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Report 02.92

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

Long-Term Financial Strategy 2000-2010:2002 Update (incorporating Council's 2002/03 Annual Plan)

1. Purpose

To summarise the outcome of the Committee reviews of Operating Plans and to obtain approval of the projected level of rates and water levies over the years 2002/03-2009/2010, for inclusion in Council's updated Long-Term Financial Strategy (LTFS) for the purposes of public consultation.

2. Background

Since 14 February 2002 when the Policy and Finance Committee considered the overall picture for rates and levies (refer report 02.46), officers have presented to Standing Committees the major issues facing each division.

As you would expect with the update of budgets covering the third year of hard numbers, officers have repeatedly been advising Committees of pressure on budgets, and on certain input costs in particular (e.g. insurance). This is not unexpected in a third year update and, in fact in many respects, it is a sign that the framework utilised by the Council is working.

Leading into the recent reviews of budgets by Standing Committees, the projected increase in Regional rates for 2002/03 was 5.3%, whereas the projected decrease in the bulk water levy was 3%. (refer report 02.46)

3. Projected Rates and Levies

3.1 Overview of Recommendations of Standing Committees

As a result of the Committee round the projected increase in Regional rates is now 1.9% (5.3%-3.4% = 1.9%), while the projected water levy remains at a 3% reduction on the 2001/02 level. The major reasons for the smaller projected increase in Regional rates are as follows:

	Amount	Impact on Regional rates
• Removal of Economic Development funding	(\$315,000)	(0.64%)
• Reduction of estimated Rate Collection costs	(\$130,000)	(0.27%)
• Deferral, outside of the LTFS timeframe, of the Integrated Ticketing project	(\$864,000)	(1.76%)
• Deferral of Waikanae Electrification package (by 6 months)	(\$312,000)	(0.64%)
• Deferral of commencement of Hutt River Ranger (by 3 months)	(\$17,000)	(0.03%)
• Deferral, outside of the LTFS timeframe, of phase II of the Otaihanga road raising project	(\$6,000)	(0.01%)
	(\$1,644,000)	(3.35%)

In addition, the Rural Services and Wairarapa Committee resolved on 15 February to recommend to the Policy and Finance Committee the steady utilisation of the Bovine Tb reserve over the period until 2008/09, which will result in reduced Pest rates (by approx 45% on the 2001/02 level). While this is a significant reduction, the Pest (Bovine Tb) rate does not form part of Regional rates.

3.2 2002/03 (year 1)

The overall projected level of rates and levies for the 2002/03 year is now as follows:

Rates/Levies (excluding GST)				
	2001/02 Budget \$000	2002/03 Budget \$000	Additional Funding \$000	% change
General rates	19,693	20,344	651	3.3%
Transport rates	24,319	24,419	100	0.4%
River rates	2,403	2,592	189	7.9%
Stadium rates	2,676	2,676	-	-
Total Regional Rates	49,091	50,031	940	1.9%
Scheme rates	1,096	1,108	12	1.1%
Pest rates	207	113	(94)	(45.4%)
Total Rates	50,394	51,252	858	1.7%
Bulk Water Levy	22,776	22,093	(683)	(3.0)%
Total Community Charges	73,170	73,345	175	0.2%

Notes:

1. Scheme and Pest rates are not finalised until June/July.
2. The allocation of rate collection costs may change slightly the percentage increases in General rates, Transport rates and River rates. However, the overall level of Regional rates will not be affected.

The 1.9% increase in Regional rates shown above should be compared with the 5.3% increase in Regional rates for the 2002/03 year leading into the Committee round, and the 5.1% increase in Regional rates signalled in the LTFS in June 2001.

It is emphasised that the impacts discussed in this paper are global ones only.

Impacts on the different constituent cities and districts, and individual ratepayers, cannot be reliably calculated until we have an audited valuation equalisation certificate (in June) and updated rating roll information has been provided by the region's territorial authorities (in July).

3.3 2003/04 – 2009/10 (years 2-8)

The projected increases/decreases in Regional rates across the remaining seven year period of the LTFS are included in **Attachment 1**. These figures are different to the

figures presented in my report 02.46 (refer to **Attachment 2**) as a result of the changes identified in section 3.1 of this report.

The major reason for the reduction in the cumulative rate increase projected over the next eight years is the removal from the LTFS of the Integrated Ticketing project.

4. **Potential further changes to the proposed 2002/03 Annual Plan/LTFS Update**

At its meeting on 18 February the Passenger Transport Committee referred to the Policy and Finance Committee the decision of whether or not to recommend the addition of up to six additional transport projects into the proposed 2002/03 Annual Plan/LTFS.

The projects discussed by the Passenger Transport Committee were as follows:

	Project	Project Cost \$	2002/03 Additional Rates required \$	Regional Rate Impact %
1	Continued rolling stock refurbishments	1,131,671	452,668	0.92%
2	Real Time Information	375,000	225,000	0.46%
3	Marketing Strategy	200,000	134,000	0.27%
4	Waikanae bus service improvements	100,000	60,000	0.12%
5	Computer service enquiry database	50,000	33,500	0.07%
6	Transmission Gully Cost/Benefit Analysis	75,000	56,250	0.12%
	Total	\$1,931,671	\$961,418	1.96%

Officers in the Transport Division were requested by the Passenger Transport Committee to provide more information on each of these projects and this information is now attached as **Attachment 3** of this report.

If the Committee wishes to add in all of these six projects the projected increase in Regional rates in 2002/03 will become 3.9%. Alternatively if the Committee wishes to add selected projects from the above list the projected increase in Regional rates will be 1.9% plus the impact of those items added. (e.g. Regional rates would be projected to increase by 2.4% if only the Real Time Information project was added).

Also depending on the item(s) added it is important to appreciate that there could well be impacts on projected rates in future years. These impacts on future years are discussed in **Attachment 3**.

In terms of the additional items to be considered by the Committee there are essentially three broad approaches that the Committee may wish to take with respect to each of the items:

- (1) Each item could be left out of the figures (as is the case now).
- (2) Each item could be added into the figures, with the expectation that such items would proceed like any other project in the LTFS/Annual Plan.
- (3) Each item could be provisionally added into the figures but with a suitable caveat that the project would not actually commence until the Council has further considered the issue.

This would allow the inclusion of an item in the budget but not provide the authority to officers to commit to the expenditure. While perhaps an unusual approach, the Committee may wish to consider this approach under the circumstances currently prevailing (e.g. uncertainty over the future of Tranz Metro).

The downside of this approach is that the Council may end up rating the community for a particular project that does not proceed. If this were to occur the Transport reserve would be used to ensure such money was still spent on Transport initiatives in future.

5. Where to from here?

In order to finalise the Proposed 2002/03 Annual Plan (within the updated LTFS) in time for the 19 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 contained in this report, including approval, or otherwise, of the potential changes to the Transport budget. (Refer to section 4 above)

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 and Finance Committee recommend to Council that it:

- (1) Receive the report and note its contents.*
- (2) Approve for inclusion in the Proposed 2002/03 Annual Plan (within the updated Long-Term Financial Strategy) the projected rates and levy figures included within this report (as may be amended).*

GREG SCHOLLUM
Chief Financial Officer

Attachment 1: Projected movements in Regional rates over eight years (post committee review)

Attachment 2: Projected movements in Regional rates over eight years (pre committee review)

Attachment 3: Further Information on Possible Additions to the Transport Division 2002/03
Operating Plan