

Part Four – Funding and Financial Policies

Funding and Financial Policies

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REVENUE AND FINANCING POLICY

The Revenue and Financing Policy must be prepared under Section 102 of the Local Government Act 2002. It must be included as part of a Long-Term Council Community Plan and Annual Plan and adopted in accordance with the special consultative procedures.

The Objective of the policy is to determine the appropriate funding sources to fund activities, and to provide certainty over the levels of funding. Funding sources for operating expenses and capital expenditure are to comply with applicable legislation and generally accepted accounting practice.

Definitions:

Capital Expenditure comprises works that upgrade and enhance a significant component of the asset, restoring it beyond its original design capacity or estimated life.

Exacerbator Pays Principle requires those individuals that contribute to the need for an activity to contribute to the funding of that activity as provided in s 101(3) (a) (iv) of the Local Government Act 2002.

Funding Needs means given a level of expenditure, the amount required to fund these items.

Funding Sources means the sources of revenue available to Council to fund operating expenses and capital expenditure. Typically funding sources would include the following: -

- General Rates
- Targeted Rates
- Grants and Subsidies
- Fees and Charges
- Interest and dividends from investments
- Borrowings
- Proceeds from Asset Sales
- Financial contributions under the Resource Management Act 1991
- Development Contributions

- Any other source

Intergenerational Equity means the principle that the costs of any expenditure should be recovered at the time that the benefits of the expenditure accrue.

Operating expenses comprises the day-to day planned and unplanned routine expenses.

Private good means where the benefits of a service accrue to an identifiable individual or group of individuals.

Public good means the spending that benefits the community in general and for which no individual beneficiaries can be clearly identified.

Renewal Expenditure comprises works that upgrade and enhance a significant component of the asset, restoring it to its original size, capacity and condition.

The Revenue and Financing Policy must state Council policy on funding both the operational and capital expenses of each activity of Council from the Funding Sources listed above, and show that Council has complied with section 101(3) of the Local Government Act 2002.

Section 101(3) requires that the funding needs of the local authority must be met from those sources that the local authority determines to be appropriate, following consideration of –

(a) *in relation to each activity funded –*

- *the community outcomes to which each activity primarily contributes*
- *the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals*
- *the period in or over which those benefits are expected to occur*
- *the extent to which actions or inactions of particular individuals or a group contribute to the need to undertake the activity*
- *the costs and benefits including consequences for transparency and accountability, of funding the activity distinctly from other activities the overall impact of any allocation of liability for revenue needs on the current and*

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future social, economic, environmental, and cultural well-being of the community

- (b) *the overall impact of any allocation of liability for revenue on the current and future social, economic, environmental and cultural well-being of the community.*

Funding of Operating Expenditure

All operating expenses will be fully funded each year in accordance with the adopted Annual Plan and Budget with the exception of depreciation on some assets that are not intended for replacement at the end of their useful life, and for 2006-07 when Council will use surplus funds of \$225,518 to reduce the rates requirement (refer page 244). Operating expenses will be funded from sources as listed as Attachment A.

Interest on sinking funds will not be used to fund operating expenditure.

Funding of Capital Expenditure

Capital expenditure will be funded from the sources as listed in Attachment B.

Assessment of Appropriate Funding Sources

When assessing the appropriate funding sources Council will consider the matters in section 101(3) of the Local Government Act 2002, as listed above.

The consideration and assessment of the funding needs for each activity is shown in Attachment C.

Council recognise that considerations (b), (c), (d) and (e) of s103(2) are primary drivers when considering the method of funding for an activity.

Impacts on Wellbeing

In undertaking an assessment of appropriate funding sources for each activity Council recognizes that the revenue and financing decisions are not made in isolation, and funding decisions can have an impact on the social, economic, environmental and cultural well being of the community.

When considering the present and future impacts of its decisions on the four well-beings the following types of questions will be addressed: -

- Is the policy likely to have an effect on participation of people in community activities?
- What are the changes in funding and can they be phased in over a longer period?
- What are the current economic conditions and those projected over the ten-year period?
- What incentives will the policy have for development in the district?
- How is the burden of funding distributed across different sectors of the community?
- Does the policy provide incentives for people to avoid environmentally unsustainable activities?
- What incentives are provided for preservation of natural heritage, and participation in sporting and cultural activities?

Community Outcomes to which the Activity Contributes

Council is to consider community outcomes in the funding process and to consider why it is engaging in particular activity. To the extent that it is practical and lawful, Council will fund these activities in a way that is consistent with and complimentary with those outcomes identified in Attachment C.

Distribution of Benefits within the Community

Consideration is to be given to who benefits from a particular activity while recognizing that there are no uniform answers to the level of public good produced by activities. Allocation for distribution of benefit within the community is shown in Attachment C.

Period of Benefit

Council will apply the intergenerational equity principle to ensure a spread of benefits across time. Council will not expect current ratepayers to fund the benefits future ratepayers will receive, and will therefore spread the cost across the current and future ratepayers. In most cases borrowing and rating future ratepayers to repay the loan will achieve this.

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Extent to which Individuals or Groups Contribute to the Need for an Activity

Council will consider the exacerbator pays principle where Council has determined it is appropriate to levy exacerbators with financial contributions. The allocation of the extent to which individuals contribute to the need for an activity is shown in Attachment C.

Costs and Benefits of Separate Funding

Activities are to be assessed in terms of whether there are low costs or low benefits or some other combination to separately funding an activity. The allocation of the extent to which individuals contribute to the need for an activity is shown in Attachment C.

Rationale for Selection of Funding mechanisms Applied

Council has identified the rationale for selection of the appropriate funding mechanism as required under Schedule 10 clause 2(2)(d) of the Local Government Act 2002. This requires a statement of the estimated revenue levels, the other sources of funds, and the rationale for their selection in terms of section 101(3), refer page 197.

User fees are set to fund those services that Council determines have a benefit to an individual person or where individuals create the need for the service. Fees are set at a level that Council considers appropriate for the particular service after considering the cost and benefit of separate funding.

Fees may be set to cover a proportion of the cost of the service or at a level that Council considers is in line with market rates for similar services. The table on page 197 show the factors and conclusions reached in relation to the distribution of benefits and the efficiency of having a user fee.

Targeted rates are used when Council can identify a specific group of properties within the district that benefit from a specific service.

General rates are used where the benefits from a service are available for the whole community.

Subsidy: Subsidy will be used where it is available. Council uses subsidy to the extent available to undertake its required work programme it does not set its

work programme according to the maximum subsidy available as this will impact on the rates required.

Funding capital:

Council sets its revenue from rates to cover the ongoing cost of delivering the services provided for the community. In doing so a charge for depreciation is included in the financial statements. Except where council has determined that it will not replace the asset depreciation, although not a cash cost, is included in the calculation of rates requirement. Those funds are then used to fund renewal of asset in that year or transferred into a reserve. That reserve is subsequently used to fund the renewal of those assets. Loans may be used to build new assets or they may be used as a smoothing mechanism to even out “lumpy” asset replacement requirements. In some cases rates are set at a level to fund some capital work. Where this has been done it is to smooth the effects of the future funding requirements to reduce the costs of loan servicing to the community.

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ATTACHMENT B CAPITAL EXPENDITURE

	GENERAL RATES	UAGC	TARGETED RATES	FEES & CHARGES	INTEREST DIVIDEND	BORROWING	GRANTS SUBSIDIES	ASSET SALES	DEPRECIATION RESERVES	DISTRICT DEVELOPMENT FUND	OTHER RESERVES
COMMUNITY REPRESENTATION											
MAORI LIAISON											
ECONOMIC DEVELOPMENT											
COMMUNITY SUPPORT											
LIBRARY									√	√	
COMMUNITY HALLS											
PARKS & RESERVES			√							√	√
CEMETERIES						√				√	
PENSIONER HOUSING									√		
BUILDING INSPECTION								√	√		
DISTRICT PLANNING								√	√		
ENVIRONMENTAL HEALTH								√	√		
LIQUOR LICENSING								√	√		
EMERGENCY MANAGEMENT								√	√	√	
DOG CONTROL								√	√		
LIVESTOCK CONTROL								√			√
BYLAW ENFORCEMENT											
AIRPORT									√	√	
ROADING SUBSIDISED			√				√		√	√	
ROADING NON SUB.									√		
PARKING											
STORMWATER & DRAINAGE						√					
WATER RETICULATION						√			√		√
WATER PRODUCTION									√		
WASTE MANAGEMENT						√	√		√		
SEWERAGE						√	√		√		
CORPORATE PROPERTY									√	√	
STAFF HOUSING										√	
COMMERCIAL PROPERTY											√
FORESTRY											
SAFER COMMUNITIES										√	
SUPPORT SERVICES								√		√	

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ATTACHMENT C S101(3) CONSIDERATIONS

	COMMUNITY OUTCOME	EXTENT INDIVIDUALS CONTRIBUTE TO NEED FOR ACTIVITY	DISTRIBUTION OF BENEFITS	PERIOD OF BENEFIT	COST & BENEFIT OF OF SEPARATE FUNDING
	ECONOMIC EC	LOW L	WHOLE COMMUNITY W	SHORT TERM S	LOW COST / LOW BENEFIT
	ENVIRONMENTAL EN	MEDIUM M	PART OF COMMUNITY P	MEDIUM TERM M	LOW COST / HIGH BENEFIT
	SOCIAL / CULTURAL SC	HIGH H	INDIVIDUALS I	ONGOING O	HIGH COST / LOW BENEFIT
	STRATEGIC ENABLER SE				HIGH COST / HIGH BENEFIT
COMMUNITY REPRESENTATION	SE	L	W	O	HL
MAORI LIAISON	SC	H	W	O	LH
ECONOMIC DEVELOPMENT	EC	M	W,I	O	LH
COMMUNITY SUPPORT	SC	H	W,I	O	HL
LIBRARY	SC	H	W,I	O	LH
COMMUNITY HALLS	SC	M	W,I	O	LH
PARKS & RESERVES	SC	H	W,I	O	HL
CEMETERIES	SC	H	W,I	O	LH
PENSIONER HOUSING	SC	H	I	O	HL
BUILDING CONTROL	SE	L	W	O	LH
RESOURCE PLANNING	SE	H	W,I	O	HL
ENVIRONMENTAL HEALTH	EN	M	W,I	O	HL
LIQUOR CONTROL	EN	H	W,I	O	LH
EMERGENCY MANAGEMENT	EN	H	W	O	HL
DOG CONTROL	EN	H	W,I	O	LH
LIVESTOCK CONTROL	EN	H	W,I	O	LH
BYLAW ENFORCEMENT	EN	H	W,I	O	LH
AIRPORT	EN	H	W,I	O	LH
ROADING LTNZ SUBSIDISED	EC	H	W,I	O	HL
ROADING DISTRICT FUNDED	EC	H	W,I	O	HL
PARKING	EC	H	W,I	O	LH
STORMWATER & DRAINAGE	EN	L	W,I	O	HL
WATER RETICULATION	EN	H	W,I	O	LH
WATER PRODUCTION	EN	H	W,I	O	LH
WASTE MANAGEMENT	EN	H	W,I	O	LH
SEWERAGE	EN	H	W,I	O	LH
CORPORATE PROPERTY	SE	L	W	O	LH
PROPERTY MANAGEMENT	SE	L	I	O	LH
INVESTMENT PROPERTIES	EC	M	W	S	LH
FORESTRY	EC	L	W	M	LH

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POLICY ON FINANCIAL CONTRIBUTIONS

This development Contributions Policy has been prepared as an interim policy.

The Council is to consider the extent of its use of the Development Contributions under the Local Government Act 2002 during the period up to 31 December 2006. The Council does not currently take contributions and has previously adopted a cautious stance on these matters due to their perceived inhibiting effect upon much needed district development.

Under s 106 of the Local Government Act 2002, Councils have wide powers to raise revenues from property developers, which are termed as financial contributions. Amounts collected are to be used for community purposes and are intended to fund capital developments. Council must follow the special consultative process to include the community in the decision-making process.

The Council is required to identify projects from which capital contributions may be collected. To date the Council has not carried out this project identification work but is planning to do so.

The Council recognises that Development Contributions must be fair and reasonable, and derived as part of a consistent, integrated and equitable approach to planning for the district.

The Wairoa District Council has committed itself to delivering an integrated approach to achieve long-term sustainable management of resources on behalf of the community. This approach requires sound information and rigour in the description of the contributions methodology and framework. Until all these elements are in place it is not Council's intention to collect Development Contributions under the Local Government Act 2002.

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POLICY ON PARTNERSHIPS WITH THE PRIVATE SECTOR

7.1 Introduction

The Wairoa District Council may develop partnerships with the private sector, where the benefits outweigh the costs of entering into a partnership.

This policy outlines the circumstances in which Council will consider entering into public-private sector partnerships (PPPs), when consultation would be undertaken prior to such a partnership, what conditions might be imposed on such partnerships, their risk management, and reporting on the funding and outcomes of any such partnerships.

7.2 Statutory Provisions

Section 107 : Policy on partnerships with private sector

- (1) A policy adopted under section 102(4)(e) –
- (a) must state the local authority's policies in respect of the commitment of local authority resources to partnerships between the local authority and the private sector; and
 - (b) must include---
 - (i) the circumstances (if any) in which the local authority will provide funding or other resources to any form of partnership with the private sector, whether by way of grant, loan, or investment, or by way of acting as a guarantor for any such partnership; and
 - (ii) what consultation the local authority will undertake in respect of any proposal to provide funding or other resources to any form of partnership with the private sector; and
 - (iii) what conditions, if any, the local authority will impose before providing funding or other resources to any form of partnership with the private sector; and

- (iv) an outline of how risks associated with any such provision of funding or other resources are assessed and managed; and
- (v) an outline of the procedures by which any such provision of funding or other resources will be monitored and reported on to the local authority; and
- (vi) an outline of how the local authority will assess, monitor, and report on the extent to which community outcomes are furthered by any provision of funding or other resources or a partnership with the private sector.

(2) In this section, partnership with the private sector means any arrangement or agreement that is entered into between 1 or more local authorities and 1 or more persons engaged in business; but does not include-

- (a) any such arrangement or agreement to which the only parties are-
 - (i) local authorities; or
 - (ii) 1 or more local authorities and 1 or more council organisations; or
- (b) a contract for the supply of any goods or services to, or on behalf of, a local authority.

7.3 Definition

A Public-Private Sector Partnership (PPP) includes any agreement or arrangement that is entered into between one or more councils and one or more persons engaged in business but does not include:

- A contract for the supply of goods or services to or on behalf of a council; or
- Arrangements where the only parties are local authorities, or local authority and local authority controlled organisations.

A partnership as defined in the LGA 2002 is any arrangement involving grants, loans, investments, commitments of resources or guarantees given to 1 or more persons engaged in business by 1 or more local authorities. The nature of the entity's activities, rather than its legal form, is the relevant consideration, and can include charitable trusts.

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Partnerships should have an identified shared interest, clear roles and responsibilities for both parties, and aim to build long-term relationships based on respect and trust. This policy on PPPs sets out the processes that Council will adopt with respect to engaging in any PPPs. Once adopted, this Policy may only be amended as an amendment to Councils Long Term Council Community Plan (section 102, LGA 2002).

7.4 Circumstances

Wairoa District Council may consider entering into a partnership with a private sector partner, where an activity has been identified in Council's Strategic Plan, Long-Term Council Community Plan (LTCCP) or Annual Plan (henceforth referred to generically in this section as LTCCP) as a community priority or desirable community outcome.

The circumstances where a PPP may be entered into shall be limited to one or more of the following:

- Where Council may be unwilling or unable to bear all of the risk (usually, though not always defined in terms of financial risks) of a particular project itself
- Where Council may believe a particular project is of significant community benefit, but Council may have legal restrictions on its power to participate fully in that project
- Where neither Council nor a private provider would otherwise provide the services or activity without the partnership
- Where there are identifiable advantages in the project or activity being undertaken as a public private sector partnership rather than by either of the parties separately
- Where the benefits to the community are greater than the costs of the PPP.

7.5 Conditions

Council will enter into a partnership only where it expects that the partnership will help achieve the community outcomes or objectives in the LTCCP, but nothing in this policy commits Council to entering into such a partnership even if it will help achieve community outcomes or objectives.

Before entering into a PPP, Council must be satisfied that:

- The partnership will help achieve the community outcomes or objectives identified in the Strategic Plan or LTCCP.
- The benefit from the partnership is greater than the costs and risks.
- Council is satisfied that the partner has demonstrated an ability to meet the terms of any agreement between Council and the private partner.
- The Council or the Partner has obtained all necessary consents, licenses, or other approvals prior to any financial commitment.
- The partnership and its proposed business are lawful.
- A clear exit/termination strategy is agreed.
- Roles, responsibilities and liabilities of each partner are clearly defined. Council will not enter into a Public Private Partnership where:
- The activity is primarily speculative in nature
- Insurance cover cannot be obtained that is considered appropriate to meet foreseeable risks
- The cost or risk of the PPP is judged to be greater to the community than the benefits that would accrue from the PPP

Where appropriate, Council reserves the right to apply competitive tendering processes, in accordance with Council policy. Other conditions may be imposed as considered appropriate by Council.

7.6 Types of PPP Involvement

Council will consider the following types of involvement with a PPP:

Grants, where the assessed benefit to the community justifies, where the PPP is accorded priority by Council, and funds are available for the activity.

Loans, where the benefit to the community is significant, but it is assessed that income or other funding can in time be accessed, and / or there will also be significant benefits to the private partner and/or it is otherwise unsuitable to provide other funding.

Cost sharing arrangements, where funds are provided by the private sector.

Investments, where there are deemed to be significant public benefits, and the community has been consulted, either during an LTCCP or Annual Plan consultation or separately using the special consultative procedure. This would include situations where direct equity arrangements are in place where the Council undertakes a project in a joint venture with the private sector.

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Acting as a guarantor for assets being constructed on Council owned land

Acting as a guarantor in extraordinary circumstances may be considered by Council where there are appropriate safeguards in place to ensure budgets are not exceeded and where limitations are specified as to the total amount Council is guarantor for.

7.7 Consultation

Council will undertake consultation on any revision of this “Policy on Public-private sector partnerships” as part of a Long-Term Council Community Plan.

Where Council decides to undertake a PPP in accordance with the policy, further consultation will not be required to be undertaken except in specific circumstances (below).

Council will consult on individual PPPs where:

- A PPP is assessed as being greatly beneficial, but falls outside the conditions or circumstances identified in the policy
- An investment is proposed
- It is proposed to act as guarantor in extraordinary circumstances
- The partnership would result in significant positive or negative changes in service levels, as defined in Council’s Significance Policy
- The proposal would have a material impact on Council’s projected budgets, performance measures, outcomes or other objectives
- Ownership or control of a significant asset (as defined in Council’s Significance Policy), is to be transferred to or from Council
- There is expected to be considerable public interest in whether or not the PPP should proceed and/or it meets the test of significance as set out in Council’s Significance Policy.

Where practicable, consultation on PPPs under the above criteria will take place under the Annual Plan or Long Term Council Community Plan process. Alternatively, a separate special consultative procedure may be undertaken. PPPs that are unusual, controversial or of considerable public interest would be expected to be consulted separately. Otherwise, the PPP should be developed within the parameters of the existing policy.

7.8 Formation of a PPP

Formation of a public private partnership that meets the conditions of this policy will be by ordinary council resolution, unless authority to form a partnership is delegated to a committee, subcommittee, or the Principal Administrative Officer, in which case the partnership must also meet the conditions of this policy. Formation of a partnership that does not meet the conditions of this policy will be by ordinary council resolution only after appropriate and required consultation, and due consideration of any issues raised by that consultation.

7.9 Risk Management Framework

When considering a public private partnership, the potential risks to Council will be outlined and where the risks are considered significant, in terms of probability and potential effect, Council will assess the level of the risks against their benefits and management strategies.

Risk will be assessed by calculating the probability of an adverse outcome multiplied by the cost/impact of that adverse outcome, while taking into account mitigating strategies and associated costs. Risks which may be considered are:

- Design and construction risk
- Commissioning and operating risk
- Service and under-performance risk
- Maintenance risk
- Risk of change to the legal or regulatory environment
- Risk of legal challenge
- Technology obsolescence risk
- Planning risk
- Price risk
- Taxation risk
- Residual value risk
- Demand or valuation risk
- Occupation safety and health risk
- The relative investment of the private sector partner
- The level of experience / track record of the partner, particularly in that activity
- Risk to the reputation of Wairoa District Council and the District generally
- Insurance coverage and limitations
- Risk to the capacity of the council to carry out its activities, now and in the future
- Risk to property

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- Protection of any intellectual property and
- Any other risks identified.

Where risks exist and a partnership is to be agreed, a risk management strategy will be put in place to appropriately minimise or provide cover for that risk to the satisfaction of Council. Risk management in any or all of the above areas may be specified as being the responsibility of Council or the partner.

7.10 Monitoring and Reporting

A private sector partner will be expected to report using GAAP (generally accepted accounting principles) appropriate to their type of financial entity, and to allow auditing of financial and non-financial records as and when reasonably requested by Council or a representative appointed by Council.

Monitoring and reporting requirements will vary, depending on the level of resources Council is expending/investing/protecting, and the nature of the partnership.

The following points may be considered:

- Proposals for PPPs should state how they might contribute to outcomes or objectives in the LTCCP
- Measurable and auditable performance standards should be included where appropriate in partnership documents
- Progress on agreed outcomes and objectives should be reported on to Council on a six-monthly basis
- Quarterly or annual financial reports may be required
- Transparency in the conduct and reporting of PPP activities should be emphasised, acknowledging the need to protect commercial confidentiality where appropriate
- The performance of PPPs will be reported on in Council's Annual Report.

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POLICY ON RATES REMISSIONS

INTRODUCTION

In order to allow rate relief where it is considered fair and reasonable to do so, Council is required to adopt policies specifying the circumstances under which rates will be considered for remission. There are various types of remission, and the circumstances under which a remission will be considered for each type may be different. The conditions and criteria relating to each type of remission are therefore set out separately in the following pages, together with the objectives of the policy. This policy is prepared under section 109 of the Local Government Act 2002 for consultation using the special consultative procedure laid down in section 83 of the same Act.

PART 1 – REMISSION FOR COMMUNITY, SPORTING AND OTHER ORGANISATIONS

Objectives of the Policy

- To facilitate the ongoing provision of non-commercial community services that meet the needs of the residents of the district.
- To facilitate the ongoing provision of non-commercial recreational opportunities for the residents of the district.
- To assist the organisations' survival; and
- To make membership of the organisations more accessible to the general public, particularly disadvantaged groups. These include children, youth, young families, aged people, and economically disadvantaged people.

Conditions and Criteria

- Council may remit rates where the application meets the following criteria:
- The policy will apply to land owned by Council or owned and occupied by a charitable organisation, which is used exclusively or principally for sporting, recreation, or community purposes.
- The policy does not apply to organisations operated for private pecuniary profit.
- The policy will also not apply to groups or organisations whose primary

purpose is to address the needs of adult members (over 18 years) for entertainment or social interaction, or who engage in recreational, sporting, or community services as a secondary purpose only.

- Applications for remission must be made in writing to Council prior to the commencement of the rating year. Applications received during a rating year will be applicable from the commencement of the following rating year. Applications will not be backdated.
- Organisations making application should include the following documents in support of their application:
 - statement of objectives
 - financial accounts
 - information on activities and programmes
 - details of membership or clients.
- Any remission granted in relation to the general rate under this policy will not exceed 50% of the amount charged, unless exceptional circumstances exist.
- Council may of its own volition investigate and grant remission of rates on any land in the district.

Council has instituted a new policy for remission of targeted rates for water and sewerage rates for sports and recreational organizations. The policy was adopted by the Council for inclusion in the draft LTCCP for consultation with the public, and reflects the changes required by the Local Government Act 2002, and the Local Government (Rating) Act 2002.

The Council policy is as set out below: -

1. Council is applying the requirements of the Local Authority (Rating) Act 2003, and specifically s 9 which states that all properties are liable for targeted rates on water supply, sewerage disposal, and waste collection.
2. All Sporting and Recreational bodies will be eligible for a grant equivalent to the **lesser of** 50% of the cost of water and sewerage service charges or two toilet pan and two water charges per property.
3. Those clubs that own their own property will still be entitled to a 50% rebate on uniform charges and will be provided with a grant equivalent to the recreational rate applicable on their properties.

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Delegations

- Council may delegate the authority to make such approvals to particular Council officers as specified by a resolution of Council.

PART 2 – REMISSION OF PENALTIES ADDED TO UNPAID RATES

Objective of the Policy

To enable Council to act fairly and reasonably in its consideration of penalties on rates which have not been paid by the due date.

Conditions and Criteria

- Upon receipt of an application from the ratepayer, or if identified by Council, Council will remit a penalty where it is demonstrated that the penalty has been levied because of an error by Council. This will include timing differences resulting from payment by direct debit payment option, which may result in a penalty being incurred.
- Upon receipt of an application from the ratepayer, or if identified by Council, Council may remit a penalty where it considers that it is fair and equitable to do so. Matters that will be taken into consideration by Council include the following:
 - the ratepayer's payment history
 - the impact on the ratepayer of extraordinary events
 - the payment of the full amount of rates due
 - the ratepayer entering into an agreement with Council for the payment of rates.
- Council reserves the right to impose conditions on the remission of penalties.

Delegations

Decisions on the remission of penalties may be delegated to Council officers or a Committee of Council. All delegations will be recorded in Council's delegation manual.

PART 3 – REMISSION OF UNIFORM ANNUAL GENERAL CHARGES AND TARGETED RATES IN CERTAIN CIRCUMSTANCES

Objective of the Policy

Section 20 of the Local Government (Rating) Act 2002 provides for two or more rating units to be treated as one unit for setting a rate if the units are:

- in the same ownership, and
- used jointly as a single unit, and
- contiguous or separated only by a road etc.

This policy provides for the possibility of rates remission where the above three conditions are not all met, but where it is nevertheless considered inequitable for the rating units to be treated as separate.

In addition it provides for remission of uniform annual general charges and/or targeted rates for water and wastewater in cases where a rating unit is liable for multiple charges, but it is considered inequitable or excessive to assess full charges.

Conditions and Criteria

- The units may be in separate ownership, but if they are contiguous and are used jointly as a single unit, they will be treated as a single unit.
- Contiguous rating units in the same ownership will be treated as a single unit where any of the following circumstances exist:
 - One unit is used as a private residence, and the contiguous unit(s) is used solely as a garden or similar private part of the grounds only in connection with the residence.
 - One unit is used solely for vehicle parking in conjunction with a building on a contiguous rating unit in the same ownership.
- A rating unit used for residential purposes and which includes a separately inhabited part, may apply to be treated as having only one separately used or inhabited part if the second part is occupied by a dependent member of the family of the owner
- Owners wishing to claim a remission under this policy are required to make a written application and to supply such evidence as may be requested to verify that a remission should be granted under this policy.

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While a remission may be granted for the current year, no consideration will be given to applications relating to prior years.

Delegations

Council will delegate authority to consider and approve applications to Council officers.

PART 4 – REMISSION OF UNIFORM ANNUAL GENERAL CHARGES AND TARGETED RATES IN CERTAIN CIRCUMSTANCES FOR RURAL LAND

Objective of the Policy

To provide for relief from uniform charges for rural land which is non-contiguous, farmed as a single entity and owned by the same ratepayer.

Conditions and Criteria

Rating units that meet the criteria under this policy may qualify for a remission of annual general charges and any targeted rate set on the basis of a fixed dollar per rating unit.

The ratepayer will be liable for one set of each charge.

The rating units must be owned by the same ratepayer.

The rating units must each be classified as “rural” for differential purposes.

Only one of the units may have any residential dwelling situated on the rating unit.

PART 5 – REMISSION ON LAND PROTECTED FOR NATURAL, HISTORIC OR CULTURAL CONSERVATION PURPOSES

Objective of the Policy

- To protect and promote significant natural areas, culturally significant sites, historic buildings, structures and places, and archaeological sites
- This policy will support the provisions of the District Plan where a number of these features have been identified.

Conditions and Criteria

- Ratepayers who own rating units which include significant natural areas; culturally significant sites, historic buildings, structures and places, and archaeological sites, including those identified in the District Plan, and who have voluntarily protected these features, may qualify for remission of rates under this part of the policy
- Land that is non-rateable under section 8 of the Local Government (Rating) Act and is liable only for rates for water supply, wastewater disposal or refuse collection will not qualify for remission under this part of the policy
- Applications must be made in writing. Applications should be supported by documentary evidence of the protected status of the rating unit e.g. a copy of the Covenant or other legal mechanism
- In considering any application for remission of rates under this part of the policy Council will consider the following criteria:
 - the extent to which the protection and promotion of significant natural areas, culturally significant sites, historic buildings, structures and places, and archaeological sites will be promoted by granting remission of rates on the rating unit
 - the degree to which the significant natural areas, culturally significant sites, historic buildings, structures and places, and archaeological sites are present on the land
 - the degree to which the significant natural areas, culturally significant sites, historic buildings, structures and places, and archaeological sites inhibit the economic utilisation of the land.
- In granting remissions under this part of the policy Council may specify certain conditions before remission will be granted. Applicants will be required to agree in writing to these conditions and to pay any remitted rates if the conditions are violated.
- Council will decide what amount of rates will be remitted on a case-by-case basis subject to a maximum amount of 50 percent of rates owing per year.

Delegations

Applications for the remission for protection of heritage will be considered by a Committee of Council, acting under delegated authority from Council.

Part Four – Funding and Financial Policies

POLICY FOR REMISSION AND POSTPONEMENT OF RATES ON MAORI FREEHOLD LAND

INTRODUCTION

Maori freehold land is defined in the Local Government (Rating) Act 2002 as land whose beneficial ownership has been determined by a freehold order issued by the Maori Land Court. Only land that is the subject of such an order may qualify for remission or postponement under this policy. Whether rates are remitted or postponed in any individual case will depend on the individual circumstances of each application. In general a remission of rates will be considered, unless there is a reasonable likelihood that the subject land will be used or developed in the immediate future. This policy has been formulated for the purposes of:

- ensuring the fair and equitable collection of rates from all sectors of the community by recognising that certain Maori owned lands have particular conditions features, ownership structures, or other circumstances that make it appropriate to provide relief from rates
- meeting the requirements of Sections 102 and 108 and the matters in Schedule 11 of the Local Government Act 2002 to have a policy on the remission and postponement of rates on Maori freehold land.

OBJECTIVES

The objectives of this policy are:

- to recognise situations where there is no occupier or person gaining an economic or financial benefit from the land
- to set aside land that is better set aside for non-use because of its natural features (whenua rahui)
- to recognise matters related to the physical accessibility of the land
- to recognise and take account of the presence of waahi tapu that may affect the use of the land for other purposes
- where part only of a block is occupied, to grant remission for the portion of land not occupied

- to facilitate development or use of the land where Council considers rates based on the rateable value make the use of the land uneconomic.

CONDITIONS AND CRITERIA

- Application for this remission or postponement should be made prior to commencement of the rating year. Applications made after the commencement of the rating year may be accepted at the discretion of Council.
- Owners or trustees making application should include the following information in their applications:
 - details of the rating unit or units involved
 - the objectives that will be achieved by providing a remission
 - documentation that shows the land which is the subject of the application is Maori freehold land.
- Council may of its own volition investigate and grant remission or postponement of rates on any Maori freehold land in the district.
- Relief, and the extent thereof, is at the sole discretion of Council and may be cancelled or reduced at any time.
- Council may give a remission or postponement of up to 100% of all rates, except targeted rates set for water supply or wastewater disposal, based on the following criteria:
 - the land is unoccupied and no income is derived from the use or occupation of that land, or
 - the land is better set aside for non-use (whenua rahui) because of its natural features, or is unoccupied, and no income is derived from the use or occupation of that land,
 - the land is inaccessible and is unoccupied,
 - only a portion of the land is occupied.
 - the property carries a best potential use value that is significantly in excess of the economic value arising from its actual use.
 - the property is not used for residential purposes, and its value is significantly less than the value assessed by Valuation New Zealand

Delegations

Council will delegate authority to consider and approve applications to Council

Part Four – Funding and Financial Policies

officers.

EARLY PAYMENT DISCOUNT

Objective of the Policy

To encourage ratepayers to pay their rates early and in one sum to minimise processing costs and improve cash flow.

Conditions and Criteria

A discount of a percentage to be specified by Council resolution will be applied to the current rates in all cases where ratepayers pay their rates on or before a date specified by Council resolution, being not later than the due date of instalment 1.

In order to qualify for this discount, a ratepayer must have paid their rates in full, including any arrears and penalties from prior years and penalties from the current rating year.

The discount percentage and date referred to in 1 above will be specified annually by the Council and will be included in the resolution required to set the rates under section 23 of the Local Government (Rating) Act 2002.

The discount to be specified under clause 4 will be set so as to be neutral on Council's cash flows.

Part Four – Funding and Financial Policies

POLICY FOR REMISSION OF RATES ON RURAL LAND

INTRODUCTION

Where rural land has a valuation in excess of its economic use (i. e. where it is valued based on its coastal value, but used for grazing purposes) application can be made for a remission of rates.

Alternatively, where multiple rating assessments in addition to a house block are used for grazing purposes, application can be made to have all subject assessments valued as if they were one contiguous farm property.

The house block valuation will not be changed. All other assessments will be valued as grazing land with consideration of cover and contour. No site value or subdivision potential will be included in these valuations. For rating purposes they will be valued on exactly the same basis as stand alone farms in the immediate vicinity of the assessments submitted for remission.

Whether rates are remitted in any individual case will depend on the circumstances of each application. In general a remission of rates will be considered, unless there is a reasonable likelihood that the subject land will be used or developed in the immediate future.

OBJECTIVES

The objectives of this policy are:

- Recognizing special circumstances pertaining to coastal rural land used for grazing purposes.
- Recognizing special circumstances pertaining to situations where multiple rural properties are effectively used as one farm property.
- Meeting the requirements of section 85 of the Local Authority (Rating) Act 2002, to have a policy on the remission of rates.

CONDITIONS AND CRITERIA

- Application for this remission should be made prior to commencement of the rating year. Applications made after the commencement of the rating year may be accepted at the discretion of Council.
- Owners or trustees making application should include the following information in their applications:
 - Details of the rating unit or units involved
 - The objectives that will be achieved by providing a remission
 - Documentation that shows the land which is the subject of the application is rural land.
 - Details of tenure, whether a formal or informal lease, and whether owned by applicant.
 - A signed statement by the applicant that the land is used for grazing purposes only.
- Council may of its own volition investigate and grant remission of rates on any rural land in the district, which may qualify for remission of rates.
- Relief, and the extent thereof, is at the sole discretion of Council and may be cancelled or reduced at any time.
- Council may give a remission or postponement of up to 100% of all rates, except targeted rates set for water supply or wastewater disposal, based on the following criteria:
 - The property carries a best potential use value that is significantly in excess of the economic value arising from its actual use.
 - The property is not used for residential purposes, and its value is significantly less than the value assessed by Valuation New Zealand

Delegations

Council will delegate authority to consider and approve applications to Council officers.

Part Four – Funding and Financial Policies

REMISSION OF RATES ON LAND AFFECTED BY NATURAL CALAMITIES

OBJECTIVES

The objective of this policy is to assist ratepayers, by a remission of rates, in situations where land has been detrimentally affected by erosion, subsidence, submersion or other natural calamities.

- Recognizing special circumstances pertaining to natural calamities, which cause unforeseen damage to ratepayer's properties.
- Meeting the requirements of section 85 of the Local Authority (Rating) Act 2002, to have a policy on the remission of rates.

Whether rates are remitted in any individual case will depend on the circumstances of each application.

CONDITIONS AND CRITERIA

- Application for this remission should be made as soon as practicable after the adverse event.
- Owners, lessees or trustees making application should include the following information in their applications:
 - Details of the rating unit or units involved.
 - The objectives that will be achieved by providing a remission.
 - Details of tenure, whether a formal or informal lease, and whether owned by applicant.
 - ***A signed statement by the applicant that the land is not fit for the purpose for which it is occupied, and the economic effect of the adverse event.***

Part Four – Funding and Financial Policies

FUNDING IMPACT STATEMENT

Various sections of the Local Government (Rating) Act 2002 refer to the Funding Impact Statement. These sections require:

- the basis of setting the general rate i.e. land, annual or capital value (Section 13).
- any category or categories that will be used for differentiating the general rate (Section 14)
- the function or functions for which a targeted rate will be set (Section 16).
- any category or categories of land that will be used to set a targeted rate on a differential basis or determine whether a property will be liable for a targeted rate (Section 17).
- any factor that will be used to calculate liability for a targeted rate (Section 18).
- an indication that Council wishes to set a charge for water supply by volume of water consumed if Council is intending to do so (Section 19).

The total rates requirement included in the plan is \$7,789,990 (exclusive of GST), which represents an increase of \$475,263 or 6.50% from the rates for the 2005-2006 Annual Plan. The largest increases in net expenditure are in subsidised roading of \$537,400 and non-subsidised roading of \$94,370.

Council has reviewed the likely impact of these changes on the incidence of rates. Forestry properties will incur additional rates of up to 20% due to two factors. The increase in the rural roading rate of 15% will contribute 10.2%; and the new-targeted forestry rate of 1.18, will contribute 9.8%. Rates at Tuai are estimated to increase by approximately 5.2%, due to the sewerage charge being subsidised by \$45,000 from the Tuai Fund for 2006-07.

Rural Utilities and Heavy Industrial properties with large capital values will have decreases of up to 24%, resulting from the replacement of the targeted rate for waste management (based on capital values) with an increase in the UAC charge for Waste Management of \$43.70.

Other properties are estimated to have increases or reduction in rates of up to 10%, with reductions in the rural townships of Nuhaka, Raupunga and Frasertown ranging from 3% to 9% in the sample of properties reviewed.

DIFFERENTIAL RATING FACTORS

The Local Government (Rating) Act 2002 reinforces the concept of rates being charged at different rates in the dollar for different categories of rateable land, as defined in schedule 2 of the act. The rates are split into differentials to recognize the different classification and uses of land within the district, and the differing consumption of Council resources relative to other ratepayers in the district.

The Wairoa District Council proposes that the following differential rating structure applies for the period from 1 July 2006 to 30 June 2007: -

- A 0.65 differential rating factor for Mahia and Tuai, which applies a factor of 65% to the standard rates. The reason for this differential is to recognize the relatively high property values that unfairly penalize ratepayers in the district. Also, Council is collecting the same dollar value as was previously collected.
- A 3.5 factor for urban commercial and industrial ratepayers to reflect the relative advantage this group has relative to other ratepayers located in the same urban area. The benefits derive from the proximity to and the usage of Council services provided and the occupation of the Council developed precinct of the district.
- A 2.5 factor for high capital urban commercial and industrial ratepayers, in recognition of the relative unfair burden of rates relative to services received for these properties.
- A 2.7 factor for high capital rural commercial and industrial ratepayers to reflect the advantage this group has compared to other ratepayers located in the same rural area, by consuming greater Council resources relative to other rural properties.
- A factor of 0.5 for urban properties with a land value of over \$19,999 in recognition of the relative unfair burden of rates relative to services received for these properties.
- A factor of 0.7 for urban properties over 1.5 hectares with a land value of less than \$19,999 in recognition of the relative unfair burden of rates relative to services received for these properties.
- A factor of 1.18 for roading for rural forestry to reflect the additional maintenance costs as a result of forestry activities.
- A factor of 0.94 for rural roading for those non-forestry properties with land values from \$50,000 to \$500,000 classified as rural 1.
- A factor of 0.88 for rural roading for those non-forestry properties with land values over \$500,000 classified as rural 1.

Part Four – Funding and Financial Policies

The differential rating settings are as follows: -

Wairoa Rural (all properties not included in Mahia/Tuai)	=	1.0
Residential One (Mahia/Tuai)	=	0.65
Residential Two (> 1.5 hectares)	=	0.7
Residential Three (LV > \$19,999)	=	0.5
Wairoa Township (excluding Commercial/Industrial)	=	1.0
Commercial and Industrial (Wairoa Township)	=	3.5
Commercial and Industrial (Wairoa Township CV > \$200K)	=	2.5
Commercial and Industrial (Rural CV > \$200K)	=	2.7
Forestry Roding Rate	=	1.18
Rural Non-Forestry Roding Rate	=	0.94
Rural Non-Forestry Roding Rate	=	0.88

TARGETED RATES

The following factors may be used in calculating liability for targeted rates: -

1. The annual value of the rating unit.
2. The capital value of the rating unit.
3. The land value of the rating unit.
4. The value of improvements to the rating unit.
5. The area of land within the rating unit.
6. The area of land within the rating unit that is sealed, paved, or built on.
7. The number of separately used or inhabited parts of the rating unit.

8. The extent of provision of any service to the rating unit by the local authority, including any limits or conditions that apply to the provision of the service.
9. The number or nature of connections from the land within each rating unit to any local authority reticulation system.
10. The area of land within the rating unit that is protected by any amenity or facility that is provided by the local authority.
11. The area of floor space of buildings within the rating unit.
12. The number of water closets and urinals within the rating unit.

Notes:

- For the purposes of clauses 1 to 5, 8, and 10, rating unit includes part of a rating unit.
- For the purposes of clause 8, the extent of provision of a service to the land must be measured objectively and be able to be verified.
- For the purposes of clause 12, a rating unit used primarily as a residence for 1 household must not be treated as having more than 1 water closet or urinal.

Important: At various points in this statement a level of rate or charge is specified. These are final adopted figures based on the first year (2006-07) of the Long Term Council Community Plan 2006-16. All charges are GST inclusive, and funds raised GST exclusive.

GENERAL RATE

Council proposes to set a general rate under section 13 based on the land value of each rating unit within the district. This rate uses factor 3. The estimated rates (in cents per dollar of land value) for 2006/2007 are 0.0005308 for rural 1.0 (increase of 26%) and 0.0070616 for urban 1.0 (increase of 63%), raising \$384,826. General rates will be used to fund all activities that are not covered by the uniform annual general charge, targeted rates or other funding mechanisms outlined in the Revenue and Financing Policy.

Part Four – Funding and Financial Policies

UNIFORM ANNUAL GENERAL CHARGE

Council proposes to set a uniform annual general charge under section 15 in respect of every separately used or inhabited part of rating units within the district.

The estimated uniform annual general charge for 2006/2007 is \$259.70, raising \$1,178,931 a decrease of 12.0% over 2005/2006.

The uniform annual general charge will be used to fund community representation, Maori Liaison and 50% of Library costs.

TARGETED RATE - ROADING

Council proposes to set a targeted rate under section 16 in respect of roading on the basis of a differential charge based on the land value of the property. This rate uses factor 3.

The estimated roading rate under section 16 for 2006/2007 is \$0.0048253 for rural 1.0 (15% increase) and \$0.0261884 (17% increase) for urban 1.0 raising \$2,859,350 in total.

The roading rate will be used to fund the roading activity.

TARGETED RATE – STORMWATER/DRAINAGE

Council proposes to set a targeted rate under section 16 in respect of stormwater and drainage on the basis of a differential charge based on the land value of the property. This rate uses factor 3. The estimated rate under section 16 for 2006/2007 is \$0.0000205 for rural 1.0 (65% decrease) and \$0.0007986 (63% decrease) for urban 1.0, raising \$22,142 in total.

The stormwater/drainage rate will be used to fund the stormwater/drainage activity.

TARGETED RATE – RECREATION

Council proposes to set a targeted rate under section 16 in respect of parks and reserves on the basis of a differential charge based on the capital value of the property. This rate uses factor 2. The estimated rate under section 16 for 2006/2007 is \$0.0002753 for rural 1.0 (11% reduction) and \$0.0017808 (4% decrease) for urban 1.0, raising \$556,300 in total.

The recreation rate will be used to fund the parks and reserves activity.

TARGETED RATE – SERVICES

Council proposes to set a targeted rate under section 16 in respect of other services, which includes regulatory services, economic development and community support, on the basis of a differential charge based on the capital value of the property. This rate uses factors 3 and 7. The estimated rate under section 16 for 2006/2007 is \$0.0002460 for rural 1.0 (9% increase) and \$0.0013729 (26% increase) for urban 1.0, raising \$459,654 in total.

The services rate will be used to fund the regulatory services, economic development and community support activities.

TARGETED RATE - WATER SUPPLY

Council proposes to set a targeted rate under section 16 in respect of water supply on the basis of a charge per each separately used or inhabited part of a rating unit to which water is supplied in the Wairoa Township Supply Area, the Frasertown Supply area, the Mahanga Supply Area, the Tuai Supply Area, and the Wairoa Environs Supply Area This rate uses factor 8. The estimated water supply rates and revenue collected for 2006/2007 is as follows: -

	Rates	% Increase	Revenue
Wairoa Township Supply Area	\$445.40	17%	\$682,895
Frasertown Supply Area	\$594.10	6%	\$50,564
Mahanga Supply Area	\$335.90	-1%	\$17,150
Tuai Supply Area	\$494.10	23%	\$24,810
Wairoa Environs	\$383.90	19%	\$68,620

The Water supply rates will be used to fund the water supply activities in the Wairoa Township, Frasertown, Mahanga, Tuai and Wairoa Environs.

TARGETED RATE - SEWERAGE DISPOSAL

Council proposes to set a targeted rate under section 16 in respect of sewerage disposal on the basis of a charge per each separately used or inhabited part of a rating unit to which sewerage is supplied in the Wairoa Township and the Tuai Supply Area. This rate uses factor 8.

Part Four – Funding and Financial Policies

The proposed rates for 2006-07 are \$287.20 for Wairoa township (23% increase), raising \$559,200 and \$363.70 for Tuai (7% decrease), raising \$19,190 in revenue.

The sewerage disposal rate will be used to fund the sewerage disposal activity.

TARGETED RATE – REFUSE COLLECTION

Council proposes to fund refuse collection on the basis of a user charge per sticker from which Council is prepared to collect a refuse bag, as part of its normal refuse disposal service in the Wairoa Township, Mahia – Nuhaka, Tuai and other rural Supply Areas.

TARGETED RATE – WASTE MANAGEMENT

Council proposes to set a targeted rate under section 16 in respect of waste management on the basis of a charge per each separately used or inhabited part of a rating unit in the Wairoa Township Area and the Wairoa Rural Area.

This rate uses a fixed charge based on a location differential. This rate uses factor 8. The estimated waste management rate for 2006/2007 is \$178.80 for Wairoa Township Area (1% increase), raising \$304,302 in revenue, and \$134.90 for Wairoa Rural Area (48% increase) raising \$383,298 in revenue. Total revenue from waste management is \$687,600.

\$507,170 of the waste management rate will be used to fund the landfill operations in Wairoa. The balance of \$180,430 will be used to fund green waste disposal, annual dry goods collections and recycling in rural areas, which was previously charged as a targeted rate on the basis of a differential charge based on the capital value of the property.

TARGETED RATE – DRAINAGE

Council proposes to set a targeted rate under section 16 in respect of Drainage on the basis of a charge per each separately used or inhabited part of a rating unit, as part of its normal drainage service in the Wairoa Township and the Mahia Area. This rate uses factor 8.

The rates proposed are \$103.10 for Wairoa (58% increase), raising \$174,489 and \$133.50 for Mahia (71% increase) raising \$44,270 in revenue.

The drainage rate will be used to fund the drainage activity.

Set out below are schedules detailing the funding tools, and amount of funding estimated over the 10 years of the plan, for both rural and urban residents, and a summary of revenue for the Wairoa district as a whole over the 10 years of the plan:-

Part Four – Funding and Financial Policies

Funding Impact Summary
for the Year Ended 30 June 2007 to 2016

<u>2005/06</u>				<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>
Annual Plan	Source	Category	Explanation	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
\$													
Rural													
\$226,160	General Rate	District	0.0005308 per \$ Land Value	\$286,940	\$288,062	\$303,881	\$310,837	\$321,295	\$332,779	\$338,380	\$345,860	\$357,268	\$361,783
\$493,317	Uniform Annual General Charge	District	\$259.70 per portion of rating unit	\$737,440	\$759,437	\$784,039	\$801,983	\$828,971	\$858,602	\$873,052	\$892,352	\$921,783	\$933,432
\$197,060	Uniform Annual Charge - Waste Management	District	\$134.90 per portion of rating unit	\$383,298	\$381,283	\$408,464	\$417,813	\$431,871	\$447,308	\$454,836	\$464,890	\$480,225	\$486,293
Targeted Rates													
\$20,178	Water Supply Tuai	Connected	\$494.10 per portion of rating unit	\$24,810	\$25,110	\$26,600	\$27,209	\$28,124	\$29,130	\$29,620	\$30,275	\$31,273	\$31,668
\$16,979	Water Supply Mahanga	Connected	\$335.90 per portion of rating unit	\$17,150	\$21,470	\$22,620	\$23,138	\$23,916	\$24,771	\$25,188	\$25,745	\$26,594	\$26,930
\$57,450	Water Supply Wairoa Rural	Connected	\$383.90 per portion of rating unit	\$68,620	\$62,639	\$64,526	\$66,003	\$68,224	\$70,662	\$71,852	\$73,440	\$75,862	\$76,821
\$47,620	Water Supply Frasertown	Connected	\$594.10 per portion of rating unit	\$50,564	\$46,398	\$50,032	\$51,177	\$52,899	\$54,790	\$55,712	\$56,944	\$58,822	\$59,565
	Water Supply Mahia	Connected				\$5,550	\$5,677	\$5,868	\$6,078	\$6,180	\$6,317	\$6,525	\$6,608
\$21,300	Sewerage Tuai	Connected	\$363.70 per portion of rating unit	\$19,190	\$56,230	\$57,081	\$58,388	\$60,352	\$62,509	\$63,561	\$64,966	\$67,109	\$67,957
	Sewerage Mahia	Connected	\$5\$ per portion of rating unit	\$0	\$14,668	\$409,347	\$418,717	\$432,805	\$448,275	\$455,819	\$465,895	\$481,263	\$487,345
\$52,000	Refuse Collection Mahia/Nuhaka	Serviced	User Pays by Sticker	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$25,800	Drainage Mahia	Area	\$133.50 per portion of rating unit	\$44,270	\$35,385	\$43,181	\$44,169	\$45,656	\$47,287	\$48,083	\$49,146	\$50,767	\$51,409
\$191,662	Services	District	0.0002460 per \$ Capital Value	\$223,760	\$321,324	\$365,398	\$373,601	\$385,793	\$409,413	\$416,198	\$424,654	\$438,417	\$443,549
\$2,263,571	Roading	District	0.0048253 per \$ Land Value	\$2,496,253	\$2,867,481	\$2,789,806	\$2,853,662	\$2,949,679	\$3,055,108	\$3,106,527	\$3,175,198	\$3,279,931	\$3,321,381
\$31,640	Stormwater/Drainage	District	0.0000205 per \$ Land Value	\$11,071	\$11,218	\$11,918	\$12,191	\$12,601	\$13,051	\$13,271	\$13,564	\$14,012	\$14,189
\$264,015	Recreation	District	0.0002753 per \$ Capital Value	\$250,335	\$259,092	\$271,250	\$277,459	\$286,794	\$297,045	\$302,044	\$308,721	\$318,904	\$322,934
\$293,650	Waste Management	District	0.0002253 per \$ Capital Value	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$4,202,402				\$4,613,701	\$5,149,797	\$5,613,693	\$5,742,022	\$5,934,849	\$6,156,807	\$6,260,324	\$6,397,967	\$6,608,756	\$6,691,865
Urban													
\$63,910	General Rate	District	0.0070616 per \$ Land Value	\$97,886	\$96,295	\$105,987	\$108,413	\$112,061	\$116,066	\$118,020	\$120,628	\$124,607	\$126,182
\$640,100	Uniform Annual General Charge	District	\$259.70 per portion of rating unit	\$441,490	\$454,660	\$469,387	\$480,131	\$496,286	\$514,024	\$522,676	\$534,229	\$551,851	\$558,825
\$295,590	Uniform Annual Charge - Waste Management	District	\$178.80 per portion of rating unit	\$304,302	\$310,378	\$306,773	\$313,795	\$324,353	\$335,946	\$341,600	\$349,152	\$360,668	\$365,226
Targeted Rates													
\$582,733	Water Supply Wairoa	Connected	\$445.40 per portion of rating unit	\$682,895	\$666,702	\$705,575	\$721,659	\$745,654	\$772,322	\$785,016	\$802,408	\$828,355	\$838,943
\$458,100	Sewerage Wairoa	Connected	\$287.20 per portion of rating unit	\$559,200	\$610,434	\$630,340	\$644,768	\$666,462	\$690,283	\$701,901	\$717,417	\$741,081	\$750,446
\$87,500	Refuse Collection - Wairoa & Frasertown	Serviced	User Pays by Sticker	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$110,220	Drainage Wairoa	Area	\$103.10 per portion of rating unit	\$174,489	\$184,935	\$190,625	\$194,988	\$201,549	\$208,753	\$212,266	\$216,958	\$224,115	\$226,947
\$190,578	Services	District	0.0013729 per \$ Capital Value	\$235,894	\$333,286	\$377,635	\$386,118	\$398,729	\$422,810	\$429,338	\$438,333	\$452,357	\$457,899
\$329,269	Roading	District	0.0261884 per \$ Land Value	\$363,097	\$410,209	\$414,913	\$424,410	\$438,690	\$454,370	\$462,017	\$472,230	\$487,807	\$493,971
\$31,640	Stormwater/Drainage	District	0.0007986 per \$ Land Value	\$11,071	\$11,218	\$11,918	\$12,191	\$12,601	\$13,051	\$13,271	\$13,564	\$14,012	\$14,189
\$322,685	Recreation	District	0.0017808 per \$ Capital Value	\$305,965	\$316,669	\$331,527	\$339,115	\$350,526	\$363,054	\$369,165	\$377,325	\$389,771	\$394,697
\$3,112,325				\$3,176,289	\$3,394,786	\$3,544,680	\$3,625,588	\$3,746,911	\$3,890,680	\$3,955,270	\$4,042,245	\$4,174,623	\$4,227,325
\$7,314,727				\$7,789,990	\$8,544,583	\$9,158,373	\$9,367,610	\$9,681,760	\$10,047,487	\$10,215,594	\$10,440,212	\$10,783,379	\$10,919,191

Part Four – Funding and Financial Policies

Funding Impact Summary
for the Years Ended 30 June 2007 to 2016

<u>2005/06</u> Annual Plan \$	<u>2006/07</u> \$	<u>2007/08</u> \$	<u>2008/09</u> \$	<u>2009/10</u> \$	<u>2010/11</u> \$	<u>2011/12</u> \$	<u>2012/13</u> \$	<u>2013/14</u> \$	<u>2014/15</u> \$	<u>2015/16</u> \$
Rates Revenue										
290,070 General Rate	384,826	384,357	409,868	419,250	433,356	448,845	456,400	466,488	481,875	487,965
1,133,417 Uniform Annual General Charge	1,178,930	1,214,097	1,253,426	1,282,114	1,325,257	1,372,626	1,395,727	1,426,581	1,473,634	1,492,257
492,650 Uniform Annual Charge - Waste Management	687,600	691,661	715,237	731,608	756,224	783,254	796,436	814,042	840,893	851,520
Targeted Rates										
724,960 Water Supply	844,039	822,319	874,903	894,863	924,686	957,753	973,567	995,127	1,027,431	1,040,535
479,400 Sewerage	578,390	681,332	1,096,768	1,121,872	1,159,619	1,201,067	1,221,282	1,248,279	1,289,453	1,305,748
139,500 Refuse Collection	0	0	0	0	0	0	0	0	0	0
136,020 Drainage	218,759	220,320	233,806	239,158	247,204	256,040	260,350	266,105	274,882	278,356
382,240 Services	459,654	654,610	743,033	759,718	784,522	832,223	845,536	862,987	890,774	901,448
2,592,840 Roading	2,859,350	3,277,690	3,204,719	3,278,072	3,388,369	3,509,477	3,568,545	3,647,428	3,767,737	3,815,352
63,280 Stormwater/Drainage	22,142	22,436	23,836	24,382	25,202	26,103	26,542	27,129	28,024	28,378
586,700 Recreation	556,300	575,761	602,777	616,574	637,320	660,099	671,209	686,046	708,675	717,631
293,650 Waste Management	0	0	0	0	0	0	0	0	0	0
7,314,727	7,789,990	8,544,583	9,158,373	9,367,610	9,681,760	10,047,487	10,215,594	10,440,212	10,783,379	10,919,191
Other Revenue										
7,050,124 Subsidies	4,803,010	4,823,787	9,001,386	5,206,289	5,326,122	5,436,442	5,541,894	5,637,743	5,719,300	5,804,754
70,000 Petrol Tax	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000
1,459,810 Fees and Charges	1,716,789	1,756,824	1,559,938	1,590,819	1,643,851	1,677,937	1,699,885	1,756,946	1,753,859	1,777,690
1,132,290 Investment income	1,577,461	1,475,517	1,518,416	1,546,148	1,587,674	1,631,143	1,770,587	1,794,236	1,792,911	1,869,819
17,026,951 Total Operating Income	15,957,250	16,670,711	21,308,113	17,780,866	18,309,407	18,863,009	19,297,960	19,699,137	20,119,449	20,441,454
Loans Raised	990,000	723,245	5,466,356	333,400	312,600	306,600	393,660	906,560	272,000	255,300
Asset Sales	75,000	1,395,000	45,000	75,000	15,000	35,000	85,000	15,000	10,000	85,000
Sale of Investments	2,218,832	1,611,997	1,708,346	1,779,172	1,583,071	1,759,459	2,090,106	1,559,560	1,620,010	1,652,118
	19,241,082	20,400,953	28,527,815	19,968,438	20,220,078	20,964,068	21,866,726	22,180,257	22,021,459	22,433,872

Part Four – Funding and Financial Policies

POLICY ON “SIGNIFICANCE”

PURPOSE

All decisions the Wairoa District Council makes must be made in accordance with the decision-making requirements of the Local Government Act 2002 (set out in sections 76-81). Council must make judgments about the appropriate level of compliance with those requirements, largely in proportion to the ‘significance’ of the matters affected by the decision (section 79 of the Act).

The level of compliance with the decision-making requirements in the Act includes (section 79(1)(b)):

- The extent to which different options are to be identified and assessed
- The degree to which benefits and costs are to be quantified
- The extent and detail of the information to be considered
- The extent and nature of any written records kept as to compliance.

If a decision is determined to be ‘significant’ in accordance with the general approach, thresholds, criteria and procedures set out in this policy, a higher standard of compliance is required.

The significance of any issue, proposal, or other matter requiring a decision will also assist in determining whether a special round of consultation is required, and how much information Council needs to provide.

DEFINITIONS

Section 5 of the Local Government Act 2002 defines ‘*significance*’, ‘*significant*’ and ‘*strategic asset*’ as follows:

significance, *in relation to any issue, proposal, decision, or other matter that concerns or is before a local authority, means the degree of importance of the issue, proposal, decision, or matter, as assessed by the local authority, in terms of its likely impact on, and likely consequences for:*

- (a) *the current and future social, economic, environmental and cultural well-being of the district or region.*
- (b) *any persons who are likely to be particularly affected by, or interested in, the issue, proposal, decision, or matter:*
- (c) *the capacity of the local authority to perform its role, and the financial and other costs of doing so.*

significant, *in relation to any issue, proposal, decision, or other matter, means that the issue, proposal, decision, or other matter has a high degree of significance.*

strategic asset, *in relation to the assets held by a local authority, means an asset or group of assets that the local authority needs to retain if the local authority is to maintain the local authority’s capacity to achieve or promote any outcome that the local authority determines to be important to the current or future well-being of the community; and includes:*

- (a) *any asset or group of assets listed in accordance with section 90(2) by the local authority; and*
- (b) *any land or building owned by the local authority and required to maintain the local authority’s capacity to provide affordable housing as part of its social policy; and*
- (c) *any equity securities held by the local authority in-*
 - (i) *a port company within the meaning of the Port Companies Act 1988:*
 - (ii) *an airport company within the meaning of the Airport Authorities Act 1966*

Part Four – Funding and Financial Policies

GENERAL APPROACH

In accordance with the definitions set out above, Council, in determining whether an issue, proposal, or other matter requiring a decision is of significance, will consider the likely impact of that decision on:

- the social, cultural, economic and environmental well-being of the district, now and in the future
- the ability of Council to achieve its strategic objectives as set out in the Draft Community Plan
- the capacity of Council to perform its role and carry out its services or activities and the cost of doing so, now and in the future
- any persons who are likely to be affected or particularly interested in the issue, proposal, or matter.

In determining whether any issue, proposal, or other matter requiring decision is of significance, Council will also consider the thresholds and apply the criteria and procedures set out below.

THRESHOLDS

When undertaking a process to determine whether an issue, proposal, or other matter is significant Council will apply the following thresholds:

- any transfer of ownership or control, or the disposal or abandonment of a strategic asset in its entirety
- the loss of Council control of any Council-Controlled Trading Organisation
- a decision that will, directly or indirectly, severely affect the capacity (including financial capacity) of Council to carry out any activity identified in the Draft Community Plan
- entry into any partnership with the private sector to carry out a significant activity.

Where any issue, proposal, or other matter requiring a decision triggers one or more of the above thresholds, it will be considered against the criteria set out in the following section in determining whether or not it is significant.

CRITERIA

In considering whether any issue, proposal, or other matter requiring decision is significant the following criteria will be used:

- the issue, proposal, or other matter affects all or a large portion of the community in a way that Council considers is not inconsequential
- the impact or consequences of the issue, proposal, or other matter on the affected persons will, in Council's view, be substantial
- the financial implications of the issue, proposal, or other matter for Council's overall resources are, in Council's view, substantial
- the issue, proposal, or other matter has the potential to, in the view of Council, generate considerable public controversy.

PROCEDURE

In achieving this policy the following procedure will be applied:

- Where any issue, proposal or other matter triggers one or more of the thresholds set out in this policy the Chief Executive will report the matter to Council.
- Each report will include a statement indicating that the issue, proposal or other matter has been considered in regard to Council's policy on significance. The report will include an assessment of the degree of significance of the issue, proposal, or other matter based on the criteria outlined in of this policy, and make a recommendation to Council.
- If the issue, proposal, or other matter is considered to be significant, the report to Council will also include a statement addressing how appropriate compliance with sections 77 – 82 of the Local Government Act 2002 will be achieved.
- Council will report annually in its Annual Report on all issues, proposals, or other matters determined to be significant, and subject to the procedure outlined in sections 76, 77, 78, 80 & 81 of the Local Government Act 2002 as appropriate.

Part Four – Funding and Financial Policies

STRATEGIC ASSETS

In accordance with section 90(2) of the Local Government Act 2002 the Wairoa District Council considers the following assets to be strategic:

- Wastewater Network and Treatment facilities in their entirety
- Rooding Network in its entirety
- Stormwater Network in its entirety
- Water Supply Network in its entirety
- Wairoa Landfill
- Parks and reserves and open spaces managed as reserves of district importance
- The land and buildings owned by Council and required to maintain Council's capacity to provide affordable housing as part of its social policy.

Council considers each group of assets listed above to be, in its entirety, a strategic asset. An issue, proposal, or other matter relating to a group of assets will not be considered significant unless it concerns the whole group of assets and not an individual component, unless the issue, proposal, or other matter regarding an individual component is considered significant in terms of this policy.

QUALIFICATION

Council may elect not to consult on an issue, proposal, or other matter requiring a decision considered significant in terms of this policy if that issue, proposal, or other matter is still subject, at a future date, to statutory processes such as those set out in the Resource Management Act or Reserves Act and after taking into account the financial implications of consulting on the matter.

Part Four – Funding and Financial Policies

TREASURY MANAGEMENT POLICY

1. INTRODUCTION

Council has treasury risks arising from debt raising, investments and associated interest rate management activity.

Council carries out its borrowing and investment (in total referred to in this document as treasury activity) within its finance function. Council’s broad objectives in relation to treasury activity are as follows:

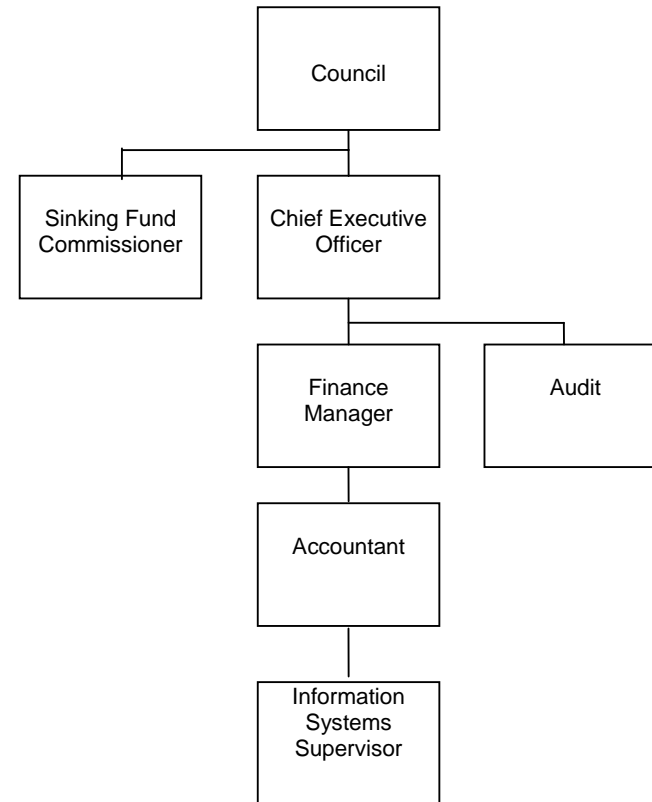
- Compliance with the Local Government Act 2002 and amendments thereto, and other relevant local authority legislation.
- Develop and maintain professional relationships with the financial markets.
- Manage all of Council’s investments within its strategic objectives; invest surplus cash in liquid and creditworthy investments.
- Raise appropriate finance, in terms of both maturity and interest rate.
- Manage the overall cash position of Council operations.

In meeting the above objectives Council is a risk averse entity and does not wish to seek risk from its treasury activities. Interest rate risk, liquidity risk and credit risk are risks Council seeks to manage, not capitalise on. Accordingly any activity, which may be construed as speculative in nature, is expressly forbidden.

STRUCTURE

2.1 Treasury Organisation Structure

The organisation chart for treasury activity is as follows:



Part Four – Funding and Financial Policies

LIABILITY MANAGEMENT POLICY

This policy is provided in accordance with section 104 of the Local Authority Act 2002.

3 Borrowing Policy

3.1 General Policy

Council needs to source funds for capital development to ensure that the District continues to progress, and loan borrowing is an important part of that equation. It is critical to the sound management of Council's finances that the level of debt is planned and carefully monitored. Council exercises its flexible and diversified borrowing powers prudently, generally approves borrowing by resolution during the Annual Planning process. Projected debt levels are ascertained from detailed cash flow forecasts prepared during the Long term and Annual planning process.

Council raises borrowing for the following primary purposes:

- General debt to fund Council's Balance Sheet.
- Specific debt associated with "one-off" projects and capital expenditure.
- To fund assets with intergenerational qualities.
- To assist Council in its day to day financing, through leases and hire purchases, of equipment purchases and replacement.

Bridging finance advances for particular capital projects may be authorised by Council when there are excess balances in Special Funds.

3.1.1 Funding by Borrowing Policy

The Council considered borrowing principles and confirmed the following specific policies: -

1. All routine capital expenditure is to be funded from revenue or special funds.
2. All major projects, which have intergenerational effect, should be funded by borrowing, serviced by rates.
3. All urban growth projects should be funded by borrowing, serviced by growth in the rating base.

Loan servicing costs funded from rates should not exceed 5% of comprehensive income in any one year.

As policy, Council considers that borrowing is the more prudent way of funding major projects, which have an intergenerational benefit, and it is highly likely such projects would not be affordable if financed from current revenue.

3.1.2 New Borrowings

Council is able to borrow through a variety of market mechanisms including the issue of stock and direct bank borrowing.

In evaluating new borrowings (in relation to source, term, size and pricing) the Finance Manager takes into account the following:

- The size and the economic life of the project.
- The impact of the new debt on the borrowing limits.
- Relevant margins under each borrowing source.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at re-issue/rollover time.

Part Four – Funding and Financial Policies

- Prevailing interest rates relative to term for both stock issuance and bank borrowing and management's view of future interest rate movements.
- Available term from bank and stock issuance.
- Ensuring that the implied finance terms within the specific debt are at least as favourable as Council could achieve in its own right.
- Legal documentation and financial covenants.

3.2 Borrowing Limits

In managing borrowing, Council will adhere to the following limits:

- *The cost of servicing borrowing must not exceed 5% of comprehensive income.*
- *Net cash flow from operating activities (excluding interest) exceeds gross annual interest expense by two times.*
- *Liquidity ratio of not less than 1:1.*
- *Net Debt less than 20% of equity*
- *Net Interest less than 30% of annual rates income*

3.3 Liquidity and Credit Risk Management

Council's ability to readily attract cost effective borrowing is largely driven by its ability to maintain a strong balance sheet as well as its ability to rate, manage its image in the market and its relationships with bankers. Where practical, Council seeks a diversified pool of borrowing and ensures that bank borrowings are sought only from the approved list of registered banks.

To ensure funds are available on repayment of debt, treasury investments are maintained in liquid assets and Council ensures that:

- ***A liquidity ratio of not less than 1:1 is maintained at each year-end.***
- ***Refer to Section 4.4.1 for liquidity of investments.***

To minimise the risk of large concentrations of debt maturing or being re-issued in periods where credit margins are high for reasons within or beyond Council's control, Council ensures debt maturity is spread widely over a band of maturities. Council manages this specifically by ensuring that:

- *No more than 30% of total borrowing is subject to refinancing in any financial year. Total borrowing includes existing and forecast borrowing.*

Due to the conservative levels of debt held, Council authorises that greater than 30% of total debt may mature in any one year provided it does not place adverse strain on Council's ability to fund such maturities. In accepting this deviation liquidity ratios are to be maintained.

3.4 Interest Rate Risk Management

Council's borrowing gives rise to direct exposure to interest rate movements. Given the long-term nature of Council's assets, projects and intergenerational factors, the Council's preference to avoid an adverse impact on rates, there is a general tendency to manage this risk via a maturity spread. The use of hedging instruments could be considered where appropriate.

The Finance Manager may approve interest rate risk management strategies after taking appropriate advice, and evaluating the outlook for short-term rates in comparison to the rates payable on its fixed rate debt.

Part Four – Funding and Financial Policies

3.4.1 Floating Rate Mix

Council sets the following limit for achieving a floating rate mix on Council's total debt (existing and forecast), together with the appropriate discretionary authority. The limit sets the maximum floating rate exposure, to reflect Council's preference for fixed rate or hedged debt in the longer term. In Addition, Council is exposed to interest rate repricing risk on the maturing of existing fixed rate debt that is refinanced, as well as issue yield risk on planned new debt. Council manages these exposures using the following operational parameter:

- **The Finance Manager can approve up to 30% of total debt to have a floating rate profile. Percentages beyond 30% authority require Council approval.**

Floating rate profile refers to interest rate risk management instruments where interest rates are reset on a frequency of 180 days or less.

3.4.2 Interest Rate Risk Management Tools

Management implements interest rate risk management strategy through the use of the following:

- Adjusting the average maturity of its borrowings, thereby managing interest rate risk within the confines of liquidity management.
- Interest rate risk management products to convert fixed rate debt into floating rate, floating rate debt into fixed or hedged debt.
- Using interest rate risk management instruments to hedge repricing risk on existing fixed rate debt and issue yield risk on planned debt.

The following interest rate risk management instruments may be used for interest rate risk management activity: -

- Forward rate agreements.
- Interest rate swaps.

- Purchase of interest rate option products.
- Interest rate collar type option strategies.

Selling interest rate options for the primary purpose of generating premium income is not permitted because of its speculative nature.

3.5 Security

Council borrowing is secured by way of a charge over rates and Council remains free to deal with its other assets as it sees fit. All new borrowings rank equally with existing stock issues. In all borrowing and related activities, Council complies with the relevant provisions of the Securities Act.

Council does not have, nor intends to seek, a recognised credit rating.

3.6 Repayment

Council repays borrowings from the specific sinking fund allocated to that borrowing, from general funds, from asset sales, or through raising renewal loans.

3.7 Contingent Liabilities

Council provides financial guarantees to sporting and community organisations. Management ensures that the business plan of the guaranteed party furthers the strategic objectives of Council and that financial statements are received on a regular basis. Should the guarantee be called up, Council takes immediate action to recover the money.

3.8 Stock Management

Council stock is managed by the Reserve Bank of New Zealand, in Wellington, who charge a regular fee based on the number of registered stockholders.

Part Four – Funding and Financial Policies

INVESTMENT POLICY

This policy is provided in accordance with Section 105 Of the Local Government Act 2002.

4.1 General Policy

Council's philosophy in the management of investments is to optimise returns in the long term while balancing risk and return considerations. Council recognises that as a responsible public authority any investments that it does hold should be low risk. It also recognises that lower risk generally means lower returns.

In its treasury investment activity, Council's primary objective when investing is the protection of its investment. Accordingly, only creditworthy counterparties are acceptable.

When there are excess balances in Special Funds Council may authorise an internal advance to particular Council capital projects in the form of bridging finance.

Investment Mix

Council maintains investments in the following financial assets:

- Equity investments and loan advances. (Section 4.2)
- Property investments. (Section 4.3)
- Treasury investments. (Section 4.4)

4.2 Equity Investments and Loan Advances

Council policy is that Council does not see itself as an active investor in equities but will continue to hold, acquire, and sell equity investments where there are economic opportunities and social benefits for the District of Wairoa.

Council will consider investing in equity investments only where it is demonstrated that there is an economic benefit for the district of Wairoa and the investment has limited risk exposure from capital loss.

Major investments include 100% shareholding in the Council controlled Organisation (CCO) Quality Roading and Services (Wairoa) Ltd, Civic Assurance Ltd (previously known as NZ Local Government Insurance Corporation Ltd) and minor investment in community organisations that are consistent with Council's strategic plan.

Council reviews the performance of these investments on a regular basis to ensure strategic and economic objectives are being achieved, and reports the results to Council. Council ensures that interest and principal repayments are being made in accordance with loan agreements.

All dividend and interest income from Council's equity investments and loan advances is included in the consolidated rating account or special activity account.

Any disposition of these investments requires Council approval.

4.2.1 Quality Roading Services (Wairoa) Ltd

Council owns 100% of the shares of Quality Roading Services (Wairoa) Ltd., (QRS) which was set up as a Local Authority Trading Enterprise, and is now classified as a Council controlled organisation (CCO). The company is a contractor providing construction, forestry, quarrying, reserves and utility services mainly in the Wairoa District.

The strategic objectives in owning QRS are to reduce costs and provide greater competition in tendering for construction, roading and maintenance work, to provide revenue by way of dividends to offset overheads, and to maintain employment levels and expertise in contracting within Wairoa.

Part Four – Funding and Financial Policies

Dividends of 50% of the after-tax paid profit are paid to Wairoa District Council, with payments made after reporting of the six-month and annual result.

In order to achieve the strategic objectives, Council requires regular reporting of financial and non-financial results against target, including a statement of corporate intent, half yearly financial statements, and annual financial statements. Council appoints appropriately qualified directors to manage the business, and ensures that proper governance procedures are in place.

Council appoints the board of QRS and annually approves the Statement of Corporate Intent. Council also monitors the performance by reviewing the six-monthly accounts, and annual accounts.

4.2.2 Civic Assurance Limited

The shares in Civic Assurance were acquired by virtue of Council being a local authority. The purpose of the company is to ensure that adequate insurance is available to local authorities at the lowest cost. The shares are not readily transferable.

Revenue earned from the shares is minimal. Any sale requires Council approval. Any disposition would be realised in a managed way, with proceeds transferred to district development fund.

The investment is managed by consideration of the Statement of Intent and review of the annual performance as disclosed in the Annual Report.

Annual Reports are received and reviewed by Council. Election of Directors takes place at the AGM held at the Local Government New Zealand annual conference.

Council will continue to hold its share in Civic Assurance while it continues to do business with the company.

4.3 Property Investments

Council's overall objective is to own only property that is necessary to achieve its strategic objectives, or deemed to be a core Council function. The Council therefore retains an investment in car parking, commercial retail and rental and retirement housing. As a general rule, Council will not maintain a property investment where it is not essential to the delivery of relevant services, and property is only retained where it relates to a primary delivery of Council output. Council regularly reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements that could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services. Council follows similar assessment criteria in relation to new property investments.

Council provides car parking areas which are not income earning but are seen as a service to the central business area.

Rentals and ground rent from property investments is included in the consolidated rating account.

Council reviews the performance of its property investments on a regular basis and reports the results to Council.

Any disposition of these investments requires Council approval. Disposition proceeds from sale of property investments are treated according to each of the following classes of property:

4.3.1 General Property

Disposition proceeds from the sale of General Property (which includes reserve, designated land, housing and non specified property) are credited to the District Development Reserve Account, and are used firstly to retire any debt related specifically to that investment, and then to finance the redevelopment and/or acquisition of assets that enhance the district.

Part Four – Funding and Financial Policies

4.3.2 Rooding Property

Disposition proceeds from the sale of Rooding Property Land are credited to the District Development Reserve Account, and are used firstly to retire any debt related specifically to that investment, and then to finance new rooding requirements.

4.3.3 Commercial Property

Disposition proceeds from the sale of commercial property are credited to the District Development Reserve and are used firstly to return any debt related specifically to that investment and then to finance redevelopment and/or acquisition of assets that enhance the district.

4.4 Treasury Investments

Council maintains treasury investments for the following reasons:

- Invest amounts allocated to sinking funds, trusts and bequeaths.
- Invest funds allocated for approved future expenditure.
- Invest proceeds from the sale of assets.
- Invest surplus cash, and working capital funds (also see Section 6 Cash Management).

All dividend and interest income from Council's treasury investments is included in the consolidated rating account, special activity account or allocated to reserve accounts based on funds held.

4.4.1 Investment Objectives

The Finance Manager approves overall investment strategy, and evaluates the outlook for interest rates and the shape of the yield curve, and where applicable, seek appropriate financial advice.

Council's primary objective when investing is the protection of its investment. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties are selected on the basis of

their current Standard and Poors (S&P) rating, which must be strong or better. The Accountant monitors credit ratings on a monthly basis.

Investment in corporate shares is considered to be speculative in nature, and is therefore expressly forbidden.

Within the above credit constraints, Council also seeks to:

- Maximise investment return.
- Ensure investments are liquid.
- Manage potential capital losses due to interest rate movements if investments need to be liquidated before maturity.

The following principles form the key assumptions of the operating parameters contained in the investment framework:

- ***Credit risk is minimised by placing maximum limits for each broad class of non-Government issuer, and by limiting investments to registered banks, strongly rated SOEs, local authorities and corporates within prescribed limits, as detailed in Appendix 1.***
- ***Liquidity risk is minimised by ensuring that all investments must be capable of being liquidated in a readily available secondary market. Furthermore, Council maintains at least 20% of its investments with a maturity of less than one year.***

4.5 Interest Rate Risk Management

Council's investments give rise to a direct exposure to a change in interest rates, impacting the return and capital value of its investments.

The Finance Manager sets interest rate risk management strategy by monitoring the interest rate markets on a regular basis and after taking appropriate advice, evaluates the outlook and determines the interest rate profile to adopt for investments.

Part Four – Funding and Financial Policies

Council does not adopt the use of hedging instruments for interest rate risk management on its investments. Should hedging instruments be required, Council will adopt a resolution approving the use of these instruments.

4.6 Sinking Funds

Council uses its discretion in determining whether a sinking fund mechanism is appropriate. Council operates sinking funds and nominates commissioners to administer the outstanding loans. The sinking fund commissioners are the Public Trust Office.

Sinking funds are managed as part of the Council's overall investment portfolio.

A statement of sinking funds is prepared annually by the sinking fund commissioners and reported to Council.

5. FOREIGN EXCHANGE POLICY

Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated assets.

Generally, all significant commitments for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved. Council uses both spot and forward foreign exchange contracts.

6. CASH MANAGEMENT

From time to time, Council has daily cashflow surpluses and borrowing requirements, due to the mismatch of daily receipts and payments. All cash inflows and expenses pass through bank accounts controlled by the Finance function.

Council maintains a daily cash position, and a yearly cashflow projection is prepared during the Annual Planning process. These reports determine Council's borrowing requirements, and surpluses for

investment. Generally any cash to be invested for longer than three months is covered by Section 4 of this policy.

Cash management activities must be undertaken within the following parameters:

- Cash management instruments are limited to:
 - Call deposits with registered banks.
 - Negotiable instruments with maturity less than three months.
 - Term deposits with registered banks (less than three months). These are not recommended if early break penalties are enforced.
- If practical, a targeted minimum of \$250,000 is invested at call.
- Overdraft facilities are utilised as little as practical. Council does not currently require to maintain a committed bank overdraft facility to meet interim cash and liquidity requirements. Should this be required the CEO is authorised to negotiate a bank overdraft facility of up to \$2 million and the Finance Manager is authorised to negotiate an overdraft facility of \$0.5 million with a Council approved bank.
- Interest rate risk management on cash management balances is not permitted.

7. ACQUISITION OF NEW INVESTMENTS

Acquisition of new investments and disposal of property are to be approved by Council on a case-by-case basis. All property activities are managed by the Finance manager and reported to Council. All financial investments are to be undertaken with institutions of high quality credit rating to ensure amounts owing to Council are paid in full and on due date.

Part Four – Funding and Financial Policies

All financial investments are

- required to comply with credit rating criteria outlined in section 8 below
- restricted to the following instruments
 - Government investments
 - State Owned Enterprises
 - Registered banks
 - Local Authority Investment
 - Approved Corporate Investments

Examples of approved investment instruments include

- Short term bank deposits
- Bank bills
- Treasury bills
- Corporate and government bonds
- Local authority stock and SOE bonds

8 ASSESSMENT OF RISKS

Assessment and management of risk associated with property and investments is reviewed on a case by case basis.

The primary objective of Council when making financial investments is the protection of its investment. Accordingly only creditworthy counterparties are selected on the basis of their current Standard and Poor credit rating. Council will minimise its credit exposure by:

- Ensuring all investments, cash management, interest rate risk and any foreign exchange transactions are undertaken With entities that comply with the credit ratings below:
- Limiting exposure by spreading investments and limiting prescribed amounts
- Regular monitoring of compliance against set limits, as detailed in Appendix 1.
- Ensuring that all Corporate, State Owned Enterprises or Registered banks have a credit rating of A-1 or better for short term investments, or A or better for long term

investments

9. PERFORMANCE MANAGEMENT

Measuring the effectiveness of Council's treasury activities is achieved through a mix of subjective and objective measures. The predominant measure is the overall quality of treasury management information. Council has prime responsibility for determining the overall quality of investments.

Objective measures include monitoring the adherence to target policy levels for each investment class and comparison of yield to agreed benchmark levels, for each class of investment.

10. MONITORING AND REPORTING

Council contracts a broker to act as an investment adviser and sharebroker to manage the Council portfolio of investments and report on investment performance and strategy.

The Finance Manager is responsible for the purchase and sale of investment instruments on behalf of Council. This includes treasury bills issued by the Reserve bank, government and local authority stock, corporate bonds, and New Zealand registered bank bills and bonds. Corporates are required to have a credit rating of at least A-1 for short-term investments, and A or better for long-term investments.

The broker compiles quarterly valuation statements detailing the market value for each investment, and comparing the return for the quarter with the NZX bond index return.

The Finance Manager prepares a quarterly investment report based upon the quarterly valuation, comparing the return for the quarter with the NZX bond index return, and showing the maturity profile of the investments. A summary listing the individual investments is provided detailing the maturity date, coupon rate and market value of each investment. In addition a narrative summary detailing the investment activity over the quarter is provided.

Part Four – Funding and Financial Policies

A variety of other reports are prepared for internal management purposes, including a daily cash position report and a monthly schedule of investments, which reconciles the general ledger with the investment ledger and monthly bank confirmation reports. A reconciliation is provided at 30 June each year for Council short and long term investments for the purposes of the Annual Report.

Appendix 1

Approved Issuers, Limits and Instruments

Long Term Funds or Fixed Interest Portfolio

Issuer	Portfolio Limit	\$ Limit
NZ Government	100%	No Limit
NZ Registered Banks - one issuer	80%	\$2million
Local Authorities - one issuer	100%	\$2million
Corporates - one issuer	60%	\$1million

Short Term Funds or Working Capital

NZ Registered Banks	100% fixed interest	\$5million
	foreign exchange	\$1 million

Part Four – Funding and Financial Policies

FUNDING POLICY

FUNDING OF DEPRECIATION/ USE OF DEPRECIATION RESERVES

Council has decided the policy on the funding of depreciation, and the uses of depreciation reserves.

Under section 101(1) a local authority must manage its revenues, expenses, assets, liabilities, investments and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Council is required to ensure that the funding needs of Council are met from the sources of finance deemed appropriate taking account of the distribution of benefits, the periods that benefits occur, the costs and benefits of funding the activities, and the community outcome, which the activity promotes. Also, Council is required to consider the impact on the social, economic, environmental, and cultural well being of the community.

Council is required to fund the economic use of its assets to match the cost of delivering its services to the appropriate revenue sources, in compliance with generally accepted accounting practice. Those who benefit from the use of an asset should contribute towards its cost.

Depreciation is defined as the measure of consumption of the economic benefits of an asset arising from its use. Depreciation Reserves are the accumulated funds retained by each activity from the depreciation funded each financial year, less any outgoings to pay for capital renewal of assets or debt prepayment.

Depreciation is calculated on all Council fixed assets excluding Land. Depreciation is an operating expense recorded in Council's financial statements. Council raises revenue from rates, user charges or other sources to fund its operating expenses including depreciation, as required under s100 of the Local Government Act 2002.

In certain instances the effect of fully funding depreciation may result in current ratepayers bearing a funding burden that is not entirely fair and equitable. This includes circumstances where the assets have a very long useful life, where assets are young and in relatively good condition, where the renewal of assets would not require a major contribution from depreciation reserves, or when the asset will not be replaced. Fully funding in these circumstances will result in depreciation reserves increasing over time. The interest earned on these reserves can be used to offset the need to fund depreciation in future years. Council is also entitled to retire debt from depreciation reserves.

Council will for the 2006-07 year be funding depreciation for the first time on the Peri Urban, Frasertown and Mahanga Water supplies, because the water supply network in its entirety is listed as a strategic asset in the policy on Significance, which requires Council to fully fund depreciation on these assets. Council also considers that pensioner housing is a significant strategic asset, and has also funded depreciation on this asset for 2006-07.

The following assets have depreciation that has not been funded, to the amount as specified for each asset for 2006-07: -

- Community halls and buildings on reserves \$5,700
- Parks & Reserves \$64,000
- Cemeteries \$1,800
- Camping ground \$6,200
- Staff housing \$5,100
- Fire appliances located at Ruakituri (\$18,700) & Mahia (\$6,000)
- LTNZ portion of subsidised roading \$1,235,362
- AFFCO portion of the costs of running the treatment plant \$139,920

The above assets will be maintained on an ongoing basis at a level that meets the needs of the community. Where appropriate Council will cover each asset with an insurance cover for fire, earthquake and natural catastrophe. It is acknowledged that the above assets will

Part Four – Funding and Financial Policies

cease to meet community needs over time and will be withdrawn from service. This is expected to be beyond the term of the current LTCCP.

In respect of Water Production, Council's share will be funded while AFFCO is not required to fund depreciation under the 1984 Water Supply agreement. In the event of asset renewal, Council will only renew the asset at a level that meets the needs of the community (excluding AFFCO). Should AFFCO require to be considered in any future upgrade or renewal programs it is expected that it will fund their share at the time of renewal or upgrade. In respect of the LTNZ portion of subsidised roading, Council is not funding the LTNZ share of depreciation. LTNZ have indicated that it will fund its share (66%) of capital expenditure as and when physical works occur.

Revenue collected to fund depreciation will be retained by the activity and utilised to fully fund the replacement of existing assets at the end of their useful lives, or to repay debt. Balances held in depreciation reserves will earn interest that will be credited to rates account. Council approves the use of interest earned on depreciation reserves to offset the need to fund depreciation in future years.

Council also approves the use of depreciation reserves to retire debt.

Attached is a schedule detailing the depreciation not funded for each activity for each year of the plan:-

Non-Funded Depreciation	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Community Halls	5,700	5,700	5,700	5,700	5,700	5,700	5,700	5,700	5,700	5,700
Parks & Reserves	64,000	65,250	66,237	68,096	69,404	71,358	73,873	73,873	75,299	77,413
Cemeteries	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Camping Ground	6,200	6,200	6,334	6,991	6,991	7,326	7,783	8,075	8,075	8,377
Staff Housing	5,100	5,100	5,100	5,100	5,100	5,100	5,200	5,360	5,360	5,360
Fire Appliances - Ruakituri & Mahia	18,700	18,700	24,700	24,700	24,700	24,700	24,700	18,700	18,700	18,700
LTNZ portion Subsidised Roothing	1,235,362	1,267,512	1,300,537	1,334,406	1,363,201	1,455,918	1,491,974	1,528,655	1,565,867	1,603,642
AFFCO portion Water Production	139,920	142,921	149,165	153,805	154,809	171,325	172,034	172,762	173,507	174,649
	1,476,782	1,513,183	1,559,573	1,600,598	1,631,705	1,743,227	1,783,064	1,814,925	1,854,308	1,895,641

Part Four – Funding and Financial Policies

USE OF CASH SURPLUS/ RESOLUTION NOT TO BALANCE BUDGET FOR 10 YEARS FROM 2006-07 to 2015-16

Council resolved at the meeting of 11 April 2006 that the \$1,733,616 cash surplus, representing an excess of funds held over and above the level of reserves held by Council in special reserve funds, and sinking reserve funds as at 30 June 2005 are transferred to the District Development Fund. Council also confirmed that \$225,518 be utilised to reduce the roading rate and thereby reduce the rating requirement, resulting in an operating budget that did not balance for the 2006-07 year.

An actual surplus arises at the end of a financial year where the revenue received from ratepayers exceeds the expenditure required to provide the services. The surplus funds of \$1,733,616 have been built up over a considerable period of time, and have been retained without any particular purpose being assigned for its use. The decision of Council on utilisation of the surplus funds must be prudent, and in the best interests of present and future ratepayers of the district.

Council when approving the Annual Plan and Budget/LTCCP sets the rates and fees and charges at a level that is predicted to adequately fund the next year's activities. Council must have a balanced budget under section 100(1) of the Local Government Act 2002. Council is required to ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses.

However, under section 100 (2) a local authority may set projected operating revenues at a different level from that required by section (1) if the local authority resolves that it is financially prudent to do so, having regard to –

- (a) the estimated expenses of achieving and maintaining the expected levels of service provision set out in the LTCCP,

including the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and

- (b) the projected revenue available to fund the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life.
- (c) the equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life.
- (d) the funding and financial policies adopted under section 102.

Under section 101(1) a local authority must manage its revenues, expenses, assets, liabilities, investments and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Council is required to ensure that the funding needs of Council are met from the sources of finance deemed appropriate taking account of the distribution of benefits, the periods that benefits occur, the costs and benefits of funding the activities, and the community outcome, which the activity promotes. Also, Council is required to consider the impact on the social, economic, environmental, and cultural well being of the community.

Council confirmed that the use of the cash surplus to subsidise the rates requirement for 2006-07 was justified. The key reason is that the surplus was built up over a number of years, by current ratepayers, who have by and large made these contributions. Council has determined the policies that are appropriate to meet the funding needs of the district over the next ten years, and to meet the social, cultural, environmental and economic well beings of the community. The funds that have not been assigned to any purpose, are surplus to requirements, and are "floating" as cash within the financial system.

By tagging the money, and assigning a purpose and use of the funds, Council is being a responsible, and financially prudent custodian, by providing a source of funds within Council resources. To charge ratepayers again would be to penalise them, or double-rate them, by ignoring the funds that have accumulated from their own contributions over a long period of time.

Part Four – Funding and Financial Policies

Similarly, the transfer of funds to the District Development Fund, is prudent, because the funds will be invested in capital projects over the 10 year period that we would otherwise have to charge ratepayers by way of rate increases over the period. We therefore believe that it is fair and equitable that the funds should be utilised in this manner.

Council considers that it is prudent to have a surplus with income exceeding expenditure for each year of the LTCCP from 2006-07 to 2015-16.

Attached at Appendix 1 on the following page is an analysis of the surpluses for each year, with adjustments for non-cash items, such as non-funded depreciation, transfer to reserves, the capital subsidy and rate-funded projects. Capital subsidy relates to a subsidy for the capital projects, including \$3.9 million for the Mahia Wastewater Scheme, and the balance is for subsidised roading projects. Rate funding projects is rate contributions for capital below the line items such as sinking funds and Mahia projects relating to Parks & Reserves.

Council has resolved that the following assets have depreciation that has not been funded: -

- Community halls and buildings on reserves
- Parks & Reserves
- Cemeteries
- Camping ground
- Staff housing
- Fire appliances located at Ruakituri & Mahia
- LTNZ portion of subsidised roading
- AFFCO portion of the costs of running the treatment plant

An analysis of the surpluses over the 10 years reveals that there is no cash surplus in 2006/07, a cash surplus of \$167,800 in 2007/08, and a small cash surplus of \$3400 to \$5600 in the other years of the LTCCP.

The surplus for 2008-09 includes \$3.9 million of capital funding for the Mahia Wastewater Treatment Scheme, which is a new capital project.

The remainder of the surplus relates to funding of depreciation associated with infrastructure assets, for capital expenditure that falls outside the 10-year period for the LTCCP. Renewal expenditure is less than the level of funding for depreciation throughout the 10-year period of the SOP and Draft LTCCP. Council has transferred \$1.251 million of the surplus to reserves over the ten years of the LTCCP from 2006-07 to 2015-16.

The total amount of the cash surplus over the 10 years is \$1.455 million made up of \$1.251 million in transfer to reserves and the resulting balance of \$0.2 million. Council has a number of possible capital requirements that are not included in the LTCCP, with the main one being the Tawhara Reservoirs, which are estimated to cost \$2.67 million, based on 2004 estimates. Council considers it prudent that provision is made for a sum of \$1.455 million to provide for contingencies that have not been budgeted in the 10-year LTCCP.

Council has set the expenditure and revenue at levels it considers appropriate to meet the funding needs of the district over the next ten years, and to meet the social, cultural, environmental and economic well-beings of the community. We therefore believe that it is fair and equitable that the funds should be utilised in this manner.

Part Four – Funding and Financial Policies

Appendix 1 Reconciliation of Surplus (Deficit)

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Surplus (Deficit) on Operations	75,761	540,926	4,154,393	336,643	373,513	384,122	405,735	448,131	502,033	556,160
Non-Funded Depreciation										
Community Halls	5,700	5,700	5,700	5,700	5,700	5,700	5,700	5,700	5,700	5,700
Parks & Reserves	64,000	65,250	66,237	68,096	69,404	71,358	73,873	73,873	75,299	77,413
Cemeteries	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Camping Ground	6,200	6,200	6,334	6,991	6,991	7,326	7,783	8,075	8,075	8,377
Staff Housing	5,100	5,100	5,100	5,100	5,100	5,100	5,200	5,360	5,360	5,360
Fire Appliance - Ruakatori	18,700	18,700	24,700	24,700	24,700	24,700	24,700	18,700	18,700	18,700
LTNZ portion Subsidised Roothing	1,235,362	1,267,512	1,300,537	1,334,406	1,363,201	1,455,918	1,491,974	1,528,655	1,565,867	1,603,642
AFFCO portion Water Production	139,920	142,921	149,165	153,805	154,809	171,325	172,034	172,762	173,507	174,649
	1,476,782	1,513,183	1,559,573	1,600,598	1,631,705	1,743,227	1,783,064	1,814,925	1,854,308	1,895,641
Reserves Transfer	61,052	-215,410	7,151	-95,645	-105,211	-159,846	-127,847	-157,510	-157,277	-300,977
Capital Subsidy	-1,562,220	-1,607,524	-5,575,767	-1,693,446	-1,732,502	-1,768,433	-1,802,802	-1,834,046	-1,860,604	-1,888,724
Rate Funding Projects	-51,375	-63,375	-139,750	-142,750	-162,505	-194,470	-253,750	-267,500	-335,060	-258,500
Surplus (Deficit)	0	167,800	5,600	5,400	5,000	4,600	4,400	4,000	3,400	3,600