Committee reviews of Operating Plans.

**2. Background**

As Councillors are aware we have a strategic planning cycle which includes a full review of priorities each three years, with updates by exception in the intervening years as follows:

Councillors' review of priorities:

Year 1	2000/01 financial year (Full review to establish 3 years' hard numbers)
Year 2	2001/02 financial year (update of remaining 2 years' hard numbers)
Year 3	2002/03 financial year (update of remaining 1 year of hard numbers)

We are currently in year three of that cycle.

Remember we are also about to start working on the next Long Term Strategy which will be adopted, on or about, 30 June 2003.

The Council needs to remain ready to adjust priorities within the three years but only if there are significant changes in circumstances. (i.e. you are not being asked at this time to review priorities from a zero base). In June 2000 the Council, approved a package of programmes which formed the Long-Term Financial Strategy (LTFS) 2000-2010 and this was updated in June 2001. That Strategy set a base of expectation in the Community of what we would be doing. I don't believe that we should change significantly from that package without good reason.

In recent months officers have been reviewing the appropriateness of information that was updated last year. As a result there has been some "re-jigging" of figures from those contained in the LTFS:2001 update to take account of recent events (e.g. impact of September 11 on the costs of insurance) and to reflect better information in other areas (e.g. updated salary information). Essentially what officers have completed is a review of the input costs in order to deliver the outputs that the Council agreed to June 2000 (and updated in June 2001).

I understand that the latest figures also include some additional minor projects as a result of specific requests by the Council for us to do more (e.g. Farm Environment Awards).

The Chief Financial Officer has detailed in his report for our consideration the areas of the budget where there has been change (refer to Report 02.46).

### **3. Key Issues impacting the 2002/03 year**

There is a number of matters that as a Council we will need to agree a position on as part of this budget round so that officers can prepare our 2002/03 proposed Annual Plan (for the purposes of public consultation).

#### **3.1 The overall level of community charges for the 2002/03 year**

As noted by the Chief Financial Officer in his report (report 02.46) the projected increase in Regional rates in 2002/03 as a result of officers updating detailed budgets is approximately 5.3%.

This compares with the projected rate increase for the 2002/03 year which is already in the Council's Long Term Financial Strategy of 5.1%. The small increase from 5.1% to 5.3% relates to those few additional initiatives that as a Council we have indicated that we wish to pursue (e.g. Farm Environment Awards).

We will need to determine what level of increase in Regional rates we are comfortable with. If 5.3% is seen as too high we, as councillors will need to identify the areas of Council's activities that could be reduced or delayed.

Personally, I am keen to reduce the projected 5.3% rate increase. A good starting point is to gain an understanding during the Committee reviews of budgets as to what additional programmes/projects are planned in 2002/03 (over and above what was included in the 2001/02 year).

Of relevance to the whole issue of community charges is the projected bulk water levy. Although not a direct charge on ratepayers (the Council bills the four territorial authority

customers who in turn incorporate the charges within territorial authority rates) it does nevertheless represent a charge on the community for WRC services.

As you can see in Mr Schollum's report, the updated budget for water supply in 2002/03 incorporates a further reduction in the bulk water levy of 3%. This follows reductions of 4%, 4% and 2% in the past three years and is testament to the prudent financial management of this Council and the quality of management and staff in the water area. (However, I have to say that it has been disappointing that these cost savings do not appear to have been passed onto ratepayers in all cases).

### 3.2 **Transport Funding**

It is fair to say that the single most important issue in the budget (as it was last year) is what level of additional expenditure do we, as a Council, approve in respect of public transport.

The numbers in Transport are large and the funding arrangements with Transfund are complex, but essentially it comes down to balancing affordability for ratepayers with the desire to maximise the level of Central Government assistance for public transport in the Region.

As transport rates make up approximately half of Regional rates it is vital that as a Council we fully understand the key components of the forward programme in Transport so that we can direct officers accordingly.

### 3.3 **Our potential acquisition of Tranz Metro (Wellington)**

The Council's potential acquisition of Tranz Metro (Wellington) could have a significant impact on the Regional rate line in future years. However, we do not yet have sufficient information with which to consult the public in a meaningful way, let alone build anything into the 2002/03 Annual Plan.

The Chief Financial Officer advises me that in general terms the future rating impact will equate to the cost of funding the necessary purchase price less any dividends received from the Rail entity, and less any savings that we can achieve on the level of subsidy for rail services as a result of the ownership change. Until we can further progress negotiations with Tranz Rail we will not be in a position to assess the likely future rating impact but I believe that we should keep in mind the potential Rail purchase when considering the 2002/03 Transport budget (and in particular the timing of projects such as Waikanae Electrification and Integrated Ticketing).

### 3.4 **Projections for Water Supply Debt in relation to the Water Levy**

As already noted, officers are proposing that the bulk water levy be further reduced by 3% in 2002/03.

As a Council we will need to be comfortable that this provides a reasonable balance between intergenerational fairness and prudent financial management.

I expect this issue to be well canvassed at the Utility Services Committee budget meeting on 20 February 2002.

#### 4. **Linkage with full Review of Long Term Direction**

As explained by officers at the workshop on 31 January 2002 we will soon be asked to become involved in the process of reviewing the long term direction of the Council.

The review of the 2002/03 budget will assist in this regard in terms of familiarising all Councillors with the issues facing each division and in helping to identify the key outcomes sought from the broad range of Council activities.

The business plans produced by each division provide a good insight into the link between outputs and outcomes sought (what we are doing and why). In particular, it is important that as a Council we are comfortable with the long term performance indicators which have been identified in the business plans.

#### 5. **Summary**

There are once again a lot of key issues affecting this update of our LTFS and 2002/03 Annual Plan, not least of which is the projected level of rate increase for 2002/03. For me, what we do in the Transport area is the key one, and the one with most impact on the Regional rate line. Of course, selecting the right water levy is also very important in terms of our total charges on the community.

As far as our overall financial position for 2002/03 goes the Chief Financial Officer's report 02.46 indicates that we are currently facing an increase in Regional rates of approximately 5.3% compared with the projected increase in our LTFS of approximately 5.1%. The current operating plan for water prepared by officers has the water levy reducing by 3%.

#### 6. **Recommendation**

*That the 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)*

MARGARET SHIELDS  
Chairperson