

Introduction

The Local Government Act 2002 (the Act) requires Councils to adopt a Revenue and Financing Policy that provides detail on the funding of operational and capital expenditure. This policy illustrates which parts of the community contribute to paying for Council's activities.

1. POLICY STATEMENT ON THE FUNDING OF OPERATIONAL EXPENDITURE

ESTABLISHING THE LEVEL OF OPERATING REVENUE REQUIRED TO FUND OPERATING EXPENDITURE

Operating expenditure pays for the Council's day-to-day operations and services, from collecting rubbish and providing street lighting to maintaining gardens and issuing building consents.

The Council will set its projected operating revenue at a level sufficient to meet the current year's projected operating expenditure, except where the Council resolves that it is financially prudent not to do so.

When setting projected operating revenue at a level that is different from the level of projected operating expenditure the Council will have regard to:

- The estimated expenses of achieving and maintaining the predicted levels of service provision set out in the LTCCP, including the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life.
- The projected revenue available to fund the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life.
- The equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life.
- The funding and financial policies adopted under section 102 of the Local Government Act 2002.

In accordance with these principles, the Council has determined that the following items will not be funded:

Accounting for fair value changes. Under New Zealand International Financial Reporting Standards (NZIFRS), changes in the fair value of certain assets must be accounted for within the Statement of Financial Performance. In accordance with Section 100 of the Local Government Act 2002, the Council does not consider it financially prudent to fund changes in the fair value of assets or liabilities as these are essentially unrealised accounting adjustments.

Non-funding of depreciation on Council assets. The Council may elect not to fund all or part of the depreciation expenditure on specific assets in those circumstances where it is not financially prudent to do so. In accordance with section 100 of the Local Government Act 2002, the Council considers that it is not financially prudent to fund depreciation in the following circumstances:

- Where the original asset purchase was not funded by borrowings, or the original borrowings have been repaid, and
- Where, on an ongoing basis, the replacement of the asset at the end of its useful life will be funded by a third party, or
- Where the Council has elected not to replace the asset at the end of its useful life.
- Where a third party has a contractual obligation to either maintain the service potential of the asset throughout all or part of its useful life (or to replace the asset at the end of its useful life) and the Council already effectively funds this through operating grants/tariffs payable to the third party.

OPTIONS AVAILABLE FOR FUNDING COUNCIL SERVICES

The Council uses the following mechanisms to fund operational expenditure requirements:

- **General rates.** General rates are used to fund public goods where it is not possible to clearly identify customers or users. The general rate is also used to fund activities where, for reasons of fairness, equity and consideration of the wider community good it is considered that this is the most appropriate way in which to fund an activity.
- **Targeted rates.** This form of rate is used where an activity benefits an easily identifiable group of ratepayers (such as the commercial or residential sectors) and where it is appropriate that only this group be targeted to pay for some or all of a particular service. For example, sewerage disposal, water supply and the downtown levy.
- **Fees and charges.** User charges are direct charges to people and/or groups who use certain Council services such as swimming pools. In these instances, an identifiable benefit exists to clearly identifiable people and/or groups and they are required to pay for all or part of the cost of using that service. It is noted that from 1 July 2006 Councils are required to inflation adjust all income and expenditure with their LTCCP. Where appropriate and with consideration to 'ability to pay' principals, user charges will be increased by the rate of inflation to achieve continued alignment with the proposed funding policy targets.
- **Grants and subsidies.** Grants and subsidies apply to some activities when income from external agencies is received to support that particular activity.
- **Other sources of funding.** The Council also funds operating expenditure from other sources, including income from interest and dividends from investments held by the Council, lease income and proceeds from asset sales. Other sources of funding include:

Use of surpluses from previous financial periods. Where the Council has recorded an actual surplus in one financial period it may pass this benefit on to ratepayers in a subsequent financial period. A surplus arises from the recognition of additional income or through

savings in expenditure. Council considers that passing this benefit on to ratepayers in future financial periods improves the principle of intergenerational equity, in that any financial benefit is passed on to those ratepayers who shared the rates-funding burden in the financial period that the surplus was generated.

The amount of any surplus carried forward from previous financial periods will be accounted for as an operating deficit in the year the benefit is passed on to ratepayers. A surplus will be available for use in future financial periods if the actual surplus/ (deficit) is improved when compared to the budgeted surplus/ (deficit). In calculating the level of surplus to be carried forward, consideration will be given to the nature of the factors giving rise to the surplus (for example, whether they are cash or non-cash in nature). Generally, only those factors that are cash in nature will be available for use in determining the level of surplus to be carried forward.

The Council will not carry forward surpluses in relation to:

- The sale of assets. Such surpluses shall be used for repayment of borrowings.
- Trust and bequest revenue. Such surpluses shall be applied in accordance with the terms on which they are provided.
- Revenue received for capital purposes. Such surpluses shall be retained to fund the associated capital expenditure.
- Unrealised gains arising from fair value adjustments to assets and liabilities. These gains are unrealised accounting adjustments in the period in which they are recognised.

Funding of expenditure from restricted or special funds. Certain operating and capital expenditure may be funded from restricted or special funds. Restricted and Special Funds are those reserves within the Council's equity that are subject to special conditions of use, whether under statute or accepted as binding by the Council, and that may not be revised without reference to the courts or a third party.

Transfers may be made only for specified purposes or when specified conditions are met.

The following restricted and special funds are available for use by Council:

- *Self Insurance Reserve.* The Self Insurance Reserve is used to fund any damages or losses that would otherwise be covered by the Council's insurance policies except for the fact that the Council has elected to set an insurance excess at a level greater than the damage or loss suffered. Each financial period the Council will provide, through funding from rates and levies, an amount intended to reimburse estimated damages or losses not otherwise covered by the Council's insurance policies. Actual expenditure incurred as a result of damages or losses where no claim is made under the Council's insurance policies as a result of the level of excess set will be transferred from retained earnings to the Self Insurance Reserve at the end of the financial period.
- *Trusts and bequests.* The Council is the recipient/holder of a number of trusts and bequests. These funds can only be used for the express purposes for which they were provided to the Council. Each year, the Council may expend money, of an operating or capital nature, from its trusts and bequests in accordance with the specified conditions of those funds. For the avoidance of doubt, the Council does not fund the expenditure from its trusts and bequests from any of the sources of operating revenue.
- *LTNZ subsidies.* Each year the Council receives funding from LTNZ as part of the overall replacement and renewal programme for the City's roading infrastructure. The Council recognises the subsidies as income in accordance with GAAP. As the subsidies are received for capital purposes, they cannot be used to offset the rates requirement. Therefore the Council shall recognise a surplus equivalent to the amount of LTNZ subsidies for capital purposes, to be applied against funding the depreciation expense that results on completion of the associated asset.
- *Development Contributions.* In accordance with the Council's Development Contributions Policy, development contributions are required to fund capital expenditure where development requires the construction of additional assets or increased capacity in network infrastructure, community infrastructure and reserves. Development Contributions will result in an operating surplus being generated for the year. This shall flow through to a Development Reserve within the Council's equity.

- *Other reserves.* Restricted funds also include other reserves, reserve purchase and development reserve and the sub-division development reserve. Subject to meeting any specified conditions associated with these reserves the Council may expend money, of an operating or capital nature, from these reserves.

Having established its sources of operating revenue, the Council has determined that operational expenditure will be funded through the following mechanisms detailed on the following page:

OPERATING EXPENDITURE FUNDING MECHANISM	APPROXIMATE PROPORTION OF FUNDING FOR 2006/07
General Rate	33%
Targeted rates	
• Sewage rate	10%
• Water rate	9%
• Stormwater rate	4%
• Base (residential)	2%
• Commercial sector	1%
• Downtown levy	3%
• Other minor rates	0%
Total targeted rates	29%
Total fees and charges	28%
Other sources	
• Ground and commercial lease	5%
• Dividends	1%
• LTNZ subsidies	1%
• Interest on investments	1%
• Petrol tax	1%
• Miscellaneous	1%
Total other income	10%

Note: Decisions on the use of other funding sources i.e. use of prior period surpluses, non-funded depreciation, special and other reserves are project-specific and made on an annual basis. In such circumstances, revenue from these sources reduces the level of funding provided through the General Rate.