

**Report 99.52**  
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Report to the Policy and Finance Committee  
from Greg Schollum, Chief Financial Officer

## **Long-Term Financial Strategy 1997-2007:1999 Update and Supporting Operating Plans**

### **1. Purpose**

To provide the Committee with an overview of the draft Long Term Financial Strategy, with particular emphasis on the 1999/00 year, as a result of departments updating detailed budgets for the next eight years.

### **2. Background**

Over the past few months managers have been reviewing their detailed budgets for the next eight years with prime focus on the last remaining year of 'hard' numbers i.e. 1999/00. (As referred to by the Chairman in report 99.51.)

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

The process undertaken by managers has essentially been an update of the information for the 1999/00 year which was presented this time last year.

### **3. Results**

There has again been some movement in individual budget areas (swings and roundabouts) but overall the Council is in a position of requiring a 1.7% increase in Regional rates in 1999/00 compared with the 1.2% increase signalled as part of the 1998/99 Annual Plan process.

#### **3.1 Rates increase in 1999/00 signalled this time last year**

At its meeting on 3 March 1998, the Policy and Finance Committee resolved:

*“that Facing the Future 1998-2007 will provide for a 1.2% increase in Regional rates in 1999/00 but that the Council will use every endeavour to achieve a 0% rate increase when actually finalising the 1999/2000 Annual Plan”.*

The 1.2% increase in Regional rates (excluding the Stadium rate) equated to approximately 1% increase including the Stadium rate, (the percentage decreased due to the higher rating base when the Stadium rate was included).

The major components of the planned rate increase of 1% between 1998/99 and 1999/00 is detailed in Table 1 below:

**TABLE 1**

	<b>1998/99 budget (\$000)</b>	<b>1999/00 budget (\$000)</b>	<b>Additional Funding required</b>	<b>% change</b>
<b>Public Transport</b>	19,523	20,047	524	2.7%
<b>Landcare</b>	9,116	9,207	91	1.0%
<b>Wairarapa</b>	5,350	5,454	104	1.9%
<b>Environment</b>	5,513	5,441	(72)	(1.3%)
<b>Port Wellington</b>	(1,890)	(2,100)	(210)	(11.1%)
<b>Other</b>	4,106	4,080	(26)	(0.6%)
<b>Total</b>	41,718	42,129	411	1.0%

Essentially Table 1 indicates that more rate money is directed into operating areas, particularly transport, with increased contributions from Council's investment in Port Wellington and a reduced rating requirement from Environment.

### **3.2 Rates increase in 1999/00 - current position**

The following table highlights the changes in rates now required by area of Council's activity:

TABLE 2

	<b>1998/99 budget</b>	<b>1999/00 'old' budget</b>	<b>1999/00 'new' budget</b>	<b>Additional funding required 1999/00</b>	<b>% change (1)</b>	<b>% change (2)</b>
	<b>(\$000)</b>	<b>(\$000)</b>	<b>(\$000)</b>	<b>(\$000) (1)</b>		
<b>Environment</b>	5,513	5,441	5,441	-	-	(1.3%)
<b>Landcare</b>	9,116	9,207	9,810	603	6.5%	7.6%
<b>Public Transport</b>	19,523	20,047	20,047	-	-	2.7%
<b>Wairarapa</b>	5,350	5,454	5,624	170	3.1%	5.1%
<b>Cost of Democracy</b>	1,830	1,897	1,917	20	1.0%	4.8%
<b>Rates Collection</b>	1,290	1,300	1,300	-	-	0.8%
<b>Management Savings</b>	(662)	(647)	(647)	-	-	(2.3%)
<b>Core Operational Resp.</b>	41,960	42,699	43,492	793	1.8%	3.7%
<b>Port Wellington</b>	(1,890)	(2,100)	(1,979)	121	5.8%	(4.7%)
<b>WRC Holdings</b>	1,575	1,475	997	(478)	(32.4%)	(36.7%)
<b>Treasury Management</b>	(2,175)	(2,151)	(2,200)	(49)	(2.3%)	(1.1%)
<b>Other Property</b>	(51)	(43)	(140)	(97)	(226%)	(175%)
<b>Business units</b>	(427)	(427)	(427)	-	-	-
<b>Stadium</b>	2,726	2,676	2,676	-	-	-
<b>Investments</b>	(242)	(570)	(1073)	(503)	(88.3%)	443%
<b>Total Regional Rates</b>	41,718	42,129	42,419	290	0.7%	1.7%

(1) Change between 'old' 1999/00 budget and 'new' budget 1999/00.

(2) Change between 1998/99 budget and new budget 1999/00.

New items of operational expenditure primarily related to the October 1998 floods have meant that the overall increase in Regional rates for 1999/00 is now approximately 1.7%.

This includes an assessment of the impact of the review of infrastructural asset risks, the focus on which was increased as a result of the recent floods. Allowance has been built into the rates calculation for the officers' estimates of the result of this review (Yet to formally go to Council). This includes the funding of contributions in both Landcare and Wairarapa budgets for the establishment of a major flood damage recovery fund.

It should also be noted that Council has been able to increase operational spending by approximately \$1.5 million (\$43.492 m - \$41.960 m) over that budgeted in 1998/99, equating to approximately 3.7% increase in Regional rates. (In other words, the increased contribution from Council's investments has cut the potential rates increase in half from 3.7% to 1.7%.)

Had it not been for the direct and indirect affects of the October 1998 floods the Council would indeed have been in a position to achieve a 0% increase in Regional rates for the 1999/00 year as a result of the increased contribution from Council's investments. (\$503,000 additional investment contribution (see Table 2) vs \$411,000 additional funding required (see Table 1).)

#### **4. Areas of Uncertainty**

The Chairman in report 99.51 has alluded to a number of significant uncertainties facing the Council as it prepares its 1999/00 Annual Plan.

In addition to those key issues flagged by the Chairman, there are a number of other issues on the horizon which have the potential to impact the rates line but which are likely to be more properly dealt with as part of Operation Emerald. These include, but are not limited to:

Potential changes as a result of:

- Council's proposed education initiative.
- Further progress on Council's floodplain management planning and asset management planning processes.
- The review of the Regional Land Transport Strategy.
- Any variation to Council's existing policy of maintaining existing Regional Parks, rather than expanding the network.

#### **5. Comments on the Proposed Increase in Regional Rates**

As noted in section 4 above, this time last year the Council was looking at an increase in Regional rates, including the Stadium rate, of approximately 1%. Although this could have been eliminated, (through increased returns from investments) events during the year have meant the proposed rates increase is now 1.7% (primarily related to the October 1998 floods).

It is certainly appropriate that the expenditure associated with the floods is fully funded.

However, if the Council was of a mind to maintain the 0% rate increase target which was set three years ago officers would need to conduct further work to identify those budgeted work programmes which could be deleted.

## 6. A Summary of Council's Proposed Rates/Levies for 1999/00

**TABLE 3**

	<b>1998/99 budget (\$000)</b>	<b>1999/00 'old' budget (\$000)</b>	<b>1999/00 'new' budget (\$000)</b>	<b>Additional rates (1)</b>	<b>% change (1)</b>
<b>General rates</b>	17,716	17,832	17,318	(398)	(2.2%)
<b>Transport rates</b>	19,523	20,047	20,047	524	2.7%
<b>River rates</b>	1,753	1,574	2,378	625	35.7%
<b>Stadium rates</b>	2,726	2,676	2,676	(50)	(1.8%)
<b>Regional rates</b>	41,718	42,129	42,419	701	1.7%
<b>Scheme rates</b>	922	977	978	56	6.1%
<b>Pest rates</b>	524	524	524	-	-
<b>Total Rates</b>	43,164	43,630	43,921	757	1.8%
<b>Bulk Water levy</b>	25,218	25,218	25,218	-	-
<b>Total Rates and Levies</b>	68,382	68,848	69,139	757	1.1%

(1) Change between 1998/99 budget and 1999/00 new budget which incorporates the % movements in Tables 1 & 2.

In addition to reviewing the position of Regional rates, the level of scheme rates, pest rates and Bulk Water levy for 1999/00 will need to be reviewed by the respective Committees, prior to approval by the Policy and Finance Committee on 18 March 1999. Clearly the level of river scheme rates, in particular, needs to be reviewed by the Rural Services and Wairarapa Committee given the impact of the recent floods.

## **7. Recommendation**

*That this report be received and referred to Standing Committees for consideration with the 1999-2007 Operating Plans (which support the Long Term Financial Strategy 1997-2007:1999 Update).*

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