

# ***Long Term Plan 2021-31***

*Revenue and Financing Policy  
&  
Financial Strategy*

*Council Briefing 14 July 2020*

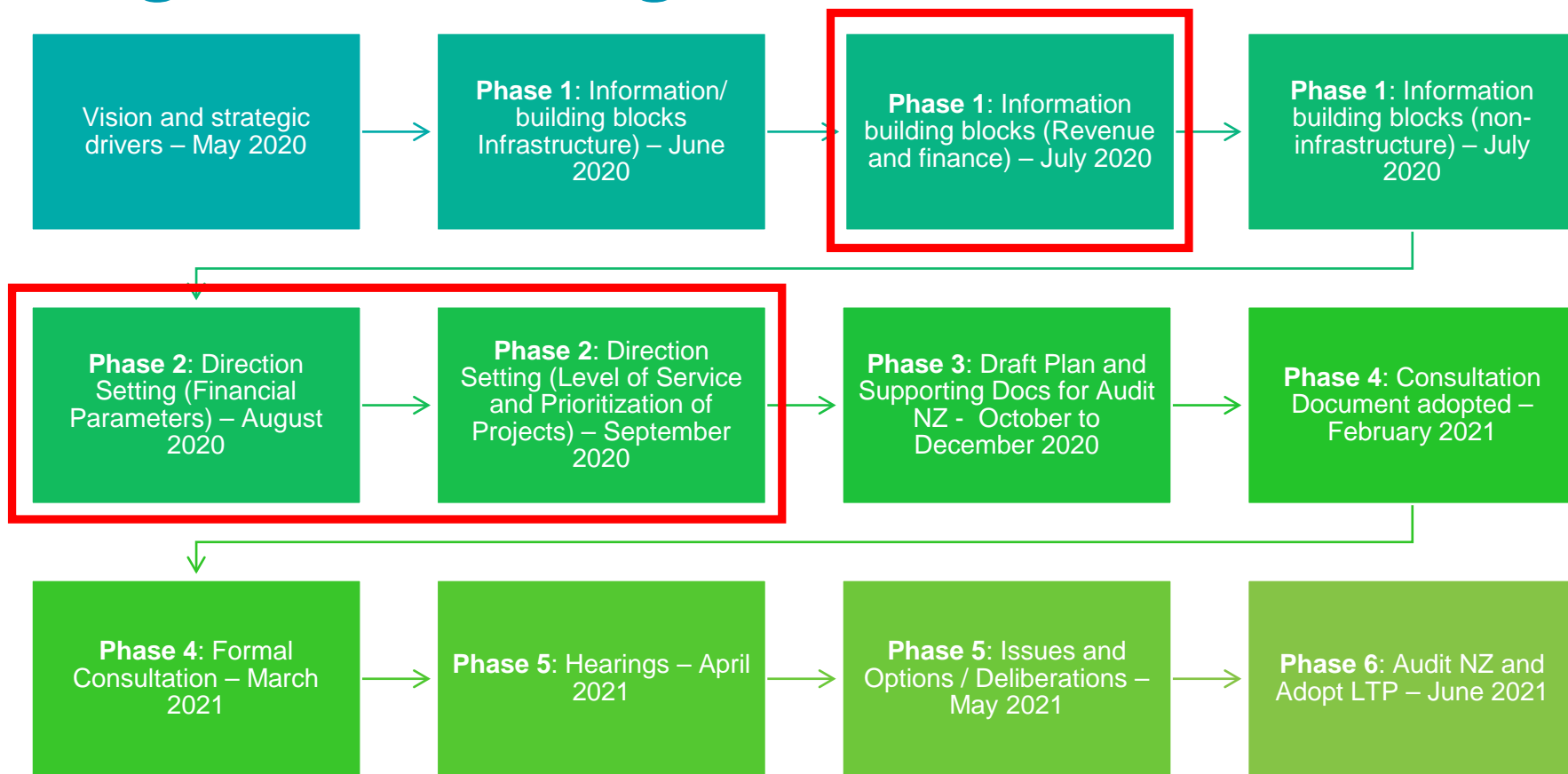
# *How does the financial system work?....*

- [https://www.youtube.com/watch?v=M\\_3T-Af57Pg](https://www.youtube.com/watch?v=M_3T-Af57Pg)

# Overview

- Refresher of timeline and LTP process
- LTP building blocks
- What funds our operational costs
- What funds our capital costs
- Revenue and Financing Policy
- Financial Strategy
- Financial Parameters
- Balanced budget
- Difficult decisions ahead

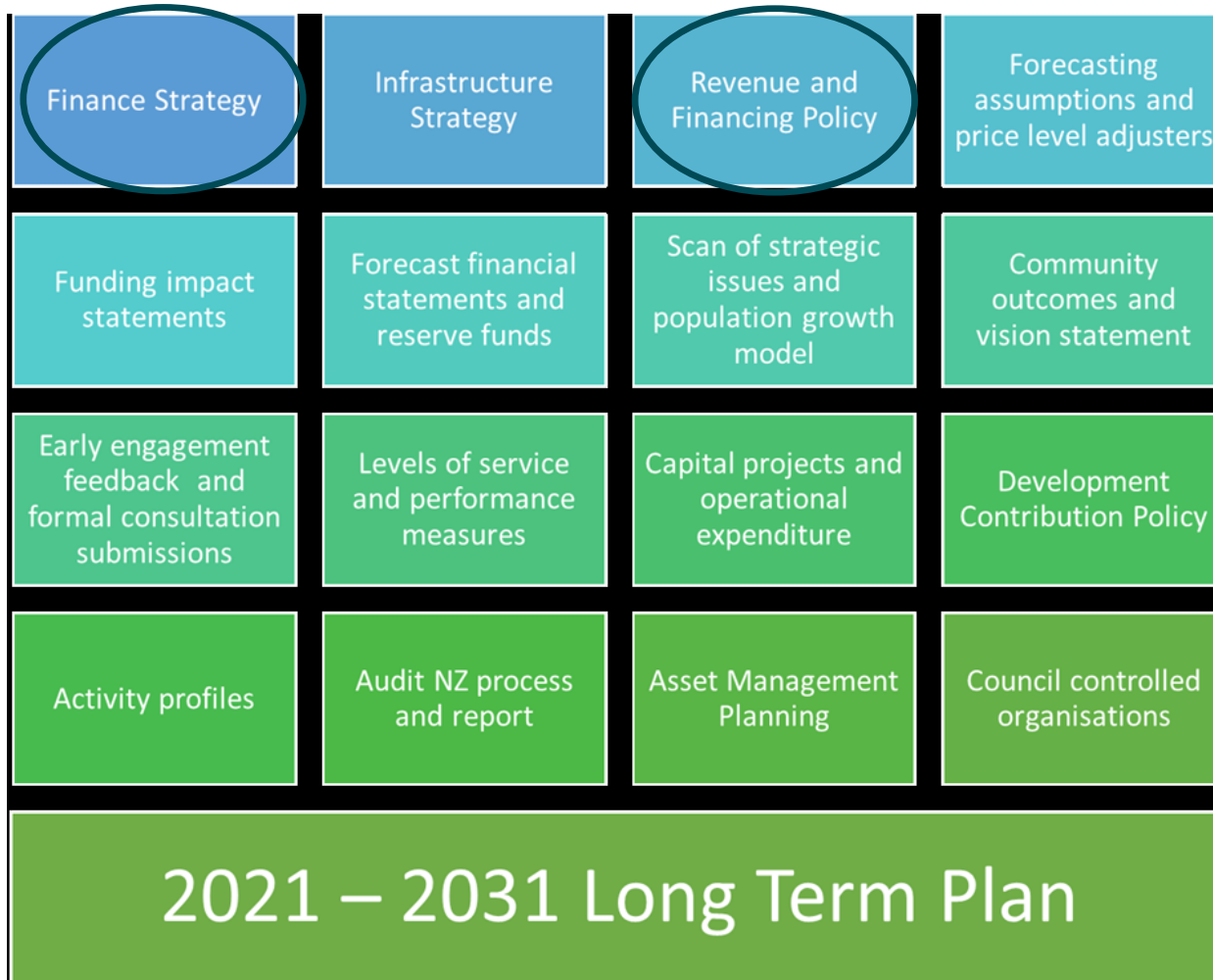
# High level Long Term Plan timeline



# ***LTP Process overview***

- A busy 12 months ahead, which we have structured in 6 Phases:
- **Phase 1:** Information Building Blocks
- **Phase 2:** Direction Setting
- **Phase 3:** Draft LTP and Supporting Docs for Audit NZ
- **Phase 4:** Consultation
- **Phase 5:** Deliberations
- **Phase 6:** Adopt LTP

# *LTP building blocks*

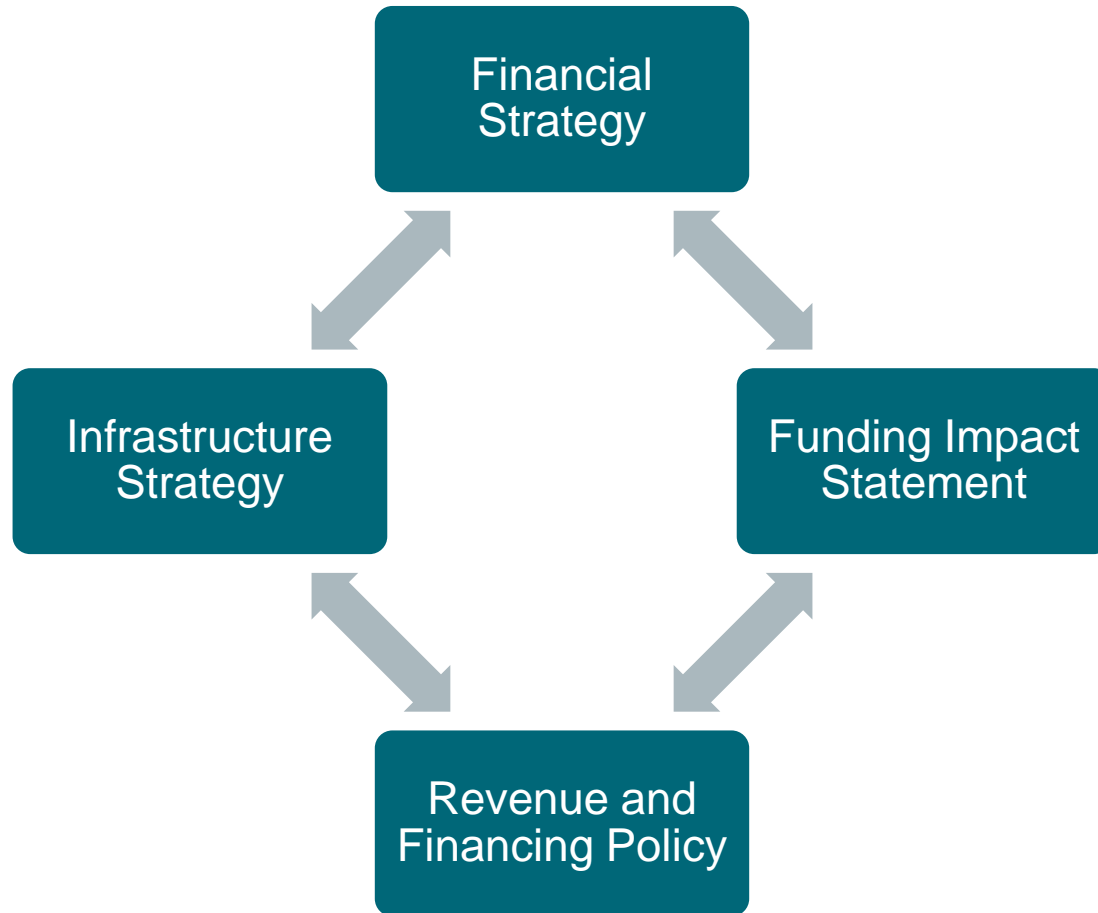


The development of the LTP is supported and directed by a number of documents and programmes of work.

These will be worked through with elected members for direction setting

Some will require early decision making...

# *LTP building blocks*



# Where does our money come from, and what do we spend it on?

## Revenue and Financing Policy

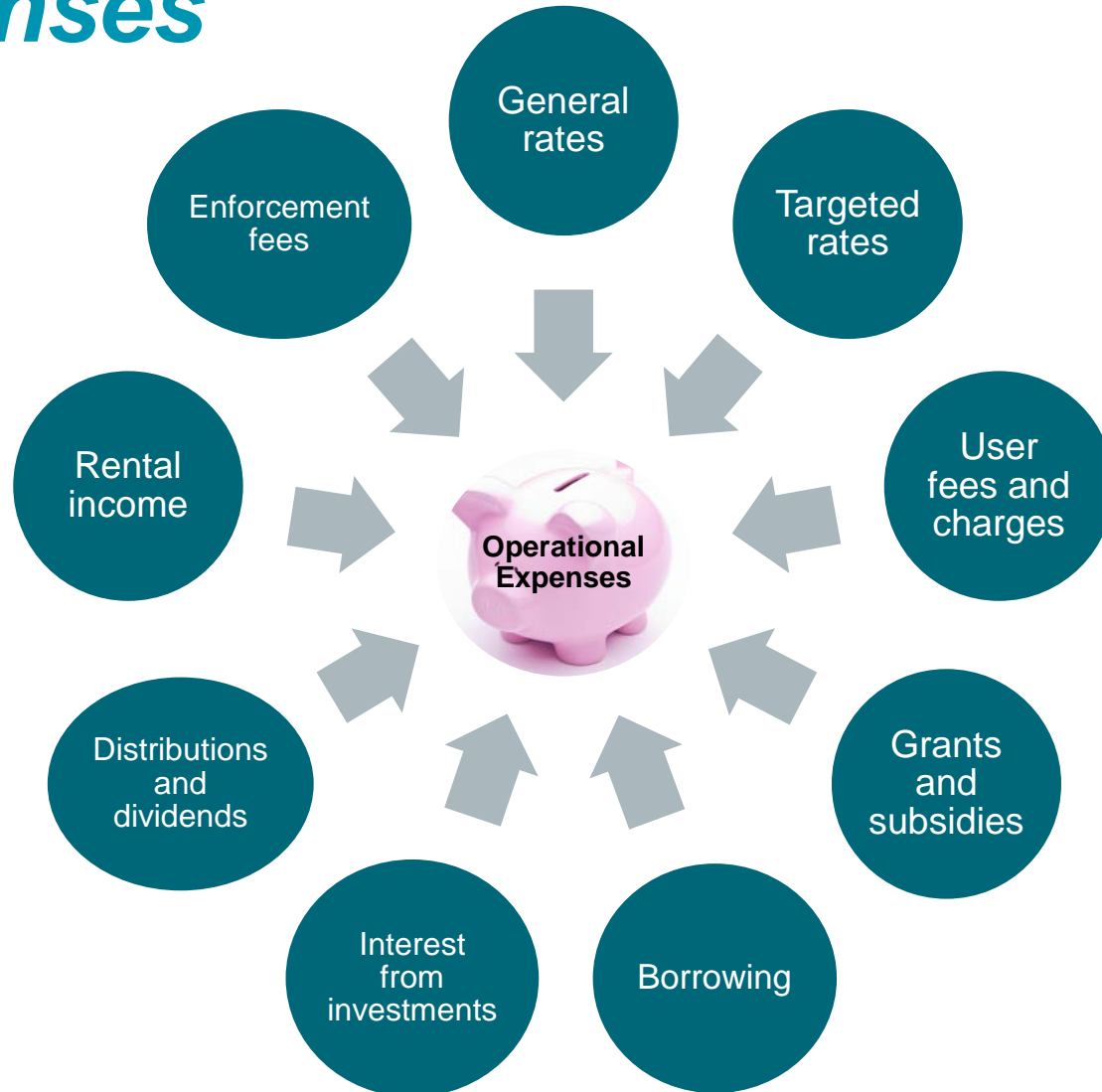
The *Revenue and Financing Policy* is a requirement s102(2) of the *Local Government Act 2002* which requires a local authority to provide “predictability and certainty about sources and levels of funding” adopt certain policies.

The policy is supported by analysis of the funding of each activity group and recognises that the funding policy is more than just a device for raising revenue but is also one of the instruments that can be used to promote community wellbeing.

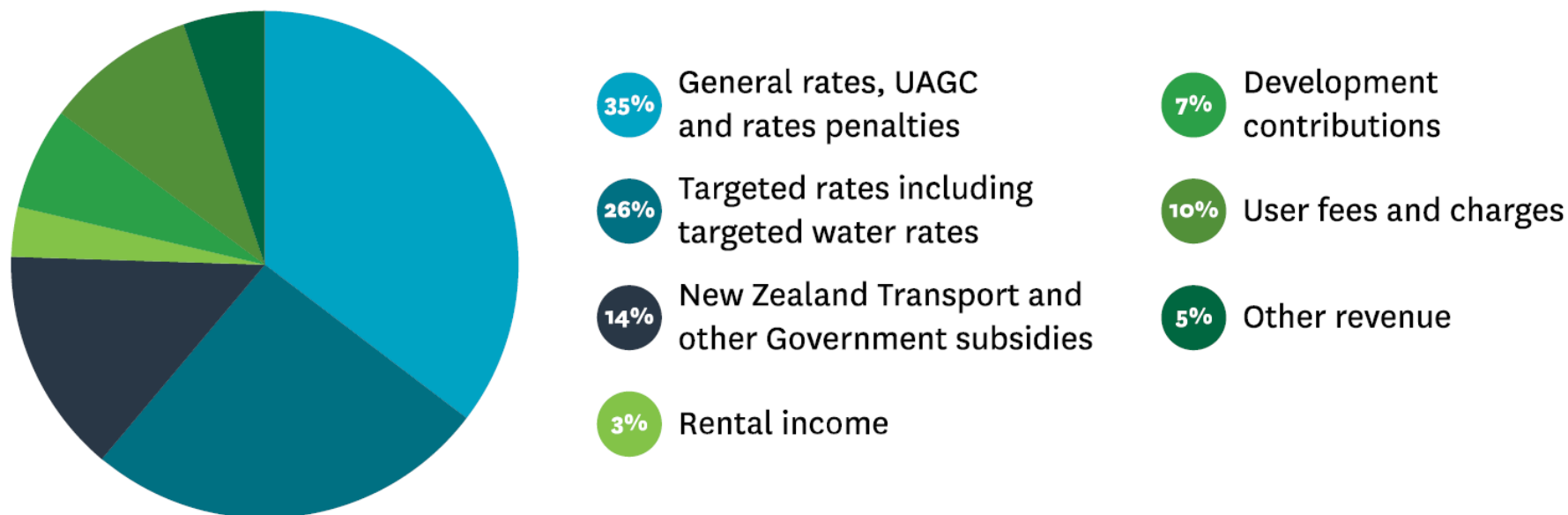
## ***Funding impact statement***

This statement sets out the information required by clause 20 of Schedule 10 of the *Local Government Act 2002* to assist ratepayers in understanding the impact of the Annual Plan. This statement should be read in conjunction with the Revenue and Financing Policy prepared as part of the LTP 2021-31 process.

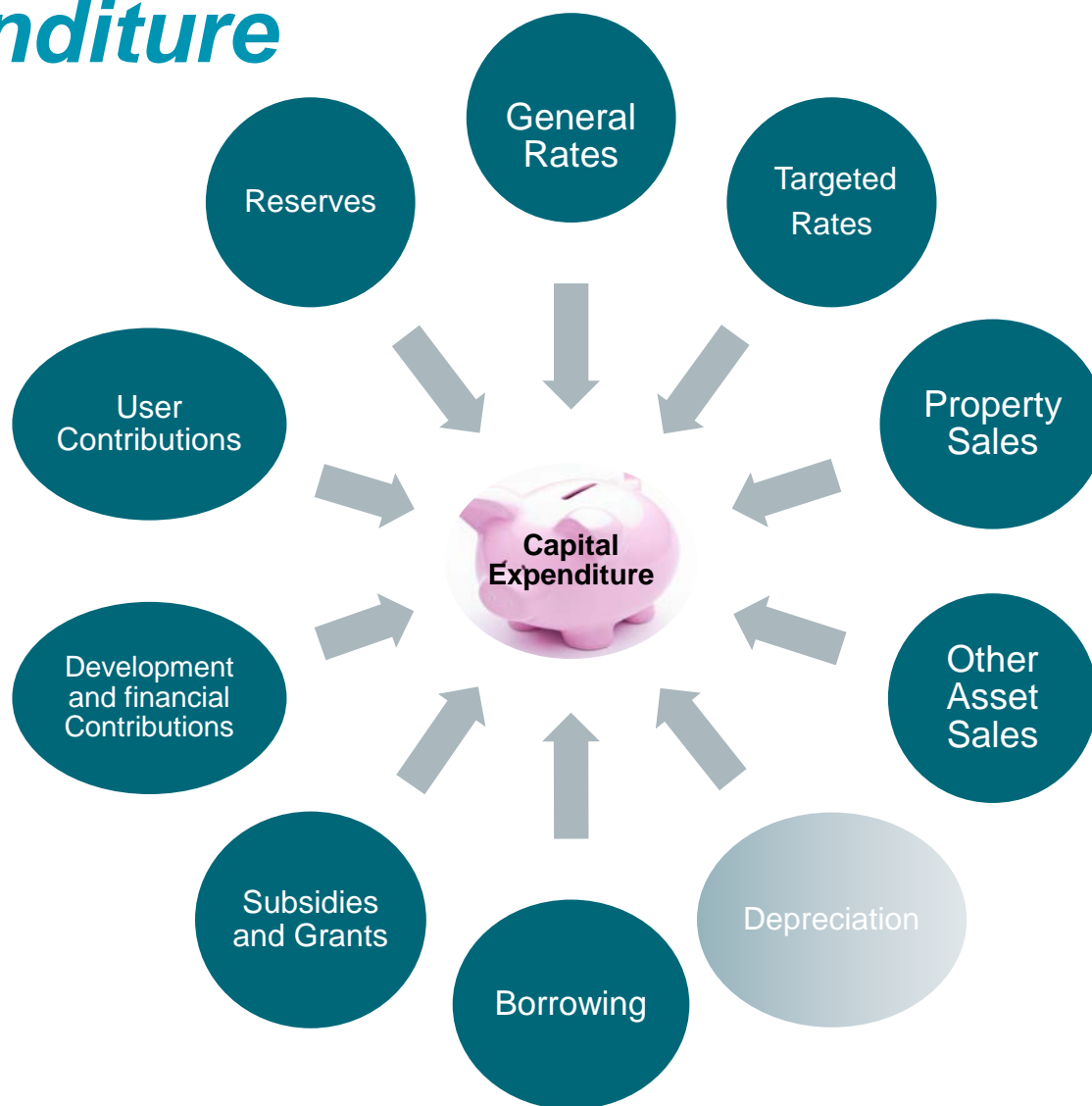
# *Funding Sources for Operating Expenses*



## *Council's sources of funding and revenue*

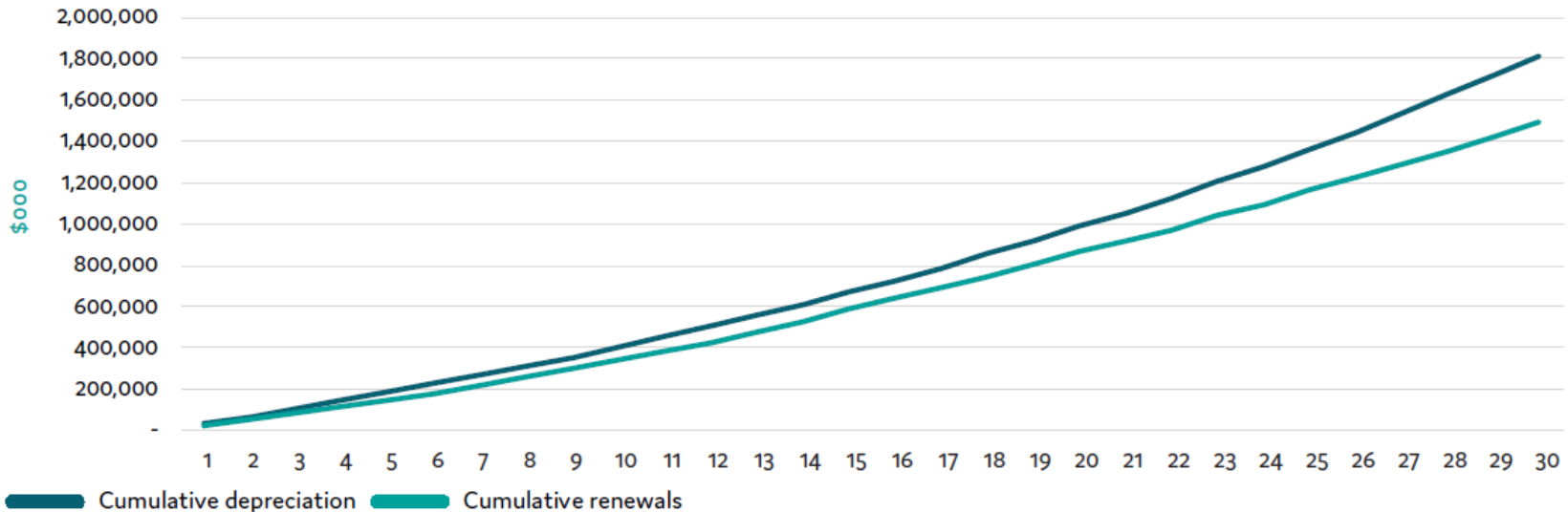


# ***Funding Sources for Capital Expenditure***



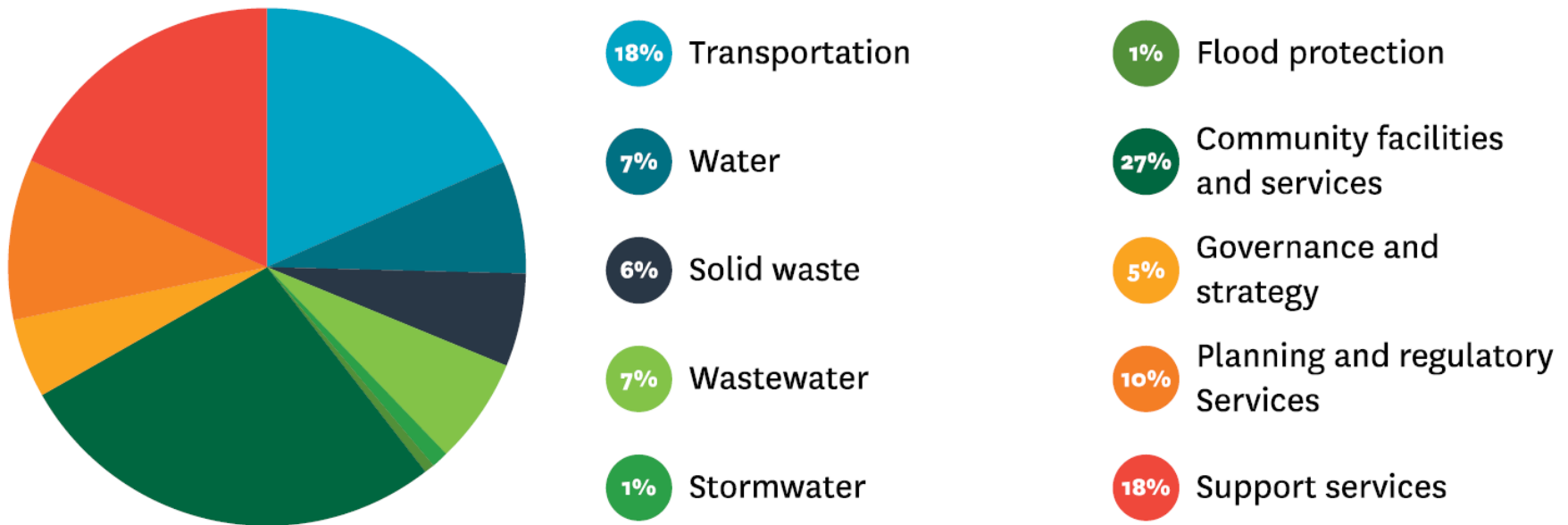
# Depreciation v's Renewals

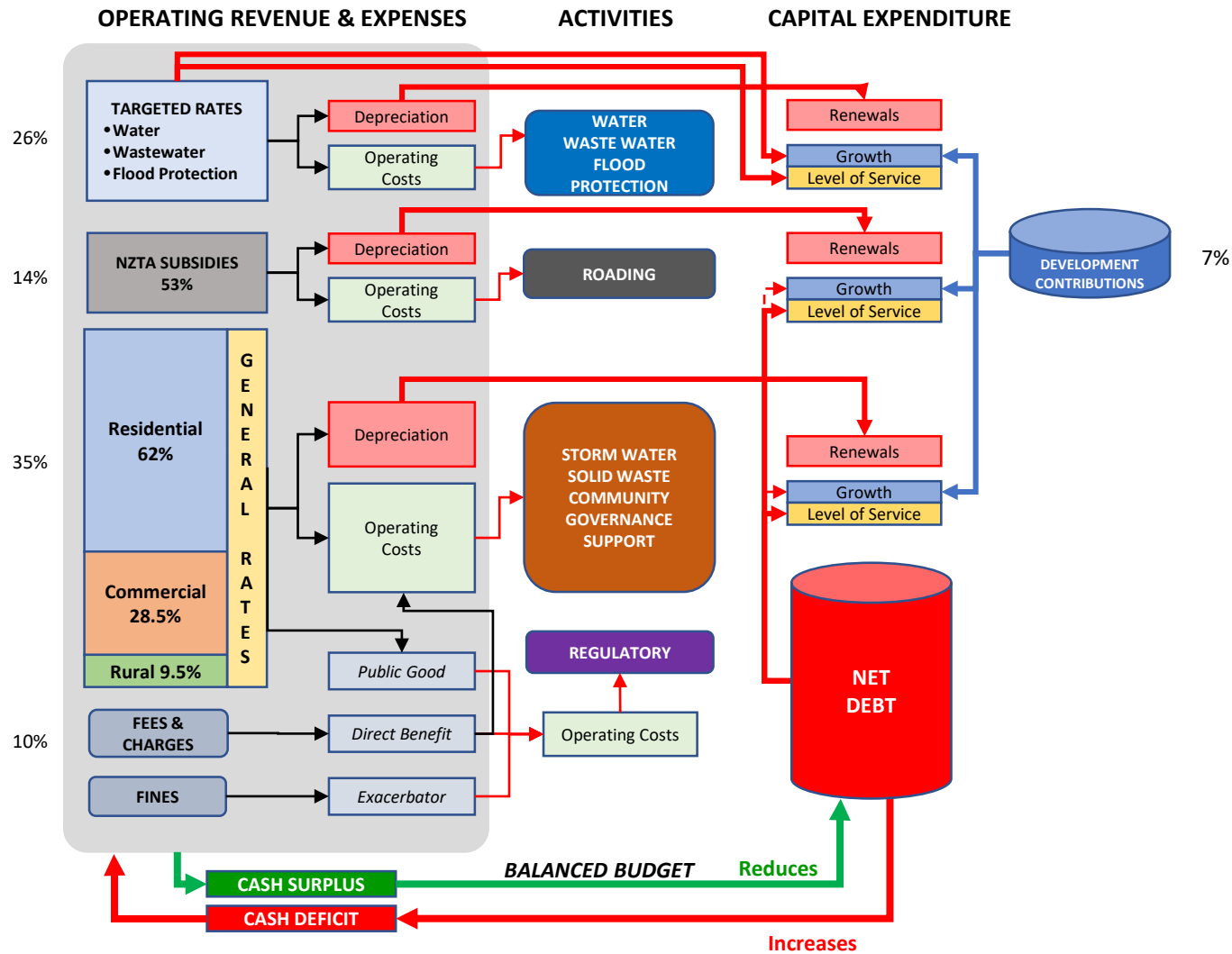
Cumulative forecast asset renewal expenditure to depreciation 2018-48



Depreciation is an indirect source of funding. Depreciation is a mechanism to spread the cost of an asset over its life. Depreciation makes up part of our operating expenses (on the income statement) and rates are set at a level that offsets the non-cash depreciation cost. We are in effect 'funding' the renewals of our asset base through depreciation.

# *Council's operational expenditure by activity*





# ***Revenue and Financing Policy***

- This policy becomes part of council's 'house rules' for determining who pays for what, when.
- The Revenue and Financing Policy sets out the policies that Council has on funding operating and capital needs.
- It is an important step in the process for rate-setting, determining levels of development contributions, and setting fees and charges.

# *Activity Funding Review*

- To satisfy section 101(3) of the LGA Council needs to review each individual activity and its funding in developing its R&F Policy.
- The policy is supported by analysis of the funding of each activity group and recognises that the funding policy is more than just a device for raising revenue but is also one of the instruments that can be used to promote community wellbeing.

<b>Transportation</b>	<b>Water</b>	<b>Wastewater</b>
<b>Solid Waste</b>	<b>Flood Protection</b>	<b>Stormwater</b>
<b>Community facilities &amp; services</b> Parks and rec Libraries Community property Community development Venues and events Customer services	<b>CURRENT ACTIVITY GROUPS</b>	<b>Support Services</b>
	<b>Governance &amp; Strategy</b> Democracy and assurance Strategy	<b>Planning &amp; regulatory</b> District planning Resource consents Building control Health and bylaws



# ***Activity Funding Review***

- When assessing the funding for each activity the following need to be considered:
  - **Community outcomes**
  - **User / beneficiary pays principle**
  - **Inter-generational principle**
  - **Exacerbator pays principle**
  - **Costs and benefits of funding the activity**
- Consideration then needs to be given to the overall impact of any allocation of liability for revenue needs on the community.

# Example – Animal Control

Activity	Planning and Regulatory Services - Animal Management		
Primary Community Outcome	Well managed growth		
Why do we do it	Providing our communities a safe and desirable place to live by controlling the impact of <u>animals</u> .		
Who benefits	Animal owners; Whole community, Visitors;		
Period of benefit (intergenerational equity)	Short term		
Whose actions or inactions contribute	Dog owners create need and legislation requires registration. Owners of dogs not registered should be penalised		
Assessment of Options	Animal owners create the need and should pay the costs. There is a benefit to the community by controlling animals and their negative impact. Improves safety by ensuring dangerous dogs are controlled. Where animals are <u>unregistered</u> they should be impounded, destroyed if not claimed and owners penalised where identified		
	Private Benefit %	80%	Public Benefit % 20%
Assessment of the effect on the four wellbeings	The registration fee should be set at a sustainable level to encourage compliance. Non-compliance should be charged at a rate which creates an incentive to comply		
Operational Expenditure	Type	%	Comments
	User Fees	90-100%	Total costs should be recovered as need is created by animal owners
	General Rates	0%-10%	To cover costs of enforcement where ownership cannot be established
	Fines	0%-5%	For non- compliance
Capital Expenditure	Depreciation	Major	Used to repay existing loans and fund renewal capital expenditure
	Reserves	Minor	Reserves used as a funding source if available.
	Loan Funding	Major	As required

Who/what pays for this?

- User Fees 55-75%
- Other 15-30%
- General rates 5-30%



# Example – Flood Protection

Activity	Flood Control - Hikurangi Swamp		
Primary Community Outcome	A growing resilient economy		
Why do we do it	Specific scheme which protects defined property from flood events and enables economic use of the land.		
Who benefits	Properties in defined area of benefit		
Period of benefit (intergenerational equity)	Short and long term		
Whose actions or inactions contribute	Resource consent conditions. Legislated rating structure		
Assessment of Options	Properties that benefit from the scheme pay the costs. Those that have the greatest benefit should pay the most.		
	Private Benefit %	100%	Public Benefit %
Assessment of the effect on the four wellbeings	The rating structure and categorisation of properties has been legislated and is not easily changed.		
Operational Expenditure	Type	%	Comments
	User Fees		
	General Rates		
	Targeted Rates	100%	Hikurangi Swamp scheme rate
Capital Expenditure	Depreciation	Major	Used to repay existing loans and fund renewal capital expenditure
	Development contributions	Minor	Payable to fund capex related to growth
	Reserves	Minor	Reserves used as a funding source if available.
	Vested Assets	Minor	Provision by developers for New Subdivisions
	Loan Funding	Major	Provision of new facilities

Who/what pays for this?

- Targeted rates 100%



# *Activity Funding Review*

- Some questions to ponder:
  - how will the mix of funding impact on affordability, e.g. on the elderly or those on low incomes?
  - will the policy impact on accessibility to some services?
  - can we charge the amount required, or is it restricted by legislation?
  - do we want to encourage or discourage a particular activity or behaviour?
  - what is the effect on a particular sector of our community, community groups or rating categories?
  - how will this impact based on current economic conditions?

# ***The purpose of a financial strategy***

Section 101A(2) of LGA 2002:

- a) Facilitate prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and
- b) Provide context for consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt and investments.

# ***Financial Strategy***

- The financial strategy for the LTP sets the financial parameters or ‘envelope’ within which the council will operate and fund its operations and capital programme for the next ten years.
- Its sets an overall direction for the financial management of council and sets out a desired end state for council’s finances.
- The strategy will need to strike a balance between priorities and needs and wants vs what we can fund and what we can deliver

# *Financial Strategy*

- A financial strategy presents the financial consequences of the vision. It provides:
  - an overall direction and desired end point for the financial status of council and
  - a synthesis of the financial implications, constraints, and consequences arising from Councils policy and service delivery decisions, and how those consequences will be managed.
- Taken together the financial strategy and the infrastructure strategy should provide a sense of costs, risks and trade-offs that underpin the development of the expenditure programmes in the LTP.

# *Two sides of the same coin...*

*Financial Strategy*  
*10 year*



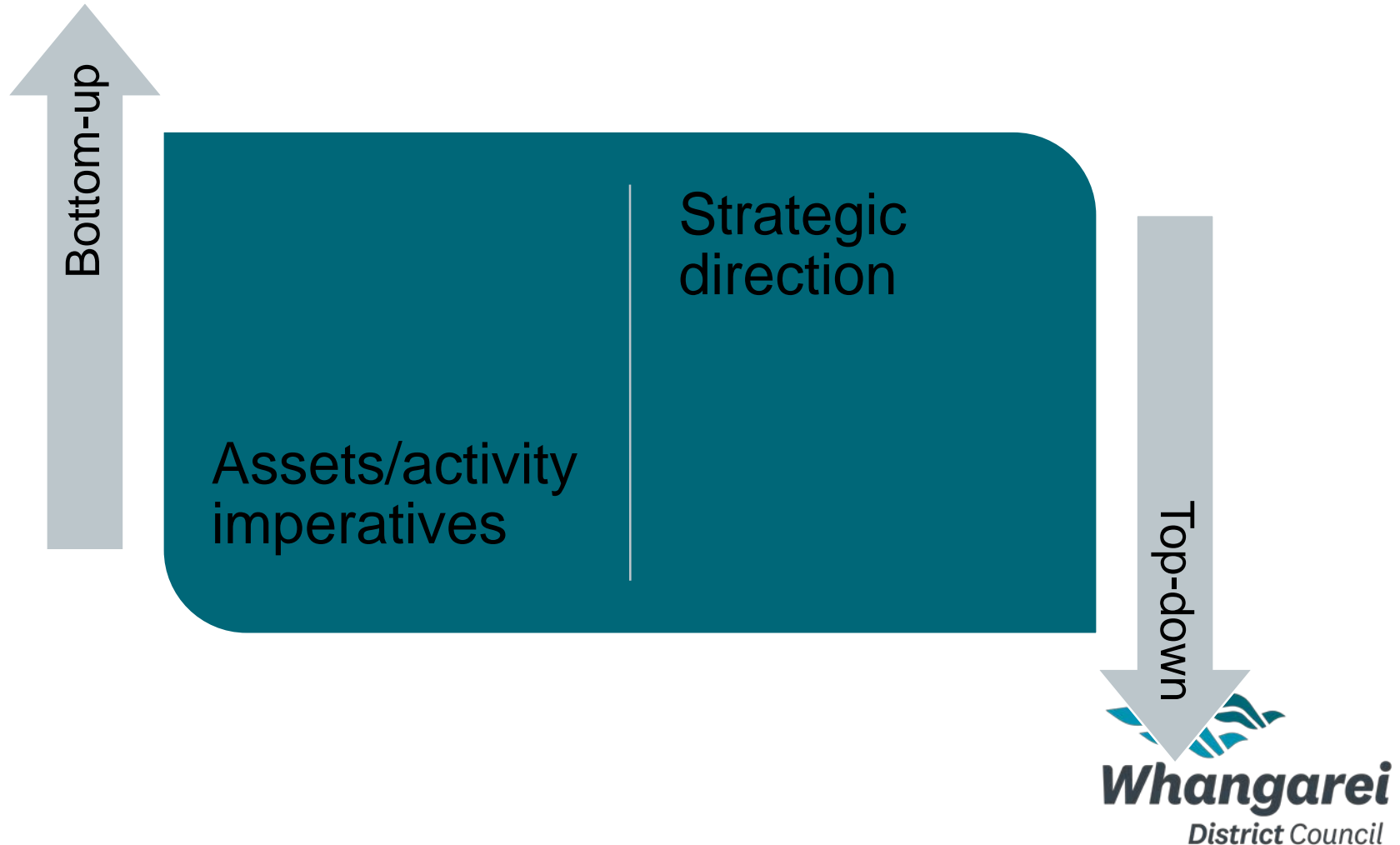
Requires information grounded  
in services needs and realities

*Infrastructure Strategy*  
*30 year*



Requires information grounded  
in financial realities

# *Financial Strategy Challenge*



# ***Financial Strategy - Mandatory Content***

The mandatory content of a financial strategy is deceptively short and simple. It includes the following:

- A. the significant factors that have influenced the strategy including
  - (i) the capital and operating costs of responding to changes in population and land use
  - (ii) capital expenditure necessary to maintain levels of service on the five groups of network infrastructure and
  - (iii) any other significant factor that affects your ability to maintain existing levels of service and to meet additional demands for services
- B. quantified limits on rates increases and borrowing and an explanation of what impact these may have on your local authority's ability to maintain current levels of service and meet additional demands for services
- C. any policies that your local authority has for giving security over its borrowing. If your local authority is a member of the Local Government Funding Agency you should check that your existing policies are not inconsistent with the requirements applying to members of that agency
- D. a statement that sets out your objectives for holding and managing financial investments and equity securities and its quantified targets for returns on those investments and equity securities.

# Existing parameters from 2018-28 LTP

## Increases to rates

In the 10 years of this Plan, Council intends to increase the revenue obtained from most rates beyond the level of inflation, as shown in the table

below. Overall, rates revenue will also increase as our District's population grows.

	Annual inflation	Additional increase	Allowance for growth
<b>General rates</b>			
UAGC portion	LGCI	2%	1%
Land value portion	LGCI	2%	1%
<b>Targeted rates</b>			
Wastewater	LGCI	2%	0.8%
Refuse management	LGCI	2%	1%
Water rates			0.6%
Flood protection 2018-22		8%	
Flood protection 2023-28	LGCI		

# Existing parameters from 2018-28 LTP

Description	Limit
Achieve a balanced budget (financial prudence) benchmark	100%+
Rates revenue (excluding water) as a percentage of total revenue	70%
Total debt as a percentage of revenue	175%
Debt per capita*	\$2,150 + LGCI*
Net interest costs as a percentage of rates revenue	25%
Provide sufficient funding through debt and operating surpluses to complete the planned capital expenditure programme without reliance on selling assets	

\* Effectively capped debt at approx. \$200m

# Balanced budget – section 100 LGA

## Prospective Statement of Comprehensive Revenue and Expenditure

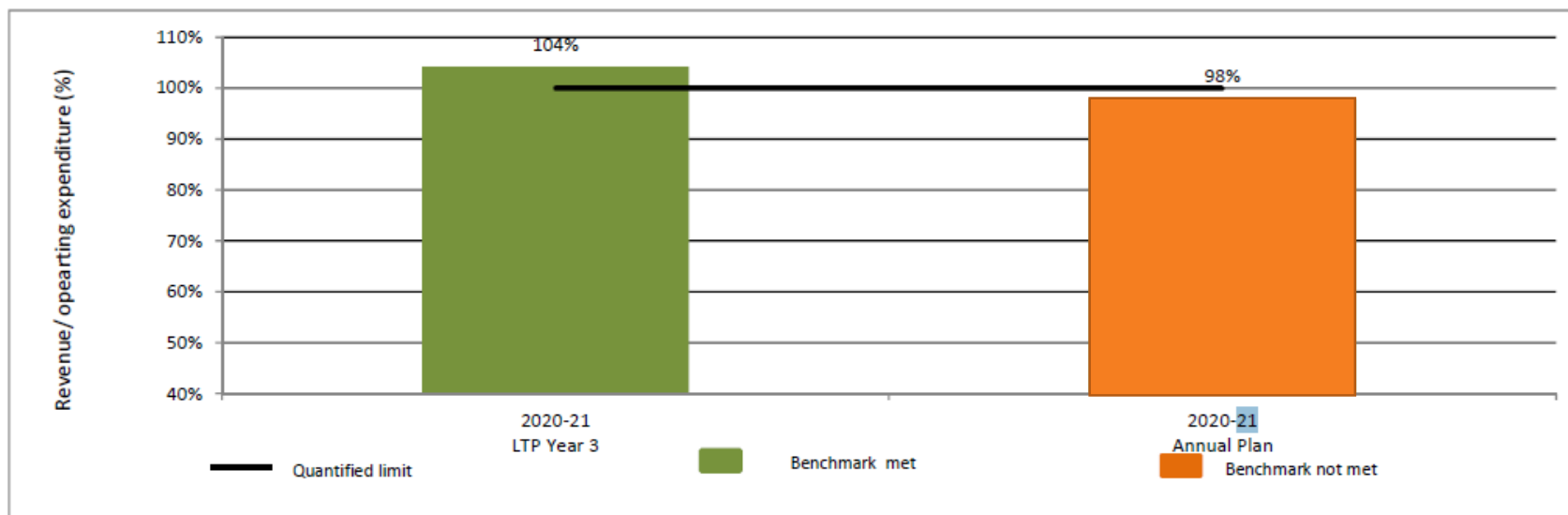
LTP Year 2 2019-20 \$000		Annual Plan 2020-21 \$000	LTP Year 3 2020-21 \$000	Variance \$000
<b>Revenue</b>				
101,592	Rates	103,784	106,072	(2,288)
4,794	Development and other contributions	2,990	4,952	(1,962)
25,539	Subsidies and grants	21,732	20,190	1,542
14,863	Fees and charges	12,953	15,635	(2,682)
46	Interest revenue	381	41	340
13,225	Other revenue	11,026	13,396	(2,370)
<b>160,059</b>	<b>Total revenue</b>	<b>152,866</b>	<b>160,286</b>	<b>(7,420)</b>
<b>Expenses</b>				
66,937	Other expenditure	66,132	64,748	(1,384)
40,274	Depreciation and amortisation	46,564	41,934	(4,630)
7,345	Finance costs	7,687	8,690	1,003
30,173	Personnel costs	29,435	30,838	1,403
<b>144,729</b>	<b>Total expenses</b>	<b>149,818</b>	<b>146,210</b>	<b>(3,608)</b>
<b>15,330</b>	<b>Surplus / (deficit) before taxation</b>	<b>3,048</b>	<b>14,076</b>	<b>(11,028)</b>
-	Taxation charge	-	-	-
<b>15,330</b>	<b>Surplus / (deficit) after taxation</b>	<b>3,048</b>	<b>14,076</b>	<b>(11,028)</b>
<b>Other comprehensive revenue and expenses</b>				
17,395	Gain / (loss) on infrastructure asset revaluation	17,959	17,959	-
-	Gain / (loss) on other asset revaluations	-	-	-
<b>32,725</b>	<b>Total comprehensive Income</b>	<b>21,007</b>	<b>32,035</b>	<b>(11,028)</b>

# Balanced budget – financial prudence benchmark

## Balanced budget benchmark

The following graph displays Council's planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant and equipment) as a proportion of planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant and equipment).

Council meets the balanced budget benchmark if its planned revenue equals or is greater than its planned operating expenses.



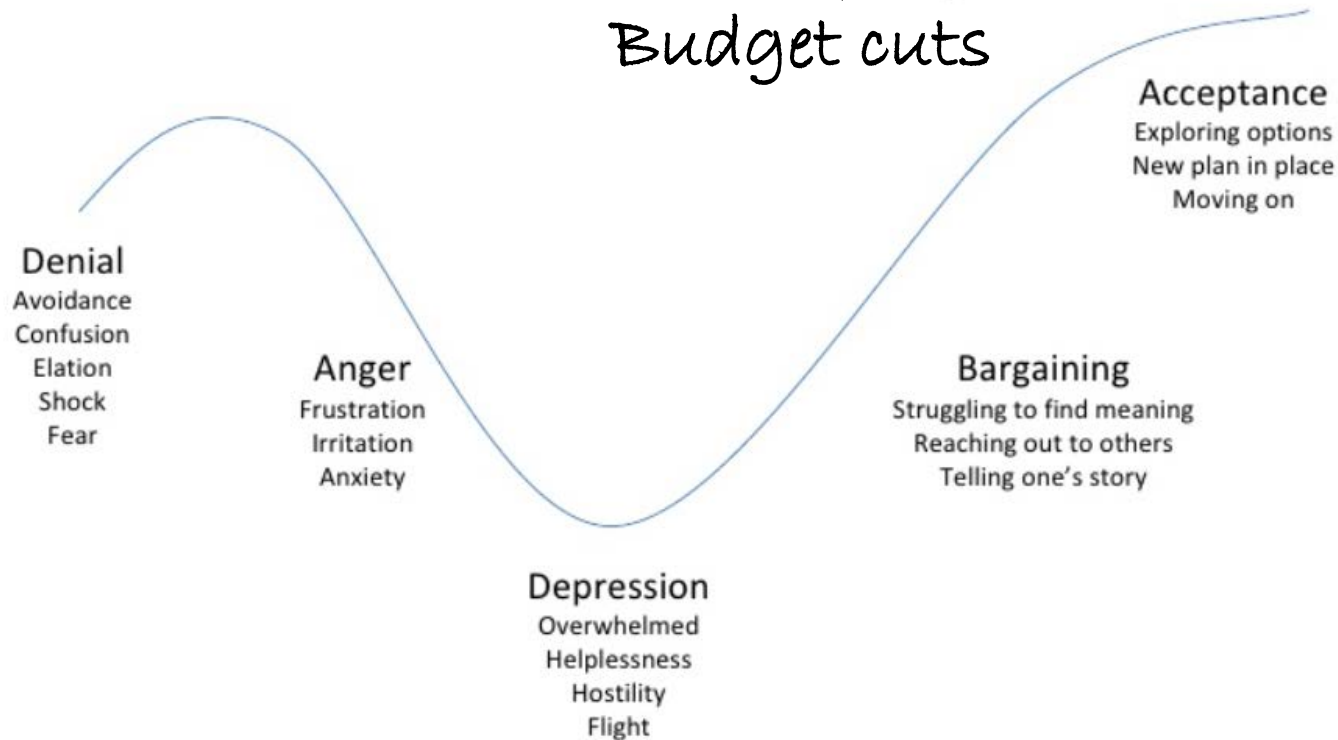
# *Strategic Drivers*



# 5 stages of budget cuts....

## Kübler-Ross ~~Grief~~ Cycle

Budget cuts



Information and  
Communication

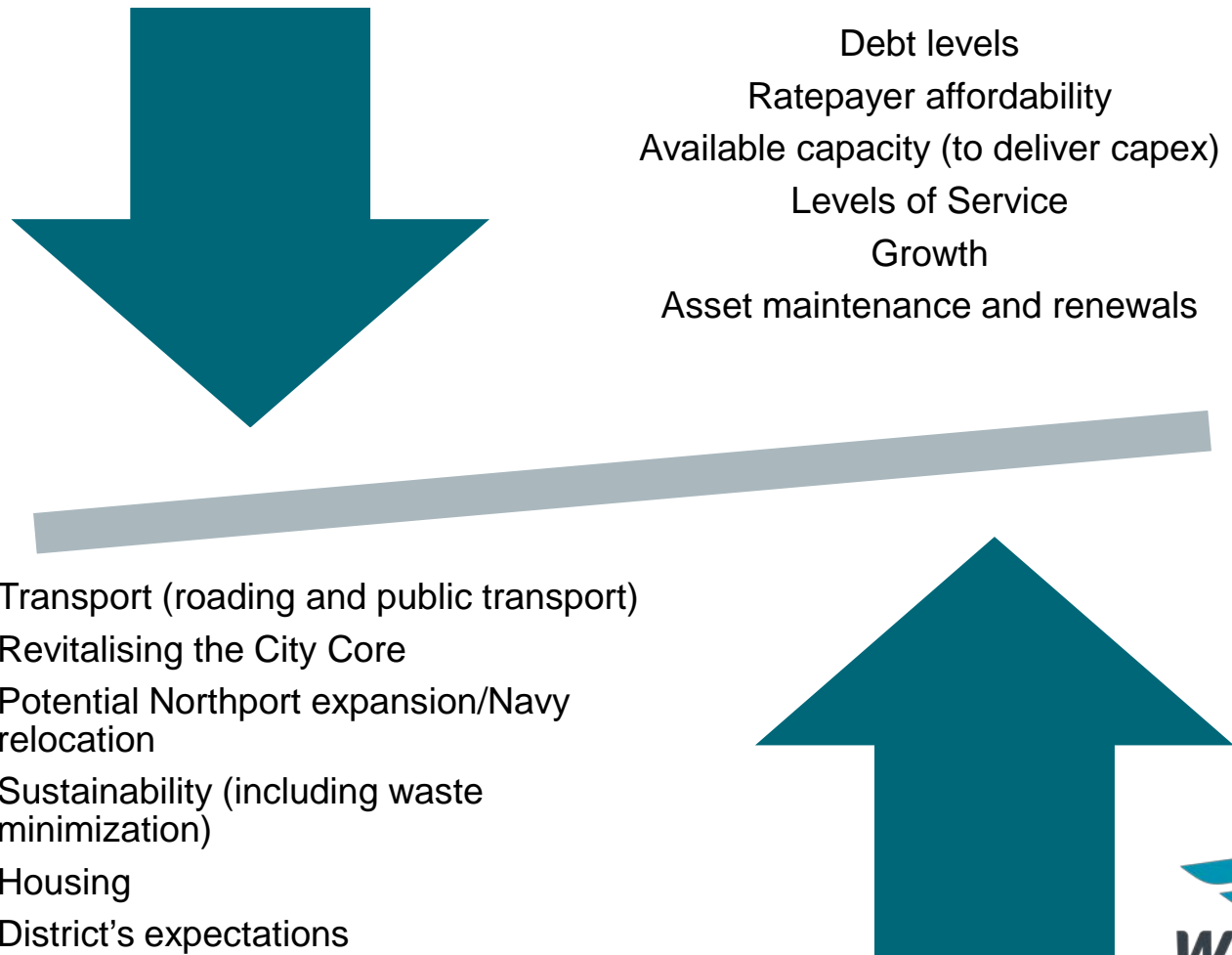
Emotional Support

Guidance and  
Direction

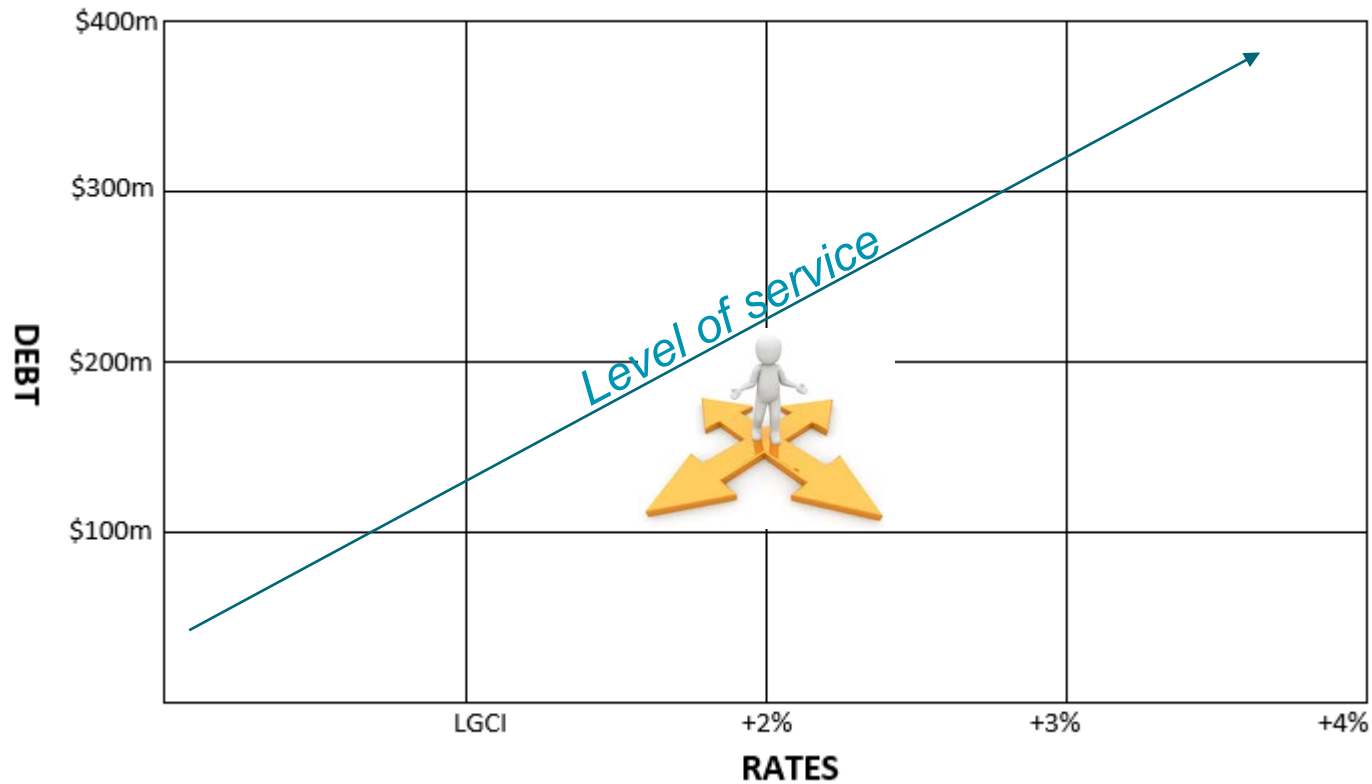


**Ngarewa**  
District Council

# *The balancing act*



# Where does WDC want to go?



# *Next steps*

- Activity Funding Review to feed into the development of Council's Revenue and Financing Policy
- Testing draft financial parameters for our Finance Strategy