

SUPPLEMENTARY REPORT BY THE CHAIRMAN OF THE STRATEGY AND RESOURCES ANNUAL PLAN WORKING PARTY

1. RECOMMENDED FURTHER AMENDMENTS TO THE DRAFT PLAN

RR 9743

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Corporate Plan Output: Public Accountability – Preparation of Annual Plan	

The purpose of this report is to recommend further amendments to the draft Annual Plan arising from further information received since the final meeting of the Annual Plan Working Party.

FURTHER INFORMATION RECEIVED

Since the draft Annual Plan was finalised by the Annual Plan Working Party and the printing of the report had commenced, two further issues have arisen which have the potential to make a significant difference to the Annual Plan. These are:

- A reassessment of the interest rate for earnings on Council funds
- Application of increased dividend projections from CCHL

Recent advice received from the external treasury adviser to the Council is that interest rates are likely to remain low for most of the forthcoming year. As the Council is a net investor for the next two years this could have the effect of over-budgeting for interest income based on assumptions in the draft plan. It is therefore essential that the interest budget is adjusted to avoid a shortfall at the end of the year. Interest income is currently reflected in the draft plan at 6.5% and this is far higher than current levels. It is recommended that the budgeted earnings rate for interest be reduced to 5%. In addition it has been necessary to readjust the timing of expected capital repayments from subsidiary companies because of possible delays in receiving Inland Revenue Department approvals. It is possible that funding expected to be in hand by 30 June 1999 may be delayed until about September. This reduces the capital which can be invested by the Council and as a consequence interest income will be reduced. The effect of both these factors is that estimates of interest earnings need to be decreased by \$3.4 million.

CCHL have recently revised their budgets to take account of the expected delays in the capital repatriation, increased interest income from reserves and debt securities and projected improved dividends from subsidiary companies. As a result of this revision and the accumulation of reserves CCHL has agreed that it is able to increase its dividend stream to the Council as set out in the following table.

Year	New Forecast	Draft Plan 99	1998 Plan
1999/00	\$23.9M	\$19.2M	\$18.04M
2000/01	\$24.7M	\$22.0M	\$20.9M
2001/02	\$27.7M	\$24.0M	\$21.9M
2002/03	\$28.4M	\$25.0M	\$23.05M

IMPACT OF CHANGES

The impact of these changes is that **the rate increase for 1999 can now be 1.94%.**

Attached to this report is a revised copy of the main budget summary page 12 from the draft plan. The projected rate increases for the next four years are:

Year	Rate Increase
1999/00	1.94%
2000/01	2.74%
2001/02	1.85%
2002/03	3.26%

Also attached are graphs of the four key ratios which show that these projections remain well within the limits set in the financial policy of the Council original introduced in 1994.

Recommendation: That the changes outlined in this report in respect of reduced interest income and increased dividends be incorporated into the draft annual plan.

Chairman's

Recommendation: That the above recommendation be adopted.