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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 provide the Committee with an overview of the financial aspects of the draft Long-Term Financial Strategy, with particular emphasis on the 2000/01 year (the Council's next Annual Plan), as a result of departments updating detailed budgets for the next 10 years.

2. Background

Each 3 years the Council reviews its programmes across the broad range of its activities and produces a new Long Term Financial Strategy covering the next 10 years. The Long Term Financial Strategy includes 3 years' of "hard" numbers and 7 years' of "soft" numbers to reflect the fact that there will not be another detailed review for 3 years. However, it is expected that in each of the next 2 years there will be an update (more by exception) of the 2nd and 3rd year of "hard" numbers to take account of changes in circumstances that are bound to arise in future.

As Councillors are aware the Council has been working on the shape and direction of the Long Term Financial Strategy for the past year or so with Report 99.731 entitled "Investing in the Future" presented to the Policy and Finance Committee in December 1999 providing the strategic direction for Managers to update their detailed budgets.

Since the 9 December 1999 meeting of the Policy and Finance Committee, Managers have been busy updating their budgets (from the bottom up) and it is now appropriate to consider the results of this work.

3. Results

3.1 Overall level of regional rates/water levies

The results of the detailed review of budgets by Managers (based on Council's planned investment programme as discussed on 9 December 1999) is as follows:

Table 1:

	% increase (decrease) P&F Meeting 9/12/99		% increase (decrease) P&F Meeting 17/2/00
Regional Rates 2000/01	14.9%	(1)	12.6%
Bulk Water Levy 2000/01	(4.0%)	(2)	(4.0%)

Notes:

- (1) Report 99.731 to Policy & Finance Committee (9/12/99)
- (2) Report 99.717 to Utility Services Committee (8/12/99)
- (3) Pest and scheme rates do not form part of Regional rates (ref. Table 3)

Table 1 shows that the impact of Council's planned investment programme (as discussed on 9/12/99) is now estimated to be a 12.6% increase in regional rates rather than the 14.9% indicated in Report 99.731. In other words, the detailed review of budgets has slightly reduced the rate line impact (refer to table 2 for details) *without any reduction in the planned programme*. Table 1 also shows that officers have reaffirmed their earlier advice to the Utility Services Committee that a 4% reduction in the water levy is sustainable (this is in addition of course to the 4% reduction in the 1999/00 year).

3.2 Why has the regional rates requirement reduced from 14.9% to 12.6%?

The 14.9% increase in regional rates was based on estimated costs of the new investment packages. (i.e. a top down assessment of additions to the existing base). It was always possible that when a detailed review of all budgets had been completed a new rate increase % would emerge. There are a number of "swings and roundabouts" across the Council's areas of activity as detailed in table 2 below. However, the major reasons for the reduction of 2.3% in the regional rate increase (14.9% - 12.6%) are:

- Increase in contribution from investments of \$438,000 or 1.0%
- Removal of allowance for "soft number update" of \$400,000 or 0.9%.

3.2.1. Increase in investment returns

I have previously indicated that the investment area could contribute a further \$500,000 per annum to the rate line, primarily as a result of the increase in the dividend payout percentage of Centreport from 50% NPAT to 60% of NPAT. This increased investment contribution of \$500,000 was factored into material provided to the 9/12/99 Policy and Finance Committee meeting. After a detailed review of the investment budgets the increased contribution is now \$938,000 (\$500,000 already signalled plus a further \$438,000).

3.2.2 Removal of soft number update

I had included a “provision” of \$400,000 within the previously advised position of a 14.9% increase, to allow for the possibility that a detailed “bottom up” review of budgets might result in increases in the cost of existing programmes. In the event this has not been required indicating that overall the “soft” numbers (the existing numbers underpinning Facing the Future) were reasonable.

3.2.3 Comparison of 2000/01 rate line advised to Council on 9/12/99 with the current position

Table 2:

	Rate Funding Required 9/12/99 (\$000)	Rate Funding Required 17/2/2000 (\$000)	Increase/(Decrease) in rate funding required (\$000)
Transport	21,582	21,854	272
Landcare	10,983	11,092	109
Environment	7,042	6,852	(190)
Wairarapa	6,209	6,352	143
Democracy (elected members)	2,604	2,191	(413)
Investments	(1,765)	(2,203)	(438)
Other	1,993	1,553	(440)
TOTAL:	48,648	47,691	(957)

General

This year, although corporate charges (overheads and internal charges) have been held at previous levels there have been some significant shifts in the allocation of such charges among divisions.

The allocation changes have largely arisen in the Finance area where the cost drivers have been refined to better reflect usage. Also with the centralisation of the Finance function from Masterton to Wellington the discount on finance costs which has previously been granted to the Wairarapa has been removed.

Transport

The increased funding requirement in the Transport area is primarily as a result of the Division receiving recharges from the Democracy budget for the new strategic initiatives:

- Strategic communications
- Advocacy
- Economic data

(The high level figures discussed in December 1999 focused on regional rates in total, rather than the impact on each area). This, coupled with an increase in the overall percentage recharged from the Democracy budget (from 25% to 30% based on an analysis of meeting days) partially offset by a reduction in corporate overheads, has increased the rate requirement in the transport area.

Landcare

The increased funding required in Landcare is primarily as a result of reduced internal revenue and increased overheads allocated to this area.

Environment

The reduced funding requirement in Environment is due to the reduced corporate overheads being charged to the Division and as a result of further refinements to the cost estimates for the environmental investment packages provided to Councillors in December 1999.

Wairarapa

The increased funding required is primarily due to the Wairarapa Division receiving an increased corporate overhead allocation (as a result of the finance processing moving from Masterton to Wellington and due to the use of the new cost driver).

Democracy

The reduced funding required in Democracy against what was signalled in December 1999 is due to recharges to both the Transport and Water areas.

The Transport recharge is within the overall regional rate (i.e. there is an offset with Transport as noted above). However, the recharge to the Water Group is recovered via the water levy and represents a saving to the rate line over what was signalled in December 1999.

Investments

The additional contribution to the rate line from the investment area over what was signalled in December 1999 is primarily as a result of increased interest rates (and the flow on effect increased interest rates have on the 1998 restructuring of the ownership of Centreport) and the increase in sale price of the Port Company (via the sale and purchase adjustment clause). There is also an increased contribution from Council's Treasury function arising from a reduction in the debt level and a reduction in Council's weighted average cost of debt.

Other

This primarily relates to removal of the soft number provision of \$400,000 referred to in section 3.2.2 above.

3.3 Comparison of Projected Rates and Levies with the current year

Table 3 below compares the proposed level of community charges (rates/levies) in 2000/01 with these charges in the 1999/00 year.

Table 3:

	1999/00 Budget \$000	2000/01 Budget \$000	Additional Funding \$000	% change
General Rates	17,825	20,873	3,048	17.1%
Transport Rates	19,749	21,854	2,105	10.7%
River Rates	2,264	2,288	24	1.1%
Stadium Rates	2,506	2,676	170	6.8%
Total Regional Rates	42,344	47,691	5,347	12.6%
Scheme Rates	1,001	985	(16)	(1.6%)
Pest Rates	524	583	59	11.3%
Total Rates	43,869	49,259	5,390	12.3%
Bulk Water Levy	24,210	23,242	(968)	(4.0%)
Total Rates/Levies	68,079	72,501	4,422	6.5%

Notes:

Scheme and Pest rates are not finalised until June/July. The final rates figures for Schemes in particular are likely to change.

It is interesting to note that when community charges are considered together, the combined rate increase and levy reduction translates into a 6.5% increase in charges overall.

How the projected changes in rates impact on different constituent districts and individual ratepayers is affected by Council's funding policies and valuation changes. Information on the latter is not yet available.

3.4 Projected Rates/Levies across the 10 years

The budgeted charges for scheme rates, pest rates and bulk water levies in 2000/01 are projected to be flat across the 10 year period of the Long Term Financial Strategy (i.e. there is no change in these charges budgeted across the 10 year period).

However, there are future increases expected in regional rates over the 10 year period (refer to attachment 1): These increases relate to the impact of progressively implementing Council's preferred "investment packages". The main driver of increases in future years relates to Transport (refer Attachment 2).

It is important to appreciate that as the rate line in the existing soft numbers was reducing in the out years the investment packages can be implemented with increases in rates in years 1-3 but with minimal increases in years 4-10.

4. Communications

The impact on the level of community charges (rates/levies) of Council's proposed investment programme is expected to be fully reported by the media. In addition, Council's strategic communications tools are being utilised to ensure that the community understands that the planned investment packages do carry an additional cost.

5. Recommendations

That this Report be received and referred to Standing Committees for consideration with the 2000-2010 Operating Plans (which support the Long Term Financial Strategy 2000-2010).

GREG SCHOLLUM
Chief Financial Officer

- Attachment 1:** Projected increases in Regional rates over the next 10 years.
- Attachment 2:** Regional rate funding required over the next 10 years.