

5. REVENUE AND FINANCING POLICY REVIEW PROCESS



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The purpose of this report is to advise the Council on the recommended process for review of the Revenue and Financing Policy for inclusion in the Council's draft Long Term Council Community Plan (LTCCP).

BACKGROUND

The Local Government Act 2002 (the Act) requires that the Council must adopt a Revenue and Financing Policy as part of its LTCCP.

Under the previous legislation this Council adopted a Funding Policy which was tightly prescribed by the legislation. That legislation required that the funding policy be reviewed by the Council every three years and in the normal course of events a review would have been required for inclusion in the annual plan for 2004/05. The policy was initially prepared in 1998 and reviewed again in 2001.

While the new Act incorporates many of the characteristics of the former funding policy it is broader in its application and defined differently. The policy is required to be adopted in the LTCCP. Therefore a complete review must be undertaken.

A Revenue and Financing Policy, together with a Funding Impact Statement, was included in the Annual Plan for 2003/04 which was based on the former Funding Policy work under the old legislation. This was effectively a holding pattern and the work now needs to be undertaken in compliance with the Act for consultation as part of the LTCCP.

LEGAL REQUIREMENTS

The Act requires that the Revenue and Financing Policy state the Council's policies in respect of:

- the funding of its operating expenditure; and
- the funding of its capital expenditure.

The sources of funding for those expenditures must be determined and the policy must also show how its proposed sources of funding have been determined after consideration in respect of each activity to be funded of the following factors:

- The community outcomes to which the activity contributes
- The distribution of benefits to parts of the community and individuals
- The period over which benefits will occur
- The extent to which actions or inactions of groups or individuals contribute to the need for the activity
- The costs, benefits, transparency and accountability of funding the activity distinctly from other activities
- The overall impact of allocating liability for revenue needs on the current and future social, economic and cultural well being of the community.

(Note: the above wording is a précis of the Act and the exact requirements are found in sections 101, 102 and 103 of the Act.)

KEY ISSUES

There is limited time available for a detailed review of all activities at output level by a Council committee as the bulk of the work must be completed by the end of this calendar year to fit in with the LTCCP timetable. This is compounded by a variety of other issues relating to LTCCP preparation which are also under consideration in the organisation at the same time. However, much of the work undertaken in the past by the Council for the former funding policy will be relevant to this work. The analysis was initially done in detail by working through every output at committee level and this was an extremely time-consuming exercise which covered many months of regular meetings. It is doubtful if it would be possible to schedule enough meetings in the time available for the Council to undertake a 'grassroots' review of this type again this year at elected member level, nor would it be productive.

The Act requires that the review be based on activities. Staff have identified 67 for recommendation to the Council. These are generally a collection of what have previously been described as outputs, of which there are approximately 250 in the Council's operational framework. While many outputs under some of the activities will have the same funding needs and can be assessed together the characteristics of a large number of the outputs still need to be examined individually to ensure that differences are identified and provided for. These outputs can then be aggregated to activity level to comply with the Act and for reporting purposes.

Consideration will need to also be given to:

- Main differential categories (currently residential, rural, commercial/industrial and Institutions)
- Base rating system (currently capital value)
- Rate types including uniform charges (mix of general and targeted rates)
- Capital expenditure funding policy (ie mix of revenue and debt funding to achieve intergenerational equity)

This review will not look at specific charging mechanisms for direct revenues and fees. The review will determine the proportion of revenue which is appropriately derived from direct charges and the exact form of those charges should be determined by the committees responsible for the activities in conjunction with staff.

PROPOSED PROCESS

A staff steering committee has been established to guide this process at staff level and it is proposed that the bulk of the work on this review will be undertaken by the staff who will conduct a full review and report back to the Committee (at its December meeting) with a summary of recommendations arising from the review and highlights of all significant changes and the overall impact.

It would helpful, however, to have a preparatory seminar with the Committee in early October to identify some of the core decisions on such issues as the main differential categories and base rating system. This seminar would also give an opportunity for the committee, in workshop mode, to identify any issues which the Council particularly wants to have considered or reviewed by the staff process.

The Regulatory and Consents Committee has specifically requested that a review of the revenue policy issues affecting the activities of that Committee be undertaken by the Committee and staff are working with the Committee to facilitate this specific review. This relates to specific concerns the Regulatory and Consents Committee have regarding the detailed fee structure. It is being treated as a special sub-project of the organisation-wide review by staff and will primarily focus on the direct charging of fees. It will be reported back with the rest of the review in due course. It is not intended that other committees be involved in such a process at this level of detail as there is good representation of all committees on the Strategy and Finance Committee and it is appropriate that this Committee determines overall funding strategy, leaving the detail of fees to other committees as part of the normal budget review.

It is proposed to hold a seminar of this Committee in December to review the staff findings and consider the impact of any changes which are recommended as a result of the review. Following the seminar the review will be formally reported to the Annual Plan Subcommittee in February to be included in the draft LTCCP for public consultation prior to adoption.

A seminar meeting of the Committee was held on 8 October to enable Councillors to identify any specific issues they wish to be reviewed as part of the revenue policy review and to provide guidance on key underlying issues

Recommendation: That the staff undertake a detailed review and report back to a Strategy and Finance Committee seminar in December and then to a February meeting of the Annual Plan Subcommittee.