

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

## **Long Term Financial Strategy 2000-2010 (Incorporating Council's 2000/01 Annual Plan)**

### **1. Purpose**

To summarise the outcome of the Committee reviews of operating plans and to obtain approval for the projected level of rates and levies over the years 2000/01 to 2009/10, for inclusion in Council's proposed Long Term Financial Strategy 2000-2010.

### **2. Background**

Since 17 February 2000 when the Policy and Finance Committee considered the overall picture (refer report 00.72) for rates and levies, officers have presented to Standing Committees the major issues facing each Division.

While there was a good level of discussion in all Committees there was only one area of change requested to the figures as presented. The change arose out of the Landcare Committee's consideration of the timing of planned expenditure on Whitireia Park. As a result of the Committee's concerns officers have brought forward by two years the planned expenditure on Whitireia Park. This means that the major expenditure on Whitireia Park is now planned to occur in the same year as the major expenditure on the Wairarapa wetlands.

To enable officers to present a draft of the proposed Long Term Financial Strategy 2000-2010 to the Policy and Finance Committee on 21 March 2000, approval is now required of the projected levels of rates and levies for 2000/01 and the following nine years.

### 3. Projected Rates and Levies

#### 3.1 2000/01 (Year 1)

The overall level of rates and levies projected for the 2000/01 year is as outlined in report 00.72, but with two minor changes. The first change in General rates (which has added 0.2% to total Regional rates) resulted from a further review by officers of the Wairarapa schemes which indicated additional General Rate funding was required in order to maintain the 50/50 funding policy. (There has been no change to the planned level of expenditure within the schemes).

The second change resulted from a minor reclassification of approximately \$9,000 from General rates to River rates (with no impact on Regional rates in total).

Table 1:

#### Rates/Levies (excluding GST)

	<b>1999/00 Budget \$000</b>	<b>2000/01 Budget \$000</b>	<b>Additional Funding \$000</b>	<b>% change</b>
General Rates	17,825	20,962	3,137	17.6%
Transport Rates	19,749	21,854	2,105	10.7%
River Rates	2,264	2,296	32	1.4%
Stadium Rates	2,506	2,676	170	6.8%
<b>Total Regional Rates</b>	<b>42,344</b>	<b>47,788</b>	<b>5,444</b>	<b>12.8%</b>
Scheme Rates	1,001	985	(16)	(1.6%)
Pest Rates	524	583	59	11.3%
<b>Total Rates</b>	<b>43,869</b>	<b>49,356</b>	<b>5,487</b>	<b>12.5%</b>
Bulk Water Levy	24,210	23,242	(968)	( 4.0%)
<b>Total</b>	<b>68,079</b>	<b>72,598</b>	<b>4,519</b>	<b>6.6%</b>

Note 1. Scheme and Pest Rates are not finalised until June/July. The final rate figures for schemes in particular are likely to change.

Note 2. The final allocation of rate collection costs may change slightly the percentage increases in General rates, Transport rates and River rates.

### 3.2 **2001/02 – 2009/10 (years 2-10)**

As noted in report 00.72 the projected charges for the bulk water levy, scheme rates and pest rates are flat across the 10 year period (i.e. no change in the remaining 9 years is budgeted from the projected 2000/01 figures outlined in section 3.1 above).

However, some change (both up and down) is expected in Regional rates across the 10 year period (refer **Attachment 1**), with the major increase in Regional rates coming in year 1 (2000/01).

There is still minimal increase in Regional Rates beyond year 3 of the proposed 10 year plan.

## 4. **Other Committee Feedback**

Concern was raised at the Policy and Finance Subcommittee meeting on 17 February over the inclusion within the Long Term Financial Strategy of budgeted expenditure on an activity which is currently ultra vires (i.e. Economic Development). Since 17 February I have sought and obtained clarification from the Audit Office (Audit New Zealand) on this issue.

Audit New Zealand advise that there is no legal restriction to Council including planned activities within its Long Term Financial Strategy, even if such activities require future law changes. However, the Council needs to clearly set out the significant assumptions it has made in the preparation of its Long Term Financial Strategy and more importantly the risks and uncertainty surrounding such assumptions.

In Audit New Zealand's view Councils should provide sufficient information to ratepayers and other interested parties to enable them to judge for themselves the reasonableness of the assumptions made.

As a result of this advice officers have retained within the current budgets those items which require future legislative changes.

## 5. **Projected Debt Levels**

### 5.1 **Overall Debt Position**

The projected level of Council debt over the next 10 years (assuming Council does not amend planned expenditure programmes) is set out in **Attachment 2**. As is highlighted in **Attachment 2** the projected debt line reduces steadily over the 10 year period, but not as quickly as was previously planned within *Facing the Future 1997-2007: 1999 Update and 1999/2000 Annual Plan*.

The change to the projected debt line is primarily due to:

- The planned further reduction in the bulk water levy (approximately \$1 million p.a. less revenue previously earmarked to further reduce debt)
- The inclusion of the \$2 million p.a. option for flood protection works in the western part of the Region (previously Flood Protection debt was planned to reduce significantly over the 10 year period as there was minimal capital expenditure planned).

## 5.2 Council's Credit Rating

Councillors will recall that the Council currently has a credit rating of AA-. Although this is a very respectable credit rating, some other local authorities have a rating one "notch" above the WRC's rating i.e. AA. Standard and Poor's, the rating agency, have advised that our debt level is still too high relative to our income to warrant a credit rating upgrade at this time.

As I have advised in the past, maintaining a good credit rating is of more than academic interest to the Council. Our credit rating affects interest costs and more importantly a number of Council's bank facilities are now linked to the maintenance of an acceptable rating (i.e. banks can withdraw funding lines if our credit rating drops below a certain level.)

It is important therefore to continue with debt repayment (at least at planned levels and, where possible, supplement this through the use of Council surpluses).

The risks that I can foresee in relation to Council's projected debt line (and therefore for Council's credit rating) are as follows:

- **Pace of Flood Protection capital expenditure**

The Long Term Financial Strategy includes the projected debt associated with the \$2 million p.a. option for implementation of the Floodplain Management Plans within the western part of the Region. This option does not result in a breach of Council's internal Treasury limit (per the Treasury Management Policy) but the \$4 million p.a. capex option would result in Flood Protection debt breaching Council's internal Treasury limit, and it would also affect Council's external debt levels (and therefore potentially its credit rating).

- **Potential changes to legislation surrounding the ownership of transport infrastructure**

The only transport related debt that the Council currently has on its books is for the Waterloo Interchange (the Council remains in breach of section 594ZU of the Local Government Act by owning this asset).

For the purposes of the Long Term Financial Strategy we have assumed that all other transport infrastructure expenditure will be funded by way of "payment for service" over a 10 year period. While this results in a similar

funding implication for the Council to debt servicing, it is important to appreciate that due to current legislative restrictions the Council is not planning to own the infrastructure asset improvements nor have the debt on its balance sheet.

An unfortunate implication of the legislative changes currently being sought by the Council in respect of transport infrastructure will be increased debt levels for the Council. I see this as a serious risk to Council's credit rating.

### 5.3 Treasury Management Policy

The area where the internal debt limits are most at risk of being breached is Forestry. It is expected that during the 10 year period the internal limit of 60% debt/Forest value will be breached before the maturity phase is reached for the majority of its forests. This situation will need to be closely monitored over the next few years.

Also, as noted in section 5.2 above, should the Council decide on the \$4 million p.a. option in Flood Protection this internal debt limit is also expected to be breached during the 10 year period.

## 6. Reserves

Where appropriate the Council's reserves have been used to help fund the expenditure programme included within the Long Term Financial Strategy.

Withdrawals from the following reserves have been incorporated into the Long Term Financial Strategy:

- **Transport Reserve**

All of this reserve has been budgeted to be utilised with the exception of \$250,000 retained as a contingency, in accordance with previous resolutions of the Passenger Transport Committee. This reserve has been used in the past to fund minor transport infrastructure projects.

It is expected that over the 10 year period, if the contingency sum is not used it will steadily grow with interest.

- **Regional Water Supply Refurbishment Reserve**

All of this reserve has been budgeted to be utilised against the capital expenditure programme with the balance of capital expenditure to be debt funded. The past distinction of refurbishments being reserve funded and system improvements being loan funded is no longer considered relevant.

- **Rural Fire Contingency Reserve**

As the Council is planning to exit from this function the portion of the reserve relating to natural forestry has been budgeted to be transferred into general funds during the remainder of the 1999/00 year. The benefit of this has been incorporated into the Treasury budget for 2000/01 and beyond. As the balance of the reserve now relates to Plantation Forestry only, we have renamed the reserve accordingly.

- **Transit Maintenance Reserve**

This reserve was planned to be fully utilised to fund the October 1998 floods. The remaining residual balance has now been budgeted to be used for general flood protection works.

- **Navigation Aids Reserve**

This reserve has been fully applied to expenditure in the Harbours area as maintaining such a small reserve in an area fully funded by the General rate was no longer considered necessary.

Council's projected reserves position over the 10 year period is attached as **Attachment 3**.

## 7. **Where to from here?**

In order to finalise the proposed Long Term Financial Strategy document in time for the 21 March Policy and Finance Committee Meeting, officers now need direction on the level of rates/levies as outlined in this report. Approval is now sought to the figures included within this report.

## 8. **Communications**

The Council has in place a communications strategy in relation to the release of the Long Term Financial Strategy. The information within this report will be utilised as part of that strategy.

## 9. Recommendations

- (1) *That the report be received and the contents noted.*
- (2) *That the Committee approve for inclusion in the proposed Long Term Financial Strategy the projected rates/levies figures included within this report.*

GREG SCHOLLUM  
Chief Financial Officer

**Attachment 1: Projected increase in Regional rates over 10 years**

**Attachment 2: Projected Debt over 10 years**

**Attachment 3: Projected Reserves over 10 years**