

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 the 2000 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 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
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User Charges	37.5%	36.52%	35.97%
Grants and Subsidies	3.8%	4.07%	3.66%
Net Corporate Revenues	15.3%	13.97%	15.60%
Capital Value Rating	39.2%	41.07%	40.52%
Uniform Annual Charge	4.2%	4.37%	4.25%

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 Centre.

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 a 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 Centre and the Sport and Entertainment Centre.

Rates for 2000/01 will be shared among the ratepaying sectors as follows:

Residential	71.69%
Commercial/Industrial	26.06%
Rural	1.46%
Institutions	0.80%

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

Residential	+2.25%
Commercial/Industrial	+3.04%
Rural	-1.43%
Institutions	+0.22%

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	35.97%
Grants and Subsidies	3.66%
Corporate Revenue	15.60%
Capital Value Rating	40.52%
Uniform Annual Charge	4.25%
Rates by Sector	
Residential	71.69%
Commercial/Industrial	26.06%
Rural	1.46%
Institutions	0.80%

SUMMARY OF THE FUNDING POLICY

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						
33.77% General Benefits	0	71,605,745	19,076,329	2,308,600	4,136,920	97,127,594
61.07% Direct Benefits	138,852,638	26,112,689	8,648,220	678,700	1,358,299	175,650,547
5.16% Negative Effects	14,830,342	0	0	0	0	14,830,342
Total Costs	153,682,980	97,718,433	27,724,550	2,987,300	5,495,220	287,608,483
Modifications						
Transfer User Costs to Rating	(50,239,795)	32,669,097	17,531,420	135,292	(96,015)	0
Non-Rateable	0	3,372,248	866,297	130,667	(4,369,212)	0
Avoiding Sudden Changes	0	0	0	0	0	0
Total Costs	(50,239,795)	36,041,345	18,397,717	265,959	(4,465,227)	0
Total Costs and Modifications	103,443,185	133,759,778	46,122,267	3,253,260	1,029,993	287,608,483
Funded By						
Funding						
35.97% User Charges	103,443,185	0	0	0	0	103,443,185
3.66% Grants and Subsidies	0	6,823,298	3,673,179	37,916	4,539	10,538,932
15.60% Net Corporate Revenues	0	34,630,690	8,896,280	1,341,864	0	44,868,834
40.52% Capital Value Rating	0	81,083,671	32,698,340	1,717,053	1,025,454	116,524,518
4.25% Uniform Annual Charge	0	11,222,120	854,467	156,427	0	12,233,013
Total Funding	103,443,185	133,759,778	46,122,267	3,253,260	1,029,993	287,608,483

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 \$124 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.

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

	Residential	Commercial	Rural	Institutions	Total
Capital Value Rating					
With UAC of \$124	79,156,162	32,383,317	1,685,627	1,025,454	114,250,559
With UAC of \$105 (as approved)	81,083,671	32,698,340	1,717,053	1,025,454	116,524,518
Uniform Annual Charge					
With UAC of \$124	13,149,629	1,169,490	187,853	0	14,506,973
With UAC of \$105 (as approved)	11,222,120	854,467	156,427	0	12,233,013
Total Rating					
With UAC of \$124	92,305,791	33,552,807	1,873,480	1,025,454	128,757,532
With UAC of \$105 (as approved)	92,305,791	33,552,807	1,873,480	1,025,454	128,757,532