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Committee Policy, Finance and Strategy
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Long-term Council Community Plan 2003-2013 - Chief Financial Officer's Report

1. Purpose

- To summarise the projected rates and levies figures which are reflected in the proposed business plans prepared by each division.
- To identify those specific items on which direction is now sought from the Committee.
- To seek approval of the projected rates and water levies figures (including any amendments approved by the Committee) for inclusion in the Council's proposed Long-term Council Community Plan (LTCCP) 2003-2013.

2. Background

On 21 November 2002 the Committee resolved:

“that Council:

- (1) Endorses sustainability of the region as the focus of the 10 year plan.*
- (2) Indicates that officers should review the total proposed programme to reach a rate increase of no more than 6% for 2003-04.*
- (3) Requests that officers prepare a priority and options list, with reference to the maximum rate increase for consideration by Council in February 2003.”*

During December and January managers have been preparing business plans taking into consideration the following factors:

- Council's requirement of an overall rate increase of no more than 6% in 2003/04.

- Feedback from various LTCCP workshops in relation to specific new initiatives/projects.
- Other information, including the latest information available in respect of projected costs.

During February a series of workshops have been held where Councillors have received presentations from officers in relation to how the business plans have been constructed. Councillors should therefore have a good appreciation of what projects have been included and what projects officers have excluded from the proposed budgets.

Proposed Divisional business plans have now been distributed to Councillors and a complete set of these plans will be tabled at the Committee meeting on 4 March 2003.

3. Projected Rates and Levies

The projected level of rates and levies across the ten years commencing in 2003/04, as reflected in the Divisional business plans, is included in **Attachment 1**.

The projected rate increase in 2003/04 is 5.5%, compared with the maximum 6% requested by the Council in November 2002, with a further increase of 5.3% in 2004/05. There are then modest increases/decreases projected in the remaining eight years of the LTCCP.

The water levy is projected to remain unchanged across the ten year period (i.e. it is projected to remain at the current level).

3.1 What are the main components of the 5.5% projected rate increase in 2003/04?

Table 1 below shows the main drivers of Council's projected rate increase in 2003/04 compared with the current year (2002/03). The figures in table 1 are a summary of the information presented in the reports from each divisional manager which follow on this order paper.

Table 1

	2003/04	2002/03	Additional funding required	Contribution to overall rate increase
	\$000	\$000	\$000	%
Environment	7,640	7,085	555	1.1%
Landcare	12,822	11,642	1,180	2.3%
Transport	26,190	25,324	866	1.7%
Wairarapa	8,433	7,577	856	1.6%
Investment in Democracy	2,230	2,141	89	0.2%
Other (eg Rates collection) (1)	742	1,483	(741)	(1.5)%
Core operational responsibilities	58,057	55,252	2,805	5.4%
Investments (excl Stadium) (2)	(5,762)	(5,827)	65	0.1%
Stadium	2,676	2,676	-	0%
Total Regional Rates	54,971	52,101	2,870	5.5%

Notes:

- (1) In 2003/04 rate collection costs have been allocated to the following areas which have separate targeted rates:

Transport	852,000
Landcare	91,000
Wairarapa	32,000
Investments	54,000
	<u>\$1,029,000</u>

In 2002/03 these costs were retained in the Rate Collection activity.

- (2) Internal dividends are all included within Investments.

Given the significance of the change to the basis of allocating rate collection costs it is appropriate to compare the changes between years, excluding the change in allocation of rate collection costs (refer Table 2). This information is consistent with information distributed at the last LTCCP workshop.

Table 2

	2003/04	2002/03	Additional funding required	Contribution to overall rate increase
	\$000	\$000	\$000	%
Environment	7,640	7,085	555	1.1%
Landcare	12,731	11,642	1,089	2.1%
Transport	25,338	25,324	14	0%
Wairarapa	8,401	7,577	824	1.6%
Investment in Democracy	2,230	2,141	89	0.2%
Other (eg Rates collection) (1)	1,771	1,483	288	0.5%
Core operational responsibilities	58,111	55,252	2,859	5.5%
Investments (excl Stadium) (2)	(5,816)	(5,827)	11	0%
Stadium	2,676	2,676	-	0%
Total Regional Rates	54,971	52,101	2,870	5.5%

3.2 Comparison of projected rates and levies with the current year (2002/03)

Table 3 below compares the proposed level of community charges for 2003/04 with those in 2002/03. This table shows that when taken as a whole community charges from rates and levies are projected to increase 3.8% in 2003/04.

Table 3

	2003/04 Budget \$000	2002/03 Budget \$000	Additional Funding \$000	% change
Total Regional Rates	54,971	52,101	2,870	5.5%
Bulk Water Levy	22,776	22,776	-	0%
Total Community Charges	77,747	74,877	2,870	3.8%

4. Potential changes to the projected Rates/Levies 2003/04 - 2012/2013

4.1 Specific items for the Committee to consider

During the recent series of LTCCP workshops a number of items were identified where more information was sought by Councillors. The information which follows, in conjunction with further information to be provided at the meeting on 4 March, should enable the Committee to determine the treatment of each of these items in the Council's proposed ten year plan.

In the business plan reports from divisional managers which follow on this order paper, officers have made a number of recommendations for change in respect of the items listed below. The financial impact of following the officers recommendations for change will result in a different profile of projected rates over the next years, as detailed in **Attachment 2**.

(a) Regional Economic Development Initiatives

(Affected business plan(s): General Manager and Investment in Democracy)

The Council's budget as presented includes an allowance of \$350,000 p.a. commencing in the 2004/05 year, for regional economic development initiatives. This programme is included in the Council's LTFS figures (i.e. it was already incorporated into the soft numbers which was the starting point for building the LTCCP budget) but as each annual plan has been prepared the Council has consistently moved this programme out into the 2nd year of the plan.

Although the passing of the Local Government Act 2002 has arguably increased the likelihood of the Council becoming involved in economic development initiatives, the new Act does include a process which the Council would need to complete prior to becoming involved in this activity.

Officers are therefore recommending that the budget for this item is removed from the Council's proposed ten year plan on the basis that the item can be considered on its merits in future if Council's involvement in this area becomes a realistic prospect.

(b) Regional Advocacy

(Affected business plan(s): Corporate Advisory Services and Investment in Democracy)

The Council's budget as presented includes an allowance of \$50,000 p.a. commencing in the 2003/04 year, for Regional advocacy initiatives. Such initiatives in the past have included advocacy on the location of the Regional hospital. Officers have, during the course of preparing the proposed business plans, already reduced the advocacy budget from \$100,000 p.a. to \$50,000 p.a. However, given the pressure on the Council's rate line, officers are recommending that the remaining \$50,000 p.a. is now also removed.

(c) Regional Council Centre (RCC) - Debt Repayment

(Affected business plan(s): Investments)

The Council's budget as presented includes two further years of debt repayment on the RCC. In other words, if the current pace of debt repayment is retained, the debt associated with the RCC will be repaid by the end of the 2004/05 year.

The Council is in this position as it has in the past used the proceeds of special dividends from the Port Company to accelerate the pace of debt repayment on the RCC. From an intergenerational perspective there is a reasonable argument that the pace of debt repayment should now be slowed down to ensure the ratepayers of today (i.e. the next two years) don't shoulder too much of the burden of repaying the remaining RCC debt.

Officers are therefore recommending that the debt repayment profile be adjusted to extend the remaining internal loan associated with the RCC from two years to 10 years.

(d) Social Marketing – Take 10

(Affected business plan(s): Corporate Advisory Services, all other divisions via overhead allocation)

The Council's budget as presented includes an allowance of \$325,000 p.a. for the introduction of a social marketing programme designed to help foster behavioural change within the regional community towards a Sustainable Region.

Mr Allard and Mr Cutler intend to provide the Committee with further information to that already presented, at the meeting on 4 March 2003.

Officers are not recommending any change to this budgeted programme.

(e) Super Key Native Ecosystem (KNE)

(Affected business plan(s): Landcare, Wairarapa)

The Council's budget as presented includes an allowance within the Landcare and Wairarapa budgets commencing in 2005/06 (\$190,000 in 2005/06, reducing in later years) for development and maintenance of a super KNE in the Wainuiomata catchment (a mainland island).

Councillors will recall a number of workshops on this issue during the LTCCP process. Officers have taken the direction provided by Councillors to date to incorporate an allowance in year three of the Council's ten year programme to establish a new super KNE for the Region.

Officers are not recommending any change to this budgeted programme.

(f) "Take Charge" (working with businesses)

(Affected business plan(s): Environment)

The Council's budget as presented includes allowance within the Environment budget for increasing the resources going into the existing "Take Charge" programme. The budget includes an increase in 2003/04 of \$133,000 with a further increase in 2004/05 and beyond of \$100,000 p.a.

While officers believe that further resources are required to get this programme fully operational, the additional \$100,000 in the proposed budget from year two onwards is dependent on the degree of take up of the programme. Although still a prudent provision, officers are now recommending that the additional \$100,000 from 2004/05 onwards be removed from the budget.

(g) Public Good Funding of Forestry

(Affected business plan(s): Utility Services - Plantation Forestry, Wairarapa - Reserve Forests)

The Council's budget as presented does not incorporate any rate funding being applied to Council's two forestry business units. In fact, there are contributions to the rate line (which reduce regional rates) in respect of budgeted dividends of \$225,000 p.a.

However, officers have given consideration to whether or not it is appropriate to recommend that the regional ratepayer should contribute towards the public good benefits provided by Council's business units. The upper end of the estimated value of that public good (primarily soil conservation and recreation benefits) is \$330,000 p.a.

Although a case could be made for such public good benefits to be funded by the ratepayer it is difficult to distinguish the contribution from Council's forestry activities from all other forestry within the Region.

Officers are therefore not recommending any changes to the existing budget.

(h) Increased contributions to the Council's major Flood Recovery Fund

(Affected business plan(s): Wairarapa , Landcare)

The Council's budget as presented incorporates annual contributions to Council's flood contingency reserves as follows:

	Flood Contingency Reserves	Major Flood Recovery Fund	Total
Landcare	\$200,000	\$100,000	\$300,000
Wairarapa	\$200,000	\$100,000	\$300,000
Total	\$400,000	\$200,000	\$600,000

N.B: Incorporates both local share and general rate share

Notwithstanding the current level of annual contribution to Council's flood contingency defences of \$600,000, consideration has been given during the LTCCP process to increasing the contribution to \$700,000 p.a. (i.e. a further \$100,000 p.a. going into the major Flood Recovery Fund). The level of annual contribution into the major Flood Recovery Fund has a large bearing on how quickly the Council can build up the self insurance fund to the targeted level (the other key factors being interest rates and the nature and incidence of flood events). To date there have been no withdrawals from the Major Flood Recovery Fund and the fund which was set up in 1999/2000 is now beginning to grow (currently in

excess of \$750,000). Of course, Council's Treasury function continues to provide funding assurance to the Landcare and Wairarapa divisions and this commitment is reflected in Council's Treasury Management Policy (liquidity limit section 2.4).

Officers are therefore not recommending any change to the level of contribution currently within the budget.

(i) **Change to the use of the Transport Reserve**

(Affected business plan(s): Transport, Investments)

The Council's budget as presented incorporates the use of \$650,000 from the Transport reserve in 2003/04.

Since the decision was taken to apply this \$650,000 all in 2003/04, uncertainty has increased over some of the key assumptions within the Transport budget:

- Inflation allowance for bus and rail contracts (dependent on fuel prices)
- Patronage Funding assumptions (dependent on patronage growth)

It therefore would be more prudent at this time to spread the use of the reserve over two years (i.e. 2003/04 and 2004/05) to ensure that the risk of overdrawing the Transport reserve is minimised.

Officers are therefore recommending the Transport budget is changed to reflect this.

5. Where to from here?

In order to finalise the Council's proposed Long-term Council Community Plan for the 18 March Policy, Finance and Strategy Committee meeting, officers now need direction on the level of projected rates/levies over the next ten years.

Approval is now sought to the figures contained in **Attachment 2** of this report, as may be amended by the Committee, after consideration of the proposed Divisional business plans.

6. Communications

It is expected that the results of the Committee's deliberations will be fully reported by the media.

7. Recommendations

That the Policy, Finance and Strategy Committee recommend to Council that it:

- (1) receive the report and note its contents.*
- (2) approve for inclusion in the Council's proposed Long-term Council Community Plan 2003-2013(incorporating the Council's 2003/04 Annual Plan) the projected rates and levy figures included within **Attachment 2** of this report (as may be amended by the Committee).*

Report prepared by:

Greg Schollum
Chief Financial Officer

Attachment 1: Projected Rates and Levies over the next 10 years – Annual % increase

Attachment 2: Projected Rates and Levies over the next 10 years – Annual % increase – Incorporating recommendations for change by officers