

Report 99.328
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Report to the Policy and Finance Committee
from Greg Schollum, Chief Financial Officer

Finalisation of the 1999/2000 Annual Plan – Regional Rates and the Bulk Water Levy

1. Purpose

- To seek approval to rebudget expenditure between years within *Facing the Future 1997 – 2007 : 1999 Update and 1999/2000 Annual Plan*, as a result of a more accurate assessment of the timing of the previously budgeted expenditure.
- To seek approval for new items and other adjustments to be made to the proposed 1999/2000 Annual Plan as a result of changes in circumstances since the draft 1999/2000 budget was prepared, and as a result of submissions received.
- To confirm the total level of regional rates and the bulk water levy for 1999/2000 to be incorporated into the final version of *Facing the Future 1997 – 2007 : 1999 Update and 1999/2000 Annual Plan*.

2. Background

It has been normal practice that before the final Annual Plan is adopted, officers recommend to Council those items that are required to be rebudgeted. This year the items to be rebudgeted include some items to be completed later than previously planned, and a few items to be completed earlier than previously planned.

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 within that area (via surpluses or reserves). This distinguishes the two components of rebudgeting the expenditure (the authority to spend) from the funding, and enables the Council to approve expenditure subject to funding.

I have asked Managers in each area to estimate which specific projects need to be rebudgeted. The vast majority of items are being rebudgeted from 1998/99 into 1999/2000. However, there are some being brought forward too (refer categories 3a and 3b of this report).

In addition, any new items of expenditure and other adjustments which have arisen since the proposed Annual Plan was adopted, also need to be considered by Council before the final Annual Plan is adopted (refer to categories 3c and 3d of this report). These include the items considered by the Policy and Finance Sub-committee on 10 and 11 June 1999.

If these additional items are in fact approved by the Council, they will need to be included in the 1999/2000 budget, and can be funded by either:

- Increasing rates, or
- Removing existing budgeted expenditure in exchange for the new items, or
- Increasing other revenue sources (eg contribution from Council's investments)

As the Committee will be considering items of new expenditure within this report, I thought it was important to highlight at this time, those major items which are not currently included within the 1999/2000 Annual Plan:

- No expenditure has been budgeted in respect of:
 - costs associated with the items deferred until the finalisation of the next LTFS (eg education initiative costs above \$100,000 per annum)
 - costs associated with immediately implementing Council's policies, eg Regional Land Transport Strategy, Floodplain Management plans. (Again these will be considered as part of the next LTFS).
 - costs associated with the loss of WCC retail water contract due to uncertainties over the contract renewal
 - costs associated with water integration (if any)

3. Proposed Changes to Expenditure Budgets

In the following tables, I have summarised details of all projects that Managers wish to rebudget, as well as some new items for consideration by the Committee (incorporating the recommendations of the Policy and Finance Sub-committee arising from the 10/11 June meeting).

Rebudgeted Items	Table
• Operating Expenditure	3a
• Capital Expenditure	3b
New Items/Other Adjustments	Table
• Operating Expenditure	3c
• Capital Expenditure	3d

3a Rebudgeted Operating Expenditure

Department	Description	Exp \$	Explanation
Flood Protection (Operations)	Hutt flood damage repairs	\$522,605	Deferral of remaining Hutt flood damage repairs into 99/00
Flood Protection (Operations)	Otaki flood damage repairs	\$28,000	Deferral of remaining Otaki flood damage repairs into 99/00
Flood Protection (Operations)	Waitohu Stream flood damage repairs	\$13,000	Deferral of remaining flood damage repairs into 99/00
Flood Protection (Strategy and Assets)	Otaki rating scheme review	\$15,000	Deferral of work into 99/00 due to other priorities
Flood Protection (Strategy and Assets)	Otaki community preparedness	\$10,000	Delay in programming flood exercise by KCDC
Resource Policy	Coastal Plan/ Discharges to Land Plan	\$30,000	Delays in resolving appeals on these plans mean expenditure to be rebudgeted into 99/00
Wairarapa (Planning and Resources)	Consents backlog	\$30,000	Delays in clearing backlog beyond what was anticipated, mean expenditure rebudgeted into 99/00
Wairarapa (Biosecurity)	Magpie Research	\$18,000	Delays in securing agreement of other Regional Councils. Needs to be rebudgeted into 99/00.
Wairarapa (Biosecurity)	Extended Bovine Tb Operations (WRC initiative)	\$68,000	Delay in project due to late approval by AHB. \$68,000 expenditure to be rebudgeted into 99/00. Funded: \$34,000 AHB \$13,600 Bovine Tb Rate \$20,400 General Rate
Transport – Policy	Waterloo Carparks	\$53,000	Delay in carpark extension due to resource consent issues. Needs to be rebudgeted into 99/00.
Transport – Customer Service	Automatic vehicle identification	\$50,000	Delay of project into 99/00 due to teething problems with AVI in Auckland.

3b Rebudgeted Capital Expenditure

Department	Description	Exp \$	Explanation
Flood Protection (Strategy and Assets)	Hutt floodplain management planning	(\$279,900)	Acceleration of HFPMP from 99/00 into 98/99 year
Flood Protection (Strategy and Assets)	Porirua Channel Works	(\$61,900)	Deferral of work into 2000/01 as a result of reprioritisation following October 98 floods
Flood Protection (Strategy and Assets)	Mangaone Flood Hazard Assessment	(\$116,090)	Deferral of work into 2000/01 as a result of reprioritisation following October 98 floods
Flood Protection (Strategy and Assets)	Otaki flood protection	(\$124,000)	Acceleration of flood damage capital improvements from 99/00 into 98/99
Flood Protection (Strategy and Assets)	Waikanae flood protection	(\$158,000)	Acceleration of flood damage capital improvements from 99/00 into 98/99
Flood Protection (Strategy and Assets)	Wainuiomata floodplain management planning	\$51,400	Deferral of work (due to other priorities) from 98/99 into 99/00
Flood Protection (Strategy and Assets)	Upper Rahui edge protection works	\$50,000 (\$88,000)	Minor delay in project due to flood damage priorities. Related delay in gravel extraction revenue.
Flood Protection (Strategy and Assets)	Chrystals land purchase	\$18,000	Delay in finalising land negotiations means expenditure budget now needed in 99/00
Wairarapa (Operations)	Replacement vehicle – river management	\$28,000	Delay in delivery of vehicle until Aug 99
Wairarapa (Operations)	Replacement of Waipoua Weirs	\$180,000	Delay in Weir replacement works. \$180,000 of expenditure needs to be rebudgeted (to be funded 50% by Masterton District Council)
Water (Strategy and Assets)	Network Analysis	\$120,000	Acceleration in network analysis from 2000/01 into 99/00 (amount also reduced from \$300,000 to \$120,000)

3c New Items/Other Adjustments – Operating Expenditure

Department	Description	Exp \$	Explanation	Funding Implications
Transport Planning	Contribution towards architectural centre's northern gateway project	\$20,000	Considered by Joint Gateway Committee (Report 99.159). Referred to P&F as part of 99/00 Annual Plan finalisation.	To be funded from Transport reserve. No impact on regional rates.
Corporate Communications	Additional provision for Council's strategic communications initiatives	\$400,000	Submission #32 considered by P&F Sub-committee on 11 June in anticipation of the outcome of Council's strategic planning exercise currently underway.	Given the nature of the items anticipated, it is proposed that this amount be included within the corporate communications budget (for management purposes) but then be allocated directly to the cost of democracy. As 10% of the cost of democracy is charged to the water levy, \$360,000 would need to be funded from regional rates.
Wairarapa Operations	Urgent works lower valley scheme	\$47,000	Works now considered urgent (the October 98 flood event)	This work will increase the regional rate requirement by \$23,500 (50% funded from scheme reserves)

3d New Items/Other Adjustments – Capital Expenditure

Department	Description	Exp \$	Explanation	Funding Implications
Wairarapa Operations	Mahaki floodgate improvements (lower valley scheme)	\$86,000	Project now considered urgent (related to October 98 flood event)	This project will be loan funded, and will therefore have a minor effect on 99/00 regional rates
Water (Strategy and Assets)	Refurbish Kaitoke Weir	\$120,000	Work originally planned beyond 2008 has now become urgent	Will be loan funded, which will increase debt profile included in proposed Annual Plan 99/00. No impact on regional rates.
Water (Strategy and Assets)	Te Marua continuous coagulation	(\$220,000)	Recent trials indicate that the scope of the upgrade is much less than currently budgeted	Will reduce loan funding requirement, which will reduce debt profile included in proposed Annual Plan 99/00. No impact on regional rates.
Water (Strategy and Assets)	Refurbish ok main Thorndon/Karori	\$150,000	Recent work undertaken suggests this section of pipe is weak. Programmed work in 2007/08 needs to be accelerated.	Will be loan funded, which will increase debt profile included in the proposed Annual Plan 99/00. No impact on regional rates.
Water (Strategy and Assets)	System control optimisation	\$220,000	Project now estimated to cost an additional \$220,000 over that originally budgeted in 99/00 (indications are additional savings are also available) and a further \$70,000 in 2000/01	Will be loan funded, which will increase debt profile included in the proposed Annual Plan 99/00. No impact on regional rates.

Department	Description	Exp \$	Explanation	Funding Implications
Water (Laboratory)	New laboratory system	\$50,000	Project to replace current lab system (Y2K reasons) now expected to cost an additional \$50,000	Will be loan funded which will increase debt profile included in proposed Annual Plan 99/00. No impact on regional rates.
Plantation Forestry	Roading project in Pakuratahi East Forest	\$224,000	Investigations now indicate original budget estimate was understated	Will increase loan funding in plantation forestry. No rate impact due to internal dividend regime

4. Impact of Budget Changes on Regional Rates and the Bulk Water Levy

Taking into account the additional expenditure items and increased contributions from investments which are now budgeted, the increase in regional rates in 1999/2000 is now 1.5% rather than 1.85% (refer Attachment 1).

Since the Proposed Annual Plan was prepared, circumstances have changed which mean the WRC Holdings Group and Council Treasury budgets need to be updated.

WRC Holdings Group

- a) On 27 May 1999 I received a letter from Port Wellington indicating Port Wellington's intention to:
- Convert the \$10m worth of convertible notes into additional share capital on 28 June 1999.

Implication Lost convertible note income to Port Investments Limited (the budget assumed convertible note income would continue)

- Pay a special dividend of \$7.5m (fully imputed) to shareholders on 28 June 1999.

Implication Receipt by Port Investments Limited of a special dividend of \$5.8m (not budgeted). Options available to PIL are either on lend to Council, pay the special dividend to Council or a combination of the 2. Officers are currently budgeting based on PIL paying the full special dividend up to the Council.

- b) Subsequent communication with Port Wellington officers has confirmed that the Port Company has also agreed to increase the level of dividend payout from 50% of net profit after tax to 60% for the 1999/2000 year. (NB: The draft SCI from Port Wellington has not yet been received).

Implication Increased dividend income to Port Investments Limited over that previously budgeted.

- c) While updating the WRC Group budget we have also taken the opportunity to seek the latest available profit forecast information from Port Wellington. Port Wellington forecasts provide sufficient confidence to revise our previously budgeted dividend projections.

Implication Increased dividend income to Port Investments Limited over that previously budgeted.

Council’s Treasury Budget

On the basis that Port Investments Limited will receive a special dividend of \$5.8m on 28 June 1999, we have planned on being able to pass the dividend “up the chain” to the Council (this is subject to the solvency test in the 1993 Companies Act).

Officers have updated the Treasury budget on the basis that the \$5.8m will be able to be passed up the chain and will be used to repay debt (refer report on WRC Debt Buy Back – Report PE99.306).

Implication Reduced net interest costs to Treasury as a result of repaying debt and unwinding associated sinking funds (less the share of the savings related to water which are to be passed onto water).

5. Recommendations

- (1) *That the report be received and the contents noted.*
- (2) *That the Committee recommend to Council that:*
 - a) *The operating expenditure items listed within Section 3a of this report (as amended by the Committee) be rebudgeted within the 1999/2000 Annual Plan.*
 - b) *The capital expenditure items listed within Section 3b of this report (as amended by the Committee) be rebudgeted within the 1999/2000 Annual Plan.*
 - c) *The new items of operating expenditure/(savings) and other adjustments listed within Section 3c of this report (as amended by the Committee) be approved for inclusion within the 1999 /2000 Annual Plan.*
 - d) *The new items of capital expenditure and other adjustments listed within Section 3d of this report (as amended by the Committee) be approved for inclusion within the 1999/2000 Annual Plan.*
- (3) *That the levels of regional rates and the bulk water levy for the 1999/2000 year contained in attachment 1 (as amended by the Committee), including increased contributions to the rate line arising from revised budgets for Council's Treasury and the WRC Holdings Group, be incorporated into the final version of Facing the Future 1997 – 2007 : 1999 Update and 1999/2000 Annual Plan.*

GREG SCHOLLUM
Chief Financial Officer

Attachment 1 : Funding Impact of Proposed Changes