general principles

The Act sets out a range of broad principles which must be considered in establishing a funding policy. The Council in establishing its own specific policy has adopted the following definitions, principles and procedures.

Who is the Beneficiary of a Function

The Council has formed an opinion on who are the beneficiaries. They will be either:

- The community as a whole in which case the benefits are likely to be General benefits.
- Individuals who are customers of the Council service and are capable of separate identity. There is therefore a Direct Benefit.
- Categories of persons in receipt of a Direct Benefit. In this case the Council has used the Rate Differential groupings of Residential, Commercial / Industrial and Rural as the definition of categories. These are referred to as the rate sectors.

General Benefits

Defined as expenditure which:

- provides benefits which are 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

These benefits will generally be funded by the community as a whole using capital value rates payable in the main by properties liable for General Rates because :

- The general benefits relate to the community as a whole.
- Capital value represents the stakeholders (general community) interest.
- Capital value has a broad correlation with the ability to pay.
- Capital value is independently assessed.
- It is considered by the Council to be the most suitable rating mechanism available to Council through the Rating Powers Act.

Direct Benefits

- Direct benefits are defined as expenditure which provides benefits to persons or categories of persons in a manner which matches the extent to which the direct benefits accrue to persons or categories of persons.
- These benefits will be charged to the direct beneficiary through the making of a user charge where this is practicable, and where direct charging is consistent with Council policy, and with fairness and equity for that particular service. In other circumstances, direct benefits will be funded from rates.
- Direct benefits will be largely, if not wholly, funded by user charges for consents processes (to the extent permitted by law), Council housing, refuse disposal (ie the cost of operating transfer stations and the landfill), and certain services delivered directly to individuals or groups.
- Direct benefits will be partially funded from rates for those services the Council wishes to make available to the whole community regardless of ability to pay, where the Council seeks to assist or encourage organisations or individuals, or where the Council is seeking to influence developments and trends in the City.
- User Charges for all of the Council's services are reviewed every year as part of the budget process on the basis of:
  - the cost of the service
  - the market acceptability of the current charge
  - fairness and equity of charges
  - Council Policy regarding the impact of user charges on the community and the Council's purpose in providing the service.
- Where direct benefits will not be fully funded by user charges, then the following mechanisms may be used (this is further discussed in the section on Modifications):
  - Separate rates based on capital values for those properties within the serviced area
  - Uniform charges
  - Capital Value rating to defined user groups
- Separate rates will generally be used as a mechanism for allocation of the cost of direct benefits when:
  - a user group can be defined or benefits are available to a defined area
  - a standard service is available
  - there is generally no alternative supplier
- Uniform Annual Charges (UAGC) will generally be used as a mechanism for allocation of the cost of direct benefits when:
  - The benefit is people related.
  - There is a reasonable correlation between the number of properties and the spread of benefits in the community.
  - Consumption of Benefits is relatively uniform by the inhabitants of the community.
- Capital value rating to defined user groups will generally be used as a mechanism for allocation of the cost of direct benefits when:
  - Individual beneficiaries are difficult to identify, but are part of one of the ratepaying sectors recognised by the Council – the rate sector is the category of persons.
  - Services are property related and hence add value to a property.
  - Availability of services lead to the enhancement of properties or the amenity of the City as a whole.
  - The Council seeks to assist individuals or organisations, or seeks to influence trends and developments in the City.

- The Council wishes services to be widely available regardless of ability to pay.

Control of Negative Effects

- Where costs are needed to control negative effects caused by the action or inaction of persons or categories of persons then those costs will be allocated to those persons by:
  - Firstly a direct charge to the exacerbator (ie person who caused the cost to be incurred. This is the polluter pays approach.); or
  - Where a direct charge is not possible, then by the use of one of the following rating mechanisms according to similar principle outlined for direct benefits in the preceding section:
    - Separate rates
    - Uniform charges
    - Capital Value rating

Modifications

- In accordance with the provisions of the Local Government Act, where appropriate, the Council has given consideration to modifying the allocation of costs to take account of:
  - The obligation of the Council to act in the interests of its residents and ratepayers.
  - The fairness and equity arising from any allocation of costs.
  - Policies of the local authority which can be effectively promoted through the utilisation of particular charging mechanisms.
  - Transition from an existing funding regime to a new funding regime.
  - The suitability of a mechanism to:
    - achieve an appropriate allocation of costs
    - be an efficient mechanism
    - be effective and efficient as a separate funding mechanism
    - help identify the expenditure needs to which costs relate.
- Modifications may be made in respect of particular functions and these are described on the function pages.

  The main modifications used are:
  - to recognise under recovery of user charges over Direct Benefits
  - to apply benefits accruing to the institution sector to the other fully rateable sectors. The Rating Powers Act only allows water, refuse and sewerage costs to be levied against the institutions. All other functions must be reallocated to the other sectors.
  - a transitional modifier to avoid sudden changes to the rate paying sectors

Capital Funding

- Capital Expenditure will be funded from the following sources:
  - Surplus Cash Flow principally generated from depreciation plus or minus any operating surplus or deficit.
  - Reserve Funds and bequests.
  - Capital Grants received from external parties.
  - Loans raised as per the Council's borrowing policy.

Capital funding is not seen as a Function in its own right but is expressed within each of the operating functions through the depreciation charge and interest costs.

Intergenerational Equity

Within the Funding policy is a recognition that today's users pay today's costs of utilising the Council's assets. To prevent costs being incurred by the current generation which are for the benefit of future generations, the following mechanisms are employed by the Council:

- All assets are depreciated at a rate assessed to reflect the life of particular assets. This depreciation is included in the operating costs of the functions using the assets, along with the annual interest costs on loans used to fund the assets.
- Loans raised to fund new capital works are repaid on a rolling basis over a 20 year period from surpluses generated in the operating account
- Therefore revenue of the Council is required to be sufficient to meet:
  - Depreciation on capital assets employed.
  - Interest on outstanding debt.
  - Surpluses available to fund the proportion of outstanding debt due to be repaid each year.

Corporate Revenues

- The Council receives a significant amount of corporate revenue, the principal revenue types being dividends, interest and petrol tax.
- These revenues are independent of any specific function of the Council but generally relate to returns on investments which the Council holds on behalf of the community such as its major trading enterprises - Orion Group, Christchurch International Airport, Lyttelton Port Company and Red Bus Company.
- These Revenues are allocated as a credit against General Rates in proportion to capital value because capital value reflects the ratepayers stake (share) in the city.
- The Council receives from time to time significant special dividends by way of capital repatriation from Christchurch City holdings Ltd and possibly other LATEs. These are sourced from surplus capital of the subsidiary companies. On each occasion the Council makes a decision on the use of these funds but generally they will be treated (from a Funding Policy perspective) as capital funds not as operating revenue which offsets General Rates. Therefore they will not reduce the rate requirement in the year of receipt and are transferred to capital as part of the operating surplus.

Capital Endowment Fund

In 2001/02 the Council will receive funds totalling $175 million as a result of Orion selling its North Island gas networks. These funds will be repatriated by Christchurch City Holdings Limited to Council by way of a special dividend of $128 million and through the purchase of trading assets from Council of $47 million.

The Council will apply $100 million to the reduction of current and forecast debt and to place $75 million in a Capital Endowment Fund for the benefit of current and future generations.