

Report 99.123
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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 – Finalisation of 1999/00 Rates and Levies

1. Purpose

To summarise the results of the Committee reviews of Operating Plans and to set out the options for establishing the level of Regional rates, other rates and water levies in 1999/2000.

2. Background

Officers have presented to Committees the major issues facing each division, with particular focus on 1999/2000 (the remaining year of ‘hard’ numbers established within *Facing the Future 1997-2007*).

As Councillors are aware the remaining seven years can only be thoroughly assessed with the benefit of Councillors undertaking another “Operation Emerald” type prioritisation process, and as a result limited focus has been afforded to the seven years beyond 1999/2000.

The consistent theme from the Committees is “business as usual” but with a few recommendations for change.

3. Regional Rates (including General Rate, Transport Rate, River Rate and Stadium Rate)

Prior to the Committee round the Council was facing a 1.7% increase in Regional rates, primarily as a result of the October 1998 floods (the impact of floods is approximately 1.4% of the 1.7% increase).

The impact of the floods includes the funding implications of the damage itself, the additional capital expenditure now proposed and the increased level of funding for Council's flood recovery reserves.

3.1 Results of the Committee Round

As noted above, heading into the Committee round the Council was facing a 1.7% increase in Regional rates (refer to Report 99.52). Changes as a result of the Committee round (as clarified by the 4/3/99 workshop) are as follows:

		% Impact on Regional Rates
➤ Use of surplus interest generated in 1998/99 to reduce the Stadium rate in 1999/2000	(\$170,000)	(0.4)
➤ Use of the transport reserve to hold transport rates at their 1998/99 level	(\$524,000)	(1.3)
➤ Additional expenditure for the environment education initiative	\$100,000	0.25
➤ Additional expenditure for the resourcing of Iwi	\$100,000	0.25
Net impact on Regional rates from the Committee Round (equating to a reduction of 1.2%)	<u>(\$494,000) (A)</u>	(1.2)

3.2 Additional Changes To Consider

In addition, officers have been further reviewing budgets and as discussed at the workshop on 4 March, Councillors may like to consider making the following changes to the Regional rates line:

		% Impact on Regional Rates
➤ Unwinding of the management savings adjustment which is currently factored into the General rate line in 1999/2000	\$647,000	1.55
<p>This adjustment to General rates has served the Council well in the past when efficiency savings were required to be “squeezed” from the Council budgets. Now that many of the sources of such efficiency savings have gone, such an arbitrary adjustment could be seen quite properly to have passed its ‘use by’ date. Rather than set budgets and apply an arbitrary reduction to the rating requirement it is time, in my view, to unwind the management savings adjustment.</p>		
➤ Increase of dividend rate from WRC Group of companies This will mean the WRC Holdings Group is paying to the Council approx 75% of NPAT in dividends	(\$203,000)	(0.5)
Additional changes	<u>\$444,000</u> (B)	<u>1.05</u>
Total change to 1999/2000 Regional rates if all items in sections 3.1 and 3.2 are included	(\$50,000)(A+B)	(0.15)

Applying the \$50,000 reduction noted above to the projected increase of 1.7% contained in Report 99.52 results in a proposed increase in Regional rates of 1.55% (rather than 1.7%).

3.3 Areas of Uncertainty

The Passenger Transport Committee is further considering the issue of total mobility expenditure at its meeting on 16 March 1999. Officers are recommending an increase in the Transport rate of \$126,000 in 1999/00 which equates to a further 0.3% in the Regional rate line. Depending on the outcome of the Passenger Transport Committee meeting this could add a further 0.3% to the proposed increase outlined in sections 3.1 and 3.2 above. (i.e. if all changes outlined in section 3.1 and 3.2 are adopted and the proposed increase

in total mobility is approved the increase in Regional rates over the 1998/99 level will be 1.85%.)

3.4 Other Options Available

3.4.1 Further Review of Expenditure

Council still has the option of varying expenditure budgets. However, the recently completed Committee round has already considered all areas of Council expenditure.

3.4.2 Adjustment to Investment Returns

The dividend percentage from the WRC Holdings group (including the increase of \$203,000 noted in section 3.2 above) approximates 75% of net profit after tax paid in dividends from the WRC Holdings Group to the Council. As Councillors will be aware the Port Company has traditionally paid 50% of net profit after tax in dividends and the technical maximum is 100%. While the Directors are yet to approve a formal dividend policy, post the restructuring of the ownership of Port shares, the 75% level, where it is currently positioned, is a good balance in my view between providing benefit to the rate line and squeezing all retained earnings from the companies. (The Directors will be recommending to Council a formal dividend policy as part of the 1999/00 Statement of Corporate Intent, but this is not due until June/July 1999).

However, if Council wishes to vary the percentage, such variation will have a positive or negative effect on the Regional rate line. For example, paying out only 50% of net profit after tax from the WRC group to WRC instead of 75% would add approximately 0.5% to the Regional rate line. On the other hand, if Councillors decided to increase the dividend percentage to 100% of net profit after tax, this would reduce the Regional rates line by approximately 0.5%.

3.4.3 Adjustment to Council Reserves

The Council may wish to vary the amount of Transport reserve utilised in 1999/00. Leading into the Committee round an increase of \$524,000 in Transport rate was budgeted for. However, the Transport Committee decided that a portion of the Transport reserve should be used in order to hold the level of Transport rates in 1999/2000 at the 1998/99 level. (see section 3.1 of this report.)

Depending upon what is decided in respect of total mobility expenditure in 1999/00 the Council may wish to vary the use of the Transport reserve accordingly.

4. Pest and Scheme Rates

The proposed Bovine Tb rate for 1999/00 is \$589,000, unchanged from 1998/99.

The proposed scheme rates relating to the various catchment, drainage and rural water supply schemes in the Wairarapa are \$56,000 higher than the 1998/99 level of \$922,000 (a proposed increase of 6.1%). This may increase further as a result of consultation with the Scheme Advisory Committees over the coming months.

5. Water Levies

Heading into the Committee round the Council was proposing no change to the water levy. The Utility Services Committee confirmed that the water levy should be held at its current level for the purposes of Council's proposed Annual Plan 1999/2000. This matter is further discussed in Report 99.99.

6. Where To From Here?

In order to finalise *Facing the Future 1997-2007:1999 Update* for release to the public, officers need direction on both the level of rates and the bulk water levy 1999/2000.

Officers can then finalise *Facing the Future 1997-2007:1999 Update* in order to present it to the Committee for adoption prior to the start of the public consultation process.

7. Recommendations

- (1) *That the report be received and the contents noted.*
- (2) *That the Committee recommend to Council its preferred level of Regional rates, Pest and Scheme rates and the bulk water levy for the purposes of finalising the 1999/00 Proposed Annual Plan.*

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