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Report 02.332

10 June 2002

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

Finalisation of the LTFS:2002 Update and 2002/03 Annual Plan

1. Purpose

- To note the latest position in relation to the level of Regional rates, other rates and the bulk water levy.
- To seek approval to rebudget expenditure between years within the Council's LTFS: 2002 Update, *Investing in the Future 2000-2010:2002 Update (incorporating the 2002/03 Annual Plan)*, as a result of a more accurate assessment of the timing of previously budgeted expenditure.
- To seek approval for new items and other adjustments to be made to the LTFS: 2002 Update as a result of changes in circumstances since the proposed document was adopted, and as a result of submissions received.
- To seek approval for the level of Regional rates, other rates and the bulk water levy for 2002/03 and the following seven years, to be incorporated into the final version of *Investing in the Future 2000-2010:2002 Update (incorporating the 2002/03 Annual Plan)*.

2. Background

As Councillors will be aware the process for updating the LTFS and preparing the 2002/03 Annual Plan started over six months ago with a review of business plans by each of the Departmental Managers within the Council.

These business plans were reviewed by Committees during February and on the basis of approved business plans the LTFS Update (incorporating the proposed Annual Plan for 2002/03) was prepared. The proposed Annual Plan included a proposed increase in Regional rates of 3.9% and a proposed reduction in the bulk water levy of 3%.

The consultation phase on the proposed plan has now been completed and officers also have improved information upon which to plan the next year (and the following seven years).

Part of the improved information that we now have is a better knowledge of the timing of projects (i.e. when they are expected to be completed).

It has been normal practice that before the final LTFS Update/Annual Plan is adopted, officers recommend to Council those items that are required to be rebudgeted. The general principle followed is that if expenditure on a project cannot be completed in a given year, it can be rebudgeted in another year (normally the following year), provided it is still a Council priority and provided there is sufficient funding available.

I have asked Managers in each area to estimate which specific projects need to be rebudgeted. (refer **Attachments 2 and 3** of this report).

In addition, any new items of expenditure and other adjustments which have arisen since the proposed LTFS Update/Annual Plan was prepared, also need to be considered by Council before the LTFS Update/Annual Plan is adopted (refer to **Attachments 4 and 5** of this report).

The financial impact of expenditure rebudgeting and additional items have already been incorporated into the overall figures within section 4 of this report.

3. Results of the Public Consultation process, including the Policy, Finance and Strategy Sub-committee meeting on 4 and 5 June 2002

Although the Council received a number of quality submissions from the public, many of the items raised by submitters will be best handled as part of the next Long Term Council Community Plan (previously termed LTFS).

However, the Policy, Finance and Strategy Sub-committee did signal that it wished the Policy, Finance and Strategy Committee to reconsider the inclusion of the following project as part of finalisation of the 2002/03 Annual Plan/LTFS Update:

- Transmission Gully cost/benefit analysis \$75,000 (in the 2002/03 year).

At present this project remains within the Council's planned programme for 2002/03. Therefore, if the Committee wishes for this item to be removed the item will need to be added to **Attachment 4** of this report.

4. Latest position in relation to Regional rates, other rates and the bulk water levy

As noted above, the proposed Annual Plan released for public consultation included a proposed Regional rate increase of 3.9% and a proposed bulk water reduction of 3.0%. Table 1 below shows the latest position in relation to projected rates and levies for 2002/03 compared with 2001/02. Regional rates are now projected to increase by approximately 3.7% compared with 3.9% in the Council's 2002/03 proposed Annual Plan. Other rates are projected to be largely unchanged from what was included within the 2002/03 proposed Annual Plan.

Bulk water levies are now projected to be held at 2001/02 levels, reversing the 3% reduction signalled within the Council's 2002/03 proposed Annual Plan. As noted on page 2 of Council's proposed Annual Plan the proposed 3% reduction in the bulk water levy relied on there being no significant impact on the Council's bulk water operation from increased rates (as a result of the introduction from 1 July 2002 of the rating of utilities).

As is noted in report 02.289 the likely impact from the rating of utilities is around \$1 million which is significant. In addition, the estimated cost of insurance for bulk water is expected to increase by approximately 0.3 million.

Table 1

Rates/Levies (excluding GST)				
	2001/02 Budget \$000	2002/03 Budget \$000	Additional Funding \$000	% Change
General Rates	19,693	20,237	544	2.8%
Transport Rates	24,319	25,380	1,061	4.4%
River Rates	2,403	2,598	195	8.1%
Stadium Rates	2,676	2,676	-	0%
Total Regional Rates	49,091	50,891	1,800	3.7%
Scheme Rates	1,096	1,067	(29)	(2.6%)
Pest Rates	207	131	(76)	(36.7%)
Total Rates	50,394	52,089	1,695	3.4%
Bulk Water Levy	22,776	22,776	-	0%
Total WRC Community Charges	73,170	74,865	1,695	2.3%

Notes:

- (1) At the time of preparing this report the allocation between river rate and general rate was still subject to review due to the rebudgeting of expenditure in the Flood Protection Budget. However, this has no impact on the overall level of Regional rates.
- (2) Scheme rates have not yet been set following the recent completion of Scheme Advisory Committee meetings.
- (3) The bulk water levy is projected to be held at 2001/02 levels.

As noted above, Regional rates are now projected to increase by 3.7%, slightly lower than the 3.9% signalled within the Council's proposed Annual Plan. The reduction mainly relates to changes in the investment management area as a result of improved information, including revised interest rate projections.

5. Other matters that may impact the final figures included within the 2002/03 Annual Plan/LTFS update

5.1 Rolling Stock Refurbishment

Report 02.270 outlines a proposal from officers to accelerate the refurbishment of the English Electric Units, in order to take advantage of an offer of additional funding from Transfund New Zealand.

The figures within this report take no account of this proposal to accelerate the refurbishment of these units. Therefore, if the Council chooses to proceed with the acceleration programme any rating implications will need to be added into the figures contained within this report.

5.2 Potential Acquisition of Tranz Metro (Public/Private partnership)

As the process is not sufficiently far advanced it is not appropriate (nor practical) to incorporate any financial impacts of the potential acquisition within the 2002/03 Annual Plan.

5.3 Update of Transport Assumptions

The key assumptions in the transport area (e.g. inflation on contracted services) have been reviewed to ensure they reflect the latest available information.

5.4 Insurance

Included within report 02.334 is a summary of the likely insurance costs in the 2002/03 year. The majority of the increased cost of insurance relates to Bulk Water and has been taken into account in report 02.289 on the proposed bulk water levies for 2002/03.

Notwithstanding the majority of the increase relates to bulk water, officers estimate the increase related to rate funded activities will amount to approximately \$100,000. Under normal circumstances I would be recommending budgets were amended for such a projected increase in input costs. However, given the fact that this cost is widely spread throughout the Council and therefore any impacts on individual departments is expected to be manageable within existing budgets. I full expect managers will report in their variance explanations in 2002/03 that they have overspent insurance, but such overspending shouldn't be material to any single department.

5.5 Election Costs –STV

The Council Secretary considers that it would be premature to adjust the budget for the possibility of a poll in the first half of 2003 on whether or not the next two elections should be run on an STV basis.

5.6 Increased Predator Control – Mt Bruce

Report 02.293 outlines a proposal for additional expenditure, the funding of which has not been incorporated into the figures contained within this report.

Therefore, if the Council chooses to proceed with the predator control work, any rating implications will need to be added into the figures contained within this report.

5.7 Changes to Investment Management budgets

As a result of the latest available information on interest rates the investment management budgets have been updated. Although there are some impacts on individual areas (e.g. WRC Holdings Group and Treasury) the net overall impact of interest rate changes is negligible.

6. Proposed Changes to Expenditure Budgets

In **Attachments 2-5**, I have summarised details of all projects that Managers seek to rebudget, as well as the new items already included in the figures, for consideration by the Committee.

Specific recommendations relating to approval of the items contained in each attachment are included within section 8 of this report.

7. Communications

It is expected that the Council's final position in respect of rates and levies will be well reported.

8. Recommendations

That the Committee recommend that Council:

- (1) *receive the report and note its contents.*
- (2) *approve the operating expenditure items listed within **Attachment 2** of this report (as amended by the Committee) to be rebudgeted within the Long Term Financial Strategy 2000-2010:2002 Update and 2002/03 Annual Plan.*
- (3) *approve the capital expenditure items listed within **Attachment 3** of this report (as amended by the Committee) to be rebudgeted within the Long Term Financial Strategy 2000-2010:2002 Update and 2002/03 Annual Plan.*

- (4) *approve the new items of operating expenditure/(savings) and other adjustments within **Attachment 4** of this report (as amended by the Committee) for inclusion within the Long Term Financial Strategy 2000-2010:2002 Update and 2002/03 Annual Plan.*
- (5) *approve the new items of capital expenditure and other adjustments listed within **Attachment 5** of this report (as amended by the Committee) for inclusion within the Long Term Financial Strategy 2000-2010:2002 Update and 2002/03 Annual Plan.*
- (6) *note that the impacts of the rebudgeting and budgeting of new items, as approved in recommendations 2 - 5 above, have been reflected within Table 1 and **Attachment 1** of this report.*
- (7) *after having considered the other items contained within this report and other reports on this order paper which could impact on the finalisation of the 2002/03 Annual Plan, approve the level of Regional rates, other rates and bulk water levies for the 2002/03 year (and the following seven years) as contained in this report (as amended).*

GREG SCHOLLUM
Chief Financial Officer

KERRY SAYWELL
Treasurer

- Attachment 1: 2002/03 Annual Plan – Regional Rates**
- Attachment 2: Rebudgeted Operating Expenditure**
- Attachment 3: Rebudgeted Capital Expenditure**
- Attachment 4: New items/other adjustments – operating expenditure**
- Attachment 5: New items/other adjustments – capital expenditure**