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Report 01.65

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Report to the Policy and Finance Committee
from Stuart Macaskill, Chairman

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

1. Purpose

To background the key elements of the Long-Term Financial Strategy *Investing in the Future 2000-2010:2001 Update* (which also incorporates Council's 2001/02 Annual Plan) in order to provide Councillors with an overview prior to the Committee reviews of Operating Plans.

2. Background

As Councillors are aware we have a strategic planning cycle which includes a full review of priorities each three years, with updates by exception in the intervening years as follows:

Councillors' review of priorities:

Year 1	2000/01 financial year (Full review to establish 3 years' hard numbers)
Year 2	2001/02 financial year (update of remaining 2 years' hard numbers)
Year 3	2002/03 financial year (update of remaining 1 year of hard numbers)

We are currently in year 2 of that cycle.

Clearly the Council needs to remain ready to adjust priorities within the three years but only if there are significant changes in circumstances. While this year is in theory an “update” year only, I believe the changes in Transport as a result of the Government’s new patronage funding scheme, which commenced late last calendar year, warrant a particular focus on Transport during the upcoming committee review of budgets.

Apart from Transport you are not being asked to review priorities from a zero base. Only last June we, as a Council, approved a package of programmes which formed the Long-Term Financial Strategy (LTFS) 2000-2010 and officers have been reviewing the appropriateness of the information they presented last year.

As a result there has been some “rejigging” of figures from those contained in the LTFS to take account of recent events (e.g. October 2000 floods) and to reflect better information in other areas.

The Chief Financial Officer has detailed in his report for our consideration the areas of the budget where there has been change (refer to Report 01.66).

3. Key Issues impacting the 2001/02 year

There are a number of matters that as a Council we will need to agree a position on as part of this budget round so that our officers can prepare our 2001/02 Annual Plan.

These issues include assessing the impact of:

- Recently implemented Transport funding changes on Council’s projected work programme.
- Our potential acquisition of Tranz Metro (Wellington).
- The latest water integration proposal.
- Projections for water supply debt in relation to the preferred level of bulk water supply levy for 2001/02.
- The current uncertainty over Animal Health Board funding in relation to Bovine Tb operations.
- The current low take up of Iwi consultancy projects.

3.1 Transport Funding Changes

The Council’s LTFS included a significant commitment on behalf of the Regional community to the maintenance and improvement of public passenger transport. The impact of what we agreed last year was a programme of increasing investment, and as a result, increasing transport rate requirements at least until 2004/05.

The Government’s patronage funding scheme came into force on 1 November 2000 and this Council agreed to participate in the scheme with effect from that date. The impact of this has been to increase our ability to receive Government support (via Transfund).

Our key decision now, as elected members, is whether we go further and take more advantage of the kick start funding component of the patronage funding scheme – if we choose to we will qualify for further Government contributions but we will also be committing further ratepayer funding in 2001/02 and beyond. In our deliberations we will need to keep in mind that with effect from 2005/06 we are assuming additional external revenue of \$6 million p.a. from road pricing.

This is a key decision which will need to be taken by the Policy and Finance Committee after consideration by, and recommendation from, the Passenger Transport Committee on 20 February 2001.

3.2 **Our potential acquisition of Tranz Metro (Wellington)**

The Council's potential acquisition of Tranz Metro (Wellington) could have a significant impact on the Regional rate line in future years. However, there should be no impact at all in 2001/02.

The Chief Financial Officer advises me that the future rating impact will equate to the cost of funding the necessary purchase price less any dividends received from the Rail entity, and less any savings that we can achieve on the level of subsidy for rail services as a result of the ownership change. Until our officers can further progress negotiations we will not be in a position to assess the likely future rating impact but I believe we should keep in mind the potential Rail purchase when considering next year's Transport budget.

3.3 **The Latest Water Integration Proposal**

The latest water integration proposal is currently before all three participating Councils for consideration. Clearly the decision to proceed or not with the proposal will have financial implications for this Council (whatever the outcome).

Officers have advised me that it is too early to make adjustments to budgets as a result of the integration proposal. As a result the budgets assume the status quo, which seems a reasonable approach to me at this stage.

The Council meeting on 19 February 2001 should give officers further direction in terms of Council's 2001/02 Annual Plan/budgets.

3.4 **Projections for Water Supply Debt in relation to the Water Levy**

As you are aware the issue of the pace of debt repayment in our water supply area has been hotly debated with our customers over recent years.

On 19 February 2001 the Utility Services Committee will be recommending to the Policy and Finance Committee its preferred water levy for 2001/02 (remembering that in each of the last two years the water levy has been reduced by 4%). To me it comes down to balancing intergenerational equity issues with prudent financial management. I am personally keen to see if we can further reduce the levy in 2001/02.

3.5 **Current uncertainty over Animal Health Board Funding (Bovine Tb)**

I'm afraid that the Animal Health Board does not appear to have to plan within the same fiscal framework that we as a Council do. Whereas we are involved in detailed planning four to six months ahead of the start of the financial year, they appear to be unable or unwilling to provide us with funding certainty until mid to late June (just a few days prior to the start of the financial year we are trying to plan for!)

This is frustrating because it makes planning with any degree of certainty virtually impossible. Nevertheless, we will need to take a view (with the help of the Rural Services and Wairarapa Committee on 16 February 2001) of the level of Bovine Tb operations in 2001/02 and the likely sources of funding for such work.

3.6 **Current low take up of Iwi consultancy projects**

Councillors will recall that we have within the Environment Division budget \$300,000 for Iwi consultancy projects. Expenditure against this budget is at a very low level in the current year (\$10,000 to date). This has prompted officers to raise the issue of the future level of funding in 2001/02 and beyond.

From a pure fiscal point of view, the \$300,000 looks to be more than adequate. However, some of the teething problems of Iwi identifying projects are being worked out and the uptake may improve in the future.

4. **Summary**

There are a lot of key issues affecting this update of our LTFS and 2001/02 Annual Plan. For me though, what we do in the Transport area is the key one, and the one with most impact on the Regional rate line. Of course, selecting the right water levy is also very important in terms of our total charges on the community.

As far as our overall financial position for 2001/02 goes the Chief Financial Officer's report 01.66 indicates that we are currently facing an increase in Regional rates of approximately 2.0% compared with the projected increase in our LTFS of approximately 4.4%. The current operating plan for water prepared by officers has the water levy being held at last year's level.

5. **Recommendation**

That the 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)

STUART MACASKILL
Chairman