

1. FINANCIAL POLICY REVIEWS - FUNDING POLICY, LONG TERM FINANCIAL STRATEGY, BORROWING MANAGEMENT POLICY, AND INVESTMENT POLICY

Officer responsible Director of Finance – Bob Lineham	Author Geoff Barnes
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The purpose of this report is to advise the Committee of the proposal to review four financial policies of the Council. This is the first of the three year major reviews.

The Local Government Act requires the Council to review its Funding Policy and Long Term Financial Strategy at least every three years. The Borrowing Management and Investment Policies are not subject to a mandatory review although with changing circumstances a review is prudent.

The current policies were first used in the 1998/99 Annual Plan. A new Funding Policy and Long Term Financial Strategy Funding Policy is required to be adopted for the 2001/02 Financial Plan and Programme.

To ensure the Funding Policy and Long Term Financial Strategy is available for input to the Financial Plan in a meaningful way, in that the funding impacts are apparent in the budget development phase, the review needs to be completed by November 2000. The other policies need to be developed in parallel with impacts on others identified and accounted for.

THE LEGISLATIVE REQUIREMENT

Funding Policy

In Section 122N of the Local Government Act there is a requirement to review the Funding Policy every three years.

“(1) Every local authority shall, not less than once every 3 years, prepare and adopt a funding policy.

(2) Every funding policy shall be prepared as part of an annual plan and adopted in accordance with the special consultative procedure.

(3) In any year in which a local authority does not prepare and adopt a funding policy, an outline of the current funding policy shall be included in the annual plan.”

Long Term Financial Strategy

In Section 122K of the Local Government Act there is a requirement to review the Long Term Financial Strategy every three years.

“122K LONG-TERM FINANCIAL STRATEGY--

- (1) Every local authority shall, not less than once every 3 years, prepare and, in accordance with the special consultative procedure, adopt a long-term financial strategy.*
- (2) The long-term financial strategy may be prepared and adopted concurrently with the annual plan.*
- (3) An outline of the long-term financial strategy shall be included in every annual plan.*
- (4) The long-term financial strategy shall relate to a period of 10 or more consecutive financial years.”*

Borrowing Management Policy, and Investment Policy

The Act requires these policies be adopted and has no requirement for review. The lack of review, whilst legal, is impractical as circumstances and treasury practices change. A periodic review is recommended.

THE PROPOSED PROCESS

Funding Policy

The Act contemplates preparation and adoption of the Funding Policy every three years. Whilst it could be interpreted that a full development from a zero base was contemplated, this is a lengthy process and therefore expensive. The current policy has generally been accepted by the community. To build up a new Funding Policy from a zero base appears to not be warranted. There are, however, some areas which require attention as they are significant in expenditure terms and controversial to resolve e.g. the City Streets outputs. The attention of the Council should be focused on those of significance and where the impact is controversial.

Therefore I propose that the Council review the current policy for each output to identify the changes which are necessary on the assumption that the current policy is generally appropriate.

In most cases the outputs have not changed. There are 315 outputs which condense into 35 functions for publication purposes. Over the three years since established, elements of the Funding Policy have been reviewed and where there has been significant need, amended, but this has generally related to new outputs.

The analysis recommended is:

- The budget figures to be used:
 - For the review and recommendation development, the Financial Plan for 2000/01 will be used as these are the latest figures.
 - For the adopted 2001/02 Funding Policy the Draft Financial Plan with 2001/02 figures will be used. These will not be available until March 2001. Amendments can be accommodated up to that point.

- The review process
 - The current Funding Policy will be reported in full including for the 2000-01 figures:
 - ◆ Description of the output
 - ◆ Name of the output
 - ◆ Description of the output
 - ◆ Benefits delivered by the output
 - ◆ Statutory authority to deliver this service
 - ◆ Council strategic objective met by this output
 - ◆ Gross budgeted costs and revenues
 - Step 1 - Initial benefit allocation based on the ‘economic’ principles
 - Step 2 - Modifications to that allocation based on that authorised in the Act
 - Step 3 - Selection of charging mechanism to recover the gross costs – revenue and rates
 - Allocation result to revenue sources and rate sector
- The review will give particular emphasis to the significant items and those known to be controversial for some sectors of the community
- The review will come to a conclusion for the 2000-01 Budget results
- This will be translated into the 2001-02 figures as they emerge from the budget process. A summary of this will be published in the 2001-02 Financial Plan.
- The summary will as far as possible align with the ‘significant activities’ of the Financial Plan. This may mean a small change from the ‘functional’ breakdown of the last full Funding Policy.
- As in the past, from this summary a ‘Rate Requirement Statement’ will be prepared.
- The draft Funding Policy will then be included in the 2001-02 Financial Plan and consulted on as part of the plan process development including the public submissions.

Long Term Financial Strategy

The LTFS needs to reflect the Council’s long term vision and goals. To a large degree this will already be reflected in the long term model which has been progressively updated as part of the Financial Plan process each year. However, it is important that the Council’s vision and strategy and the underlying significant forecasting assumptions are reviewed and aligned with the forecasts and financial policies. It is therefore proposed that a Council seminar be held to review these aspects at the beginning of the review process.

It proposed that the LTFS will then be refined by staff with the assistance of the Council Subcommittee and put to the Annual Plan Working Party as part of the next Financial Plan review in February for consideration in parallel with the Funding Policy. Most of the significant financial policies are in place. The LTFS needs to be reviewed to ensure it is aligned. The draft Policy will be included in the Financial Plan and be part of the consultation process.

The policy will include:

- The underlying significant forecasting assumptions
- The key factors which influence the LTFS
- The rationale for Council activities
- Financial impact of the activities
 - Source of funds for expenses
 - Estimated cash flows
 - Changes in assets, investments and liabilities over the period
 - Estimated commitments and contingencies over the period

Review of Borrowing Management Policy and the Investment Policy

The current policies were created under the Local Government Amendment Act 1996. As they are now three years old it is appropriate that the Council reviews the wording and application.

The Treasury Review Team, an officer team together with an external financial adviser, monitor the application of the policies for investment and borrowing Council funds. It is their advice that the policies be reviewed at this time.

It is proposed that this team complete the review and submit the recommendations to the Council for adoption. The current view is that the policies are generally acceptable, therefore a review is required rather than a full rewrite. The current policies adequately support the current operations.

The review will be completed in time for inclusion in the Draft Financial Plan publication.

SUGGESTED PROCESS FOR COUNCIL REVIEW

For the Funding Policy:

The Funding Policy covers 35 functions from 315 outputs. The function result is a summary of the outputs. Each output will require an analysis as outlined above to substantiate the function conclusions and from that the user charge and rate sector funding requirement. To achieve the result, it is recommended that:

- A subcommittee of Strategy and Resources Committee be appointed to undertake the reviews and report back to the Annual Plan Working Party.
- The subcommittee will first need to review the rate sectors that will be used for the allocation of costs and benefits. A likely change would be the inclusion of utilities.
- An initial high level review of the functions statements would be undertaken to identify where the subcommittee want particular emphasis to be made.

- Staff will then develop the draft output statements, the functional analysis and rate sector impact result as a basis for further review on an exception basis:
 - The subcommittee will be provided with the draft output results as an electronic 'Word' document (2,000 pages) rather than a printed version so that this can be used to provide the detailed underlying data. The subcommittee will be able to drill down to the relevant output statement.
 - Issues of concern will be advised to the subcommittee drawing attention to the output statement involved.
 - Changes will need to be made at the output statement level and summarised up to the functions.
- The subcommittee's primary output is the recommended "functional" statements as this is the published document – for 35 functions – two pages each.
- It is expected a series of meetings will be required commencing early September through to November.

For the other policies:

- The subcommittee will be presented with a draft document for the Borrowing and Investment Policies for review and recommendation
- For the Long Term Financial Strategy, a skeletal outline will be initially recommended for discussion with the subcommittee to obtain consensus on key issues and to consider the inputs from the proposed Council seminar prior to staff completing the first comprehensive draft.

- Recommendation:**
1. That the review of the policies commence as outlined in the report.
 2. That a subcommittee, consisting of all members of the Strategy and Resources Committee, be appointed to develop the Funding Policy and the Long-term Financial Strategy and report to the Annual Plan Working Party with their recommendations.
 3. That the subcommittee consider and recommend to the Council a revised Borrowing Management Policy and Investment Policy for inclusion in the 2001-02 Financial Plan.