

SUMMARY OF FUNDING POLICY

Introduction

Under Section 122N of the Local Government Act, the Council is required every three years to prepare and adopt a funding policy. The Council's first funding policy prepared under this section was adopted in June 1998. The full Funding Policy is printed in the Strategic Statement (see pages 49 to 93). This booklet was published as part of the 1998 Annual Plan and copies can be obtained from the Civic Offices. Alternatively you can access this booklet on the World Wide Web at <http://www.ccc.govt.nz>. The policy table on the following page includes the adjustments which have been made as part of finalising the 2000 Plan.

Funding Policy Process

The Local Government Act describes in detail the process to determine the funding for all activities or function of the Council.

The Act identifies three types of expenditure and how each type of expenditure should be funded:

- (1) Expenditure which gives rise to general benefits may be funded from rates. General benefits do not accrue to identifiable persons or groups of persons but benefit the community generally.
- (2) Expenditure which gives rise to direct benefits should be funded by contributions from the persons or categories of persons who benefit from that expenditure.
- (3) Expenditure necessary to control negative effects should be funded by those whose action or inaction caused the negative effects to occur.

The Act also identifies considerations which may, if the local authority so chooses, allow the local authority to modify the allocation of costs arrived at above.

- The obligation of the local authority to act in the interests of its residents and ratepayers.
- The fairness and equity arising from any allocation of costs
- Any lawful policy of the local authority, to the extent that allocating costs may effectively promote that policy.
- Provide for transition from an existing funding regime to a new funding regime.

Finally, the Act allows the local authority to consider issues of practicability and efficiency when choosing funding mechanisms.

Details of the Funding Policy

The Council plans to fund its services for the 2000/01 financial year as follows (1998/99 and 1999/00 are included for comparison purposes):

	1998/99	1999/00	2000/01
User Charges	37.5%	36.52%	35.22%
Grants and Subsidies	3.8%	4.07%	3.72%
Net Corporate Revenues	15.3%	13.97%	16.72%
Capital Value Rating	39.2%	41.07%	40.13%
Uniform Annual Charge	4.2%	4.37%	4.21%

When the Funding Policy was first introduced in 1998 an intersector transitional modifier was put in place to modify the significant increase which would have been experienced by the residential sector. The modifier transferred \$933,300 of rates from the residential to the commercial sector. This modifier was left in place for 1999/00. However for 2000/01 the Council has resolved to dispense with it and allow the Funding Policy to determine each sector increase.

The uniform annual general charge has been left at \$105.

The rationale for the continuation of the uniform annual general charge at this level is to avoid significant adjustment difficulties (s111G(d) Local Government Act 1974). This decision does not affect the allocation of costs among sectors but has the effect of modifying the incidence of rates within sectors (i.e. increases the revenue collected through capital value rating and decreases the revenue collected through the uniform annual general charge).

In terms of the allocation of benefits between sectors, the only significant changes relate to the Bus Exchange and the Convention and Entertainment Centres.

The Bus Exchange is a new output and the residential sector has been assessed as the main beneficiary. The Convention and Entertainment Centre venue operations has been changed to capital value based funding which means that the Commercial Sector is now allocated a greater share of these costs. This recognises the economic benefits which local businesses gain from the Convention and Entertainment Centres.

The Council has also approved a minor change which will allow for any increase in depreciation for activities normally funded by separate rates to be funded by the general rate. This will occur if there are insufficient funds available from a particular separate rate.

The different sectors will experience changes to their rates over the 1999/00 rates as follows:

Residential	+2.48%
Commercial/Industrial	+2.40%
Rural	-4.60%
Institutions	+2.88%

The summary table on the next page shows how the costs of benefits and modifications to the cost of benefits have been calculated for the Council's operations as a whole. Also included is the funding to be received from user charges, grants and subsidies, net corporate revenues, capital value rating, and the uniform annual charge.

Specific Objectives	2000/01 Targets
Proportion of revenue by source	
User Charges	35.22%
Grants and Subsidies	3.72%
Corporate Revenue	16.72%
Capital Value Rating	40.13%
Uniform Annual Charge	4.21%
Rates by Sector	
Residential	71.87%
Commercial/Industrial	25.90%
Rural	1.41%
Institutions	0.82%

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The budgeted costs of the benefits the Council proposes to provide in 2000/01, and their proposed funding, are shown in the following table:

	Users \$	Residential \$	Commercial \$	Rural \$	Institutions \$	Totals \$
Cost and Modifications						
Costs						
34.05% General Benefits	0	72,851,529	19,435,445	2,264,312	4,288,214	98,839,500
60.90% Direct Benefits	139,442,318	26,476,671	8,841,132	685,955	1,367,134	176,813,211
5.05% Negative Effects	14,653,087	0	0	0	0	14,653,087
Total Costs	154,095,405	99,328,201	28,276,577	2,950,267	5,655,348	290,305,797
Modifications						
Transfer User Costs to Rating	(51,862,150)	33,888,290	17,855,928	179,238	(61,306)	0
Non-Rateable	0	3,509,875	895,376	131,517	(4,536,768)	0
Avoiding Sudden Changes	0	0	0	0	0	0
Total Costs	(51,862,150)	37,398,164	18,751,303	310,756	(4,598,074)	0
Total Costs and Modifications	102,233,255	136,726,365	47,027,880	3,261,022	1,057,275	290,305,797
Funded By						
Funding						
35.22% User Charges	102,233,255	0	0	0	0	102,233,255
3.72% Grants and Subsidies	0	6,658,791	4,102,820	40,482	4,646	10,806,740
16.72% Net Corporate Revenues	0	37,554,403	9,580,198	1,407,187	0	48,541,789
40.13% Capital Value Rating	0	81,318,024	32,487,129	1,655,993	1,052,628	116,513,773
4.21% Uniform Annual Charge	0	11,195,147	857,733	157,360	0	12,210,240
Total Funding	102,233,255	136,726,365	47,027,880	3,261,022	1,057,275	290,305,797

Notes

- (1) There are circumstances when it is in the community interest, or where Council policy requires it, for the costs of direct benefits received by users to be met from rates.
- (2) Benefits are often identified as accruing to the institutional or non-rateable sector. As this sector is exempt paying general rates, the cost of providing benefits to this sector must be met by the residential, commercial and rural sectors. Costs have been allocated to these three sectors in proportion to their capital value.
- (3) In 1998/99 and 1999/00 \$933,000 of rates were transferred from the residential sector to the commercial sector. This modification was designed to limit a significant rate increase in the residential sector (+5.43%) and a significant decrease in the Commercial Sector (-7.27%). As part of their 2000 review of the Funding Policy, the Council has resolved to dispense with the modifier and allow the Funding Policy to determine each sector rate increase.
- (4) If the uniform annual charge was applied strictly according to the analyses of the individual functions, the uniform annual charge levied would be \$128 inclusive of GST. In order to avoid significant adjustment difficulties, the uniform annual charge for the 2000/01 financial year will remain at \$105. This will have the effect of increasing the revenue collected through capital value rating, and decreasing the revenue collected through the uniform annual charge. It does not further affect the allocations of costs among sectors.
- (5) Details of how the total rate requirement (\$128.72M) is split between the various rate types is noted under the 'Rate Types' heading on page 15.

The impact of this decision on the ratepaying sectors is as follows:

	Residential \$	Commercial \$	Rural \$	Institutions \$	Total \$
Capital Value Rating					
With UAC of \$128	79,012,271	32,133,005	1,618,888	1,052,628	113,816,792
With UAC of \$105 (as approved)	81,318,024	32,487,129	1,655,993	1,052,628	116,513,773
Uniform Annual Charge					
With UAC of \$128	13,500,899	1,211,857	194,465	0	14,907,221
With UAC of \$105 (as approved)	11,195,147	857,733	157,360	0	12,210,240
Total Rating					
With UAC of \$128	92,513,170	33,344,862	1,813,353	1,052,628	128,724,013
With UAC of \$105 (as approved)	92,513,170	33,344,862	1,813,353	1,052,628	128,724,013