

7. LTCCP PROCESS REGARDING RATE INCREASES

General Managers responsible:	General Manager Corporate Services and General Manager Regulation and Democracy Services
Author:	Roy Baker, DDI 941-8540

PURPOSE OF REPORT

1. The purpose of this report is to provide some certainty with regard to the LTCCP process as regards an acceptable level of rate increase.

EXECUTIVE SUMMARY

2. A Council seminar is planned for 21 February 2006, to consider for the first time the rating impacts of our Revenue, Capex programme, and Operating expenditure (based on Council-agreed levels of services). The seminar will be an opportunity to inform the Council of the various changes/increases that are driving our business and the resulting rate increases required to meet these.
3. Staff would expect feedback from the seminar to enable us to complete our draft LTCCP and to put before the Council approximately one week later. This means there is not much time to make any dramatic changes.
4. The 2004/14 LTCCP indicated a rates increase of 3% for the 2006/07 year. Based on the increased costs that we experienced when putting together the current year's operating budget, which clearly will therefore increase our base operating costs going forward, these costs will certainly challenge the 3% figure. In fact already for this year we are experiencing cost increases to our basic services that are well in excess of inflation. By way of example, a recent tender for street cleaning alone is likely to have a 1% increase in the rates. When the Council considered the long-run capital expenditure levels at the meeting on 27 October, it signed off on a long-run average of up to \$130m pa. Over the ten years this indicated a long-run average rate increase of 4.32%. As advised at the 27 October meeting, the average 4.32% rate increase was indicative only and did not take into account changes in our operating cost structure from 2004/05, nor did it allow for any inflationary impacts on our capital, or Opex implications for specific capital projects.
5. The professional view of the General Manager Corporate Services is that at current levels of service and economic activity, rates will need to be in excess of the 3%, as shown in the old LTCCP and indeed are likely to be in excess of the long-run average of 4.32% referred to above.
6. The impact of this is that at the February seminar, and indeed the meeting set for 9 March when the draft LTCCP is to be adopted, is not the time for a dramatic move to have rates set at a different level than indicated by previous Council resolutions such as the level of CPI or below.
7. A rate level at or below the CPI, which is estimated to be 3%, can only be achieved with a reduction in service levels. The time to signal such a change must be when the Council considers the Activity Management Plans over the four days ending 29 November to enable the reduction in service levels to be identified by Councillors and for staff advice to be provided as to the implications of those reductions.
8. Last year by way of a notice of motion, a proposal was put to the Council to reduce rates to 2.7%. This notice of motion was presented at the eleventh hour on the day the Annual Plan was to be adopted. The motion was lost 7/6 but would have caused some considerable concern should the notice of motion been successful. It was at the end of the Annual Plan consultation process and the only way to achieve a rate increase of 2.7% would have been to cut levels of service for which there would have been no consultation.
9. Should the Council have such a desire to specify a particular rate range, then that must be done now.

STAFF RECOMMENDATION

That the Council note, that owing to the decision-making requirements of the Local Government Act 2002, with the need for Councillors to be fully advised of options, and the comments made by the Auditor-General regarding the need for Councillors to be aware of the practical implications of resolutions, requests by Councillors in 2006 (whether by way or notices of motion or amendments) for changes to the directions already given by the Council to staff by November 2005, would not be able to be met, when the draft LTCCP is to be adopted.