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Report 01.66

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

Long-Term Financial Strategy 2000-2010:2001 Update (incorporating Council's 2001/02 Annual Plan)

1. Purpose

To provide the Committee with an overview of the financial aspects of the Long-Term Financial Strategy (LTFS), with particular emphasis on the 2001/02 year (the Council's next Annual Plan) as a result of departments updating their detailed budgets for the next nine years.

2. Background

Over the past few months, managers have been reviewing their detailed budgets for the next nine years with prime focus on the last two remaining years of hard numbers (i.e. 2001/02 and 2002/03). They have also been reviewing and, where necessary, updating their performance indicators.

Operating Plans have been updated for each area and these will be reviewed by Standing Committees over the next few weeks.

The process undertaken by managers has essentially been an update of the information for the 2001/02 and 2002/03 years which was presented this time last year. The exception to this is Transport where the funding changes introduced last year are so fundamental as to require a more thorough review of Council's expenditure programme in this area. I understand that on 20 February 2001 the Passenger Transport Committee will be asked to consider a number of scenarios in relation to different work programmes with a view to assessing the best balance between taking advantage of Government's new funding package and the Regional rate line.

3. Results

There has again been some movement in individual budget areas (swings and roundabouts) but overall the Council is currently in a position of requiring a 2.0% increase in Regional rates in 2001/02 compared with the 4.4% increase signalled as part of the Long-Term Financial Strategy 2000-2010. The extent to which the Council wishes to further invest in Transport will be the key determinant of the increase in Regional rates in 2001/02.

The bulk water levy is currently projected by officers to remain at 2000/01 levels although this will be reviewed in detail by the Utility Services Committee on 19 February 2001.

3.1 What were the main components of the 4.4% projected rate increase in 2001/02?

Table 1 below shows the main drivers of Council's projected increase in Regional rates for the 2001/02 year, as set out in the Long-Term Financial Strategy (i.e. before officers began updating budgets in the past few months).

TABLE 1

	2000/01 Budget \$000	2001/02 Budget 'old' \$000	Additional Funding Required	Contribution to overall rate increase
Transport	22,333	23,772	1,439	3.0%
Environment	6,852	7,229	377	0.8%
Landcare	11,071	11,251	180	0.4%
Other	7,392	7,516	124	0.2%
Total Regional Rates	47,648	49,768	2,120	4.4%

As can be seen from Table 1 the major component of the projected 4.4% rate increase was Transport.

3.2 Movements between the previously signalled 4.4% rate increase and the current position

Table 2 below compares the proposed level of Regional rates in 2001/02 with what was forecast for the 2001/02 year in the Long-Term Financial Strategy.

TABLE 2

	2001/02 'old' Budget \$000	2001/02 'new' Budget \$000	Additional funding required	% change
Environment	7,229	6,948	(281)	(3.9%)
Landcare	11,251	11,197	(54)	(0.5%)
Transport	23,772	23,257	(515)	(2.2%)
Wairarapa	6,621	6,672	51	0.8%
Investment in Democracy	2,174	2,228	54	2.5%
Other e.g. rates collection	1,592	1,383	(209)	(13.1%)
Core operational responsibilities	52,639	51,685	(954)	(1.8%)
Investments (excl Stadium)	(5,547)	(5,771)	(224)	(4.0%)
Stadium	2,676	2,676	-	-
Total Regional Rates	49,768	48,590	(1,178)	(2.4%)

NB: Internal dividends are all included within investments

The reasons for the major changes between the 'old' and 'new' budget figures for 2001/02 are as follows:

Environment

- Reduction in the amount of Environmental legal contingency reserve by \$200,000. The current balance is approximately \$450,000 and the reserve continues to grow each year with interest (there have been no withdrawals from the reserve).

In the view of officers the Environment Division reserve can be prudently reduced by \$200,000 given that all the key policies and plans are now in place.

(N.B: the 'new' budget assumes \$50,000 will be used to set up a similar reserve for the Wairarapa Division). This matter should be considered in more detail by the Environment Committee on 22 February 2001.

- Reduction in Resource Policy Department funding requirements of \$83,000. This primarily relates to a reduction of \$66,000 for consultants.

Transport

The net reduction in rate funding required is a result of projected increased external revenue from the patronage funding scheme (Transfund) and increased expenditure (e.g.

inflation allowance for service contracts). The 'new' Transport budget currently includes only one kick start project (Newlands/Churton Park).

Other

The reduction in 'other' relates to a lower estimate of rate collection and valuation services costs for the 2001/02 year.

Investments

The net increase in the rate contribution from investments is primarily as a result of increased returns from the WRC Holdings group and increased returns from Council's Treasury function (refer report 01.63 to the Policy and Finance Subcommittee)

3.3 **Comparison of Divisional Budgets between 2000/01 and 2001/02**

Table 3 below compares the updated Divisional budgets (rating impact) for 2001/02 with the 2000/01 budget figures.

TABLE 3

	2000/01 Budget \$000	2001/02 'new' Budget \$000	Additional Funding required \$000	Contribution to overall rate increase
Environment	6,852	6,948	96	0.2%
Landcare	11,071	11,197	126	0.3%
Transport	22,333	23,257	924	1.9%
Wairarapa	6,556	6,672	116	0.3%
Investment in Democracy	2,191	2,228	37	0.1%
Other (e.g. Rates Collection)	1,553	1,383	(170)	(0.4%)
Core Operational Responsibilities	50,556	51,685	1,129	2.4%
Investments (excl. Stadium)	(5,584)	(5,771)	(187)	(0.4%)
Stadium	2,676	2,676	-	-
Total Regional Rates	47,648	48,590	942	2.0%

As can be seen from Table 3 the major component of the projected 2.0% increase in Regional rates is Transport (1.9%).

3.4 **Comparison of projected rates and levies with the current year**

Table 4 compares the proposed level of community charges in 2001/02 with these charges in the 2000/01 year.

TABLE 4

	2000/01 Budget \$000	2001/02 Budget \$000	Additional Funding \$000	% change
General Rates	20,353	20,197	(156)	(0.8%)
Transport Rates	22,333	23,257	924	4.1%
River Rates	2,286	2,460	174	7.6%
Stadium Rates	2,676	2,676	-	-
Total Regional Rates (see Table 3)	47,648	48,590	942	2.0%
Scheme Rates	1,009	1,025	16	1.6%
Pest Rates	583	583	-	-
Total Rates	49,240	50,198	958	2.0%
Bulk Water Levy	23,241	23,241	-	-
Total Community Charges	72,481	73,439	958	1.3%

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

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.

3.5 Projected Rates/Levies across the Nine years

The budgeted charges for scheme rates, pest rates and bulk water levies in 2001/02 are projected to be relatively flat across the nine year period of the Long Term Financial Strategy.

However, there are future increases and decreases expected in regional rates over the nine year period (refer to **Attachment 1**). These net increases and decreases relate to the impact of progressively implementing Council's preferred "investment packages" offset by increasing projected returns from Council's investments.

4. Areas of Uncertainty

The Chairman, in report 01.65, has referred to a number of significant uncertainties facing the Council as it prepares its 2001/02 Annual Plan.

As the budget process continues officers will need to keep the key budget assumptions under review.

5. **Communications**

The impact on the level of community charges (rates/levies) is expected to be fully reported by the media.

6. **Recommendations**

That this report be received and referred to Standing Committees for consideration with the 2001-2010 Operating Plans (which support the Long-Term Financial Strategy 2000-2010:2001 Update).

GREG SCHOLLUM
Chief Financial Officer

Attachment 1: Projected increases in Regional rates over the next nine years.