

# SUMMARY OF THE 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 policy table on the following page summarises the changes which have been made as part of the 1999 Annual Plan process.

## 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:

- That which is independent of the number of persons who benefit from the expenditure, or generates benefits which do not accrue to identifiable persons or groups of persons, or which generates benefits to the community generally (general benefits); and
- That which provides direct benefits to persons or categories of persons (direct benefits); and
- That which is needed to control negative effects caused by the action or inaction of persons or categories of persons (negative effects).

The Act then requires local authorities to identify how the costs of the above expenditure should be allocated to the persons or categories of persons to which it delivers services.

The Act then goes on to prescribe how each type of expenditure should be funded:

- Expenditure which gives rise to general benefits may be funded from rates
- Expenditure which gives rise to direct benefits should be funded by contributions from the persons or categories of persons who benefit from that expenditure
- 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 1999/00 financial year as follows (1998/99 is included for comparison purposes):

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

The Council has applied the analyses described above to each of the outputs recognised by its accounting system, and aggregated these into 34 functions and sub-functions. If costs were to be allocated in the way suggested by the sum of the individual analyses, residential sector rates would have increased by 5.78%, and the commercial sector rates would have decreased by -8.22%.

In order to modify significant adjustment difficulties, the Council resolved to leave the inter sector transitional modifier at the 1998 level.

In addition the uniform annual general charge has been left at \$105.

The rationale for these adjustments is as follows:

- To achieve a greater degree of fairness and equity (s122G(b) Local Government Act 1974)
- To respect the obligations to act in the interest of all residents (s122G(a) Local Government Act 1974)
- To avoid the significant adjustment difficulties (s111G(d) Local Government Act 1974)

As a result of the Council's adjustments:

Rates for 1999/00 will be shared among the ratepaying sectors as follows:

Residential	72.06%
Commercial/Industrial	25.65%
Rural	1.49%
Institutions	0.80%

The different sectors will experience changes to their rates from 1998/99 as follows:

Residential	+4.80%
Commercial/Industrial	-5.76%
Rural	+8.79%
Institutions	+1.48%

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.

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The budgeted costs of the benefits the Council proposes to provide in 1999/00, and their proposed funding, are shown in the following table:

	Users	Residential	Commercial	Rural	Institutions	Totals
<b>Cost and Modifications</b>						
<b>Costs</b>						
29.75% General Benefits	0	60,479,615	15,260,746	1,877,181	3,520,462	81,138,003
64.52% Direct Benefits	141,486,679	24,398,187	8,223,786	639,303	1,265,922	176,013,877
5.73% Negative Effects	15,623,872	0	0	0	0	15,623,872
<b>Total Costs</b>	<b>157,110,550</b>	<b>84,877,802</b>	<b>23,484,532</b>	<b>2,516,484</b>	<b>4,786,385</b>	<b>272,775,752</b>
<b>Modifications</b>						
Transfer User Costs to Rating (57,491,374)		38,134,379	18,684,461	412,281	260,252	0
Non-Rateable	0	3,059,668	781,907	112,786	(3,954,361)	0
Avoiding Sudden Changes	0	(933,000)	933,000	0	0	0
<b>Total Modifications</b>	<b>(57,491,374)</b>	<b>40,261,048</b>	<b>20,399,367</b>	<b>525,067</b>	<b>(3,694,108)</b>	<b>0</b>
<b>Total Costs and Modifications</b>	<b>99,619,176</b>	<b>125,138,849</b>	<b>43,883,899</b>	<b>3,041,551</b>	<b>1,092,277</b>	<b>272,775,752</b>
<b>Funded By</b>						
<b>Funding</b>						
36.52% User Charges	99,619,176	0	0	0	0	99,619,176
4.07% Grants and Subsidies	0	6,571,428	4,438,903	54,960	27,280	11,092,572
13.97% Net Corporate Revenues	0	29,392,330	7,564,908	1,144,107	0	38,101,345
41.07% Capital Value Rating	0	78,234,092	31,054,461	1,688,764	1,064,997	112,042,313
4.37% Uniform Annual Charge	0	10,941,000	825,627	153,720	0	11,920,347
<b>Total Funding</b>	<b>99,619,176</b>	<b>125,138,849</b>	<b>43,883,899</b>	<b>3,041,551</b>	<b>1,092,277</b>	<b>272,775,752</b>

### 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) If costs were allocated strictly according to the analyses of the individual functions, the residential sector would receive a rate rise of 5.78%, while the Commercial Sector would have received a rate decrease of -8.22%. In order to avoid significant adjustment difficulties, the rates requirement from the Residential Sector has been reduced by \$933,333 and the rates requirement from the Commercial Sector has been increased by \$933,333. This adjustment has been made pursuant to Section 122G(d) of the Local Government Act.
- (4) If the uniform annual charge was applied strictly according to the analyses of the individual functions, the uniform annual charge levied would be \$151 inclusive of GST. In order to avoid significant adjustment difficulties, the uniform annual charge for the 1999/00 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.

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

	Residential	Commercial	Rural	Institutions	Total
<b>Capital Value Rating</b>					
With UAC of \$151	73,283,963	30,792,390	1,613,137	1,064,997	106,754,486
With UAC of \$105 (as approved)	78,243,092	31,054,461	1,688,764	1,064,997	112,042,313
<b>Uniform Annual Charge</b>					
With UAC of \$151	15,891,129	1,087,698	229,347	0	17,208,173
With UAC of \$105 (as approved)	10,941,000	825,627	153,720	0	11,920,347
<b>Total Rating</b>					
With UAC of \$151	89,175,092	31,880,088	1,842,484	1,064,997	123,962,660
With UAC of \$105 (as approved)	89,175,092	31,880,088	1,842,484	1,064,997	123,962,660