



Report **06.50**
Date 28 February 2006
File CFO/07/06/14

Committee **Planning and Monitoring Sub Committee**
Authors **Barry Turfrey, Chief Financial Officer**

Proposed 2006/16 LTCCP and 2006/07 Annual Plan

1. Purpose

To allow a detailed review of the Council's Proposed 2006/16 Long-term Council Community Plan (LTCCP) and 2006/07 Annual Plan and the projected rates and water levy figures (including any amendments that the Sub Committee may agree).

2. Significance of Decision

The subject matter of this report will eventually 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.

3. Background

Over the last year, management have been working towards the Council's 2006/16 LTCCP which also includes the Annual Plan as the first year. Many workshops have been held with Councillors on the background, nature and strategic direction of the LTCCP. There have been indepth discussions on what projects should be included.

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.

Councillors would have received copies of the document last week. Since that time there have been some editorial changes. In addition, the auditors have also been reviewing the documents and have requested some changes. It is

expected that more changes will arise following the Office of the Auditor-General (OAG) review this week.

Replacement pages will be circulated but the timing of these will depend on the number of changes requested by the OAG.

The auditors will be in attendance at the meeting.

4. Proposed Rates and Levies

4.1 The projected level of rates and water levy for 2006/07, as supported by the operating plans, is shown below. The projected increase in regional rates in 2006/07 is 6.3%.

The water levy is projected to remain unchanged for 2006/07. Thus the overall increase in community charges from this Council is 4.5%.

Table 4.1

Community Charges (with inflation)											
(\$000's)	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Transport Rates	29,255	32,275	34,455	37,770	41,517	45,785	47,640	49,879	52,432	56,073	56,303
Year on Year % Increase		10.3%	6.8%	9.6%	9.9%	10.3%	4.1%	4.7%	5.1%	6.9%	0.4%
Other Rates	28,701	29,345	30,970	32,229	33,577	34,335	35,149	35,589	35,153	35,906	36,684
Year on Year % Increase		2.2%	5.5%	4.1%	4.2%	2.3%	2.4%	1.3%	-1.2%	2.1%	2.2%
Total Rates	57,956	61,620	65,426	69,999	75,094	80,120	82,789	85,467	87,586	91,978	92,987
Year on Year % Increase		6.3%	6.2%	7.0%	7.3%	6.7%	3.3%	3.2%	2.5%	5.0%	1.1%
Water Supply Levy	22,776	22,776	24,187	25,635	27,644	29,751	31,957	34,260	34,911	35,470	36,037
Year on Year % Increase		0.0%	6.2%	6.0%	7.8%	7.6%	7.4%	7.2%	1.9%	1.6%	1.6%
Total Community Charges	80,732	84,396	89,613	95,634	102,738	109,871	114,747	119,727	122,497	127,448	129,024
Year on Year % Increase		4.5%	6.2%	6.7%	7.4%	6.9%	4.4%	4.3%	2.3%	4.0%	1.2%

4.2 The proposed rate and levy increases above include inflation based on the indices approved by Policy, Finance & Strategy Committee on 8 February. The effect of inflation over the period on rates is \$18.4 million by 2015/16. The average yearly inflation increases (compounded) is around 3%.

The major increases over the period are in transport due to the large investments being made in public transport infrastructure. These are shown in the detailed document under capital expenditure and transport investments. Councillors will be aware that the majority of our public transport investments are proposed to be held by Council Controlled Trading Organisations (CCTOs). It is proposed that a number of CCTOs will be formed following consultation as part of the LTCCP process.

The rate increases for non transport rates are driven by inflation, flood protection and additional parks. Further details of these increases are documented in the detailed LTCCP.

In respect of the water levy, inflation has been added to the levy increases from 2006/07. The forecast water levy is expected to be \$36 million by 2015/16, compared with the current amount of \$22.7 million.

The increases in the levy are to cover additional expenditure and to fund a new water supply development from 2012/13. The median cost for this new water source is around \$67 million.

5. Balanced Budget

The Council is forecasting to run operating deficits in the last few years of the ten year plan.

These deficits arise from the accounting treatment for government grants used to fund capital expenditure, in particular, rail rolling stock.

The government grants are received as revenue, while the expenditure is capitalised as fixed assets and written off over the life of the assets. Thus, in the years the grants are received, the Council makes large surpluses as evidenced in the years up to 2011/12.

Post that period the writing off of the fixed assets over the life takes effect with deficits being made in the last few years.

The Council is not proposing to fund the depreciation on the rolling stock for a number of reasons.

- (a) Current ratepayers are paying the funding of these assets already. If they also paid for depreciation they would be paying more than their fair share of these assets.
- (b) These deficits are accounting deficits, not cash deficits.

Under the Local Government Act 2002 Section 100 (1) the Council is required to run a balanced budget. However, Section 100 (2) the Council is permitted to run a deficit if the Council resolves to do so and having regard to the following:

- (a) The estimated expenses of achieving and maintaining forecast levels of service of the assets throughout their useful life.
- (b) Projected available revenue to fund the estimated expenses associated with maintaining the service capacity of the assets over their useful life.
- (c) Equitable allocation of funding the assets over their useful life.

- (d) That the treatment complies with the Council's policies, in particular the Revenue and Financing Policy.

The Council will be maintaining the assets at a level to ensure their service capacity is maintained over their useful life. In addition, by not funding depreciation on these assets the Council is ensuring there is an equitable allocation of the cost of these assets to ratepayers. This treatment is covered under our Revenue and Financing Policy.

6. **Communications**

No communications are necessary at this time.

7. **Recommendations**

That the Sub Committee recommend to Council that it:

- 1) **Receive** the report;
- 2) **Note** its contents;
- 3) **Resolve** that, under Section 100 of the Local Government Act 2002, it does not operate a balanced budget for the reasons noted in Section 5 above in the last four years of the 2006/16 LTCCP.
- 4) **Approve** the Council's proposed 2006/16 LTCCP and 2006/07 Annual Plan, (as may be amended by this Sub Committee);

Report prepared by:

Barry Turfrey
Chief Financial Officer