

Subject: 2010 Government Budget – Financial Implications

Prepared by: Mike Drummond (CFO)

Meeting Date: 24 June 2010

Report to COUNCIL for noting

SUMMARY

On 20 May 2010 the government budget was delivered. The initiatives announced in the budget have financial impacts on Council. This report covers the main implications. A separate report to the June Council Meeting covers the rates impact of the GST increase to 15%.

RECOMMENDATIONS

That the Council

1. receives the report



Mike Drummond
Chief Financial Officer

Douglas Birt
Corporate Affairs Manager

1. BACKGROUND

On 20 May 2010 the government budget was delivered. The initiatives announced in the budget have financial impacts on Council. This report covers the main implications. A separate report to the June Council Meeting covers the rates impact of the GST increase to 15%. This report concentrates on the business impacts of the budget decisions.

An earlier review of the Government Budget was included as part of Report 10/379 Economic Development Unit Activity Report – May 2010, which was on the Community Development Committee agenda for 9 June 2010.

2. DISCUSSION AND OPTIONS

GST was increased from 12.5% to 15% from 1 October 2010: Council charges GST on the goods and services it provides (including rates). In return it claims GST back on the goods and services it purchases. For this reason the direct impact on Council is limited. Of particular importance is that both the Fees and Charges, and the Rates strike resolutions have amounts stated as GST exclusive with “plus GST at the prevailing rate”. This will ensure that Council can increase its fees and charges from 1 October to reflect the increase in GST it must pay to the IRD.

As most fees and charges are published inclusive of GST, two fees and charges schedules will be produced for the year one effective from 1 July 2010, and the other from 1 October 2010. Some fees will need an additional review prior to 1 October due to the need to align their GST inclusive amounts to coinage e.g. Pool fees, Library charges and parking fees or to ensure that they are set at practicable dollar amounts. The amended schedule effective from 1 October will be brought to the August Council meeting for approval. This means that from 1 October some fees and charges may not go up or may go up more than by the 2.5% movement in the GST rate.

Councils computer systems can not currently (June 2010) accommodate the two GST rates or the transitional period where transactions may be subject to different GST rates depending on the time of supply. Council staff have taken a leading role and are working with other Origin Ozone users to draft and implement the necessary software changes. This will be a collaborative effort with the costs shared between all councils. This work has been split into two streams the immediate software changes to the rates module and the other work. The rates module changes need to be completed and fully tested by 1 July as they affect the rates assessment notices along with the first instalment notice.

GST is not charged on residential rents and can not be claimed back on expenditure related to these rentals. Therefore rents for the Councils Staff and Community housing will not rise on the 1st of October. Council will need to absorb the increased GST on the expenditure for this activity (estimated at \$10Kpa). Rents will be affected however by any movement in the Gisborne market rentals as a result of the GST rate increase, changes to depreciation and income tax rates. These amount and timing of these increases is difficult to predict. Any movement in Council rents will only occur as a result of the normal annual review process.

Property Tax Changes: The budget provides for changes in property taxes. Key changes are:

- Denying depreciation deductions for buildings with an estimated useful life of 50 years or more. Also removing the 20% depreciation loading on new plant and equipment. These changes reduce the expenses that can be deducted for the calculation of income tax.

They will have no direct effect on Council as Council is not liable for income tax. They do however affect any CCOs as they are liable for income tax. There will be a likely flow on effect to increase property rentals.

- Changes to the tax rules for Qualifying Companies and LAQCs will have no effect on Council other than their longer term impact on residential rents and through them rents for community housing.
- Changes to the top personal tax rate (38% to 33%) will have no effect on Council other than its longer term impact on residential rents as the tax advantage from claiming losses on property investments is reduced.

Company Tax Changes: The budget provides for a reduction in income tax for companies. The company tax rate will drop from 30% to 28%. Also the tax rate for portfolio Investment entities and other savings vehicles will drop to 28%. These changes are expected to increase investment and savings. These changes will only impact Council CCOs as Council is exempt from income tax.

Personal Tax Changes: These are designed to off set the negative impacts from the increase in GST. There are also related changes to Working for Families and benefits. Individuals may be more or less affected depending on their personal circumstances. By and large these changes should assist individuals cope with any increase in Council's Fees and Charges along with the related rates rise.

3. LEVELS OF SERVICE

There will be no impact from the 2010 central government budget on levels of service.

4. FINANCIAL

The financial impact of the changes are expected to be contained within the 2010/11 Council budget envelope.