

# **Long Term Council Community Plan and Annual Plan Special Committee**

**Supplementary Information for a  
Reconvened Meeting**

**Monday, 24 March 2003  
Commencing at 9.30 am**

- Item 9:           Draft Liability Management and  
Investment Policy for Long Term  
Council Community Plan**
- Item 10:         Revenue and Financing Policy**

**SUPPLEMENTARY INFORMATION FOR A RECONVENED MEETING OF THE LONG TERM  
COUNCIL COMMUNITY PLAN AND ANNUAL PLAN SPECIAL COMMITTEE TO BE  
HELD IN THE CIVIC CENTRE, 6 WAIPAREIRA AVENUE, LINCOLN,  
WAITAKERE CITY, ON MONDAY, 24 MARCH 2003,  
COMMENCING AT 9.30 AM.**

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**SUPPLEMENTARY INFORMATION FOR A RECONVENED MEETING OF THE LONG TERM COUNCIL COMMUNITY PLAN AND ANNUAL PLAN SPECIAL COMMITTEE TO BE HELD IN THE CIVIC CENTRE, 6 WAIPAREIRA AVENUE, LINCOLN, WAITAKERE CITY, ON MONDAY, 24 MARCH 2003, COMMENCING AT 9.30 AM.**

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**9 DRAFT LIABILITY MANAGEMENT AND INVESTMENT POLICY FOR LONG TERM COUNCIL COMMUNITY PLAN**

**PURPOSE OF THE REPORT**

The purpose of the report is to propose to the Committee the contents of the new Liability Management and Investment Policy that is required under Section 102 of the Local Government Act 2002 for adoption by 30 June 2003.

**BACKGROUND**

Under the local Government Act 1974, Council was required to have a Borrowing Policy and an Investment Policy. Council manages its portfolio on a net basis and due to the close relationship of investments and borrowing, the two policies were combined as the Borrowing and Investment Policy. The combining of the two policies met the requirements of the 1974 Act. Provisions of the Local Government Act 2002 require a new Liability Management Policy and Investment Policy to be adopted.

To adopt the new policies, Council must use the special consultative procedures as described under Section 83 of the Act. However, Council can in this instance under Section 102(3) adopt the new policies as part of the Long Term Council Community Plan process.

The contents of the new policy are largely the same as the previous Borrowing and Investment Policy. The draft policies have been combined, as it is more practical to have one policy document. Audit New Zealand has been advised of the intention to have a combined policy. They will provide further guidance as to the acceptability of the policies not being separated.

**DRAFT POLICY**

The draft Liability Management and Investment Policy has been circulated separately to members. In essence the proposed policy remains unchanged from the existing Borrowing and Investment policy.

The key five borrowing management ratios have not changed as they reflect prudent financial management techniques, though the self-imposed restriction regarding net debt per capita has been amended to accepted market levels of not more than \$1,800. Originally net debt per capita was capped at \$1,200. This limit was adopted based on criteria contained within the 2000/2001 Long Term Financial Strategy. However, as the city has grown, and debt can be still managed within the five key ratios on a percentage basis, the fixed value of the debt per capita of \$1,200 restricts Councils capacity to act at the same rate of growth.

The five key ratios that Council has adopted are reported in the table below. These ratios are accepted parameters for Local Authorities, and by maintaining them Council gives assurance of its credit worthiness.

Ratio	
Net debt as a percentage of equity.	<20%
Net debt as a percentage of income.	<150%
Net Interest as a percentage of income.	<15%
Net Interest as a percentage of annual rates income.	<20%
Liquidity (Undrawn Committed loan facilities / Next quarters maturity portion of net debt).	>100%

Maturity profiling and fixed to floating interest rate mixes have been amended so that they are intended as a guide rather than rigid parameters of portfolio management. This is accomplished by replacing the word “must” to “should”. From time to time, the interest rates change in such dramatic ways that by adhering to rigid profiles, Council cannot minimise borrowing costs, or maximise investment returns. Also it is important to note that borrowing long term is far more expensive than borrowing repeatedly on a shorter term basis. The risks to this strategy are liquidity and interest rates movements. These risks are managed through Committed Facilities and long term interest rate derivatives.

In keeping with the requirements of the Local Government Act 2002, several new areas have been included to reflect the currently accepted treatment of other liabilities such as creditors, Aftercare, and other types of liabilities.

Direct references to staff responsibilities below the Directorate level have been deleted, as this policy is not intended to restrict the contents of any job description below that level. Section 299 of the Local Government Act 2002 states that the Council may borrow from any Sinking Funds held, this has been added to the policy.

Upon adoption of this policy through the draft Long Term Council Community Plan process, this policy may not be changed without the use of the special consultative procedure contained within the 2002 Act.

## **CONCLUSION**

To comply with the Local Government Act 2002, Council must adopt a Liability Management Policy and an Investment Policy by 30 June 2003. The intention is to have one combined policy which meets the legislative disclosures required. Audit New Zealand will advise if the combining of the policies is acceptable. Largely the policy remain unchanged, however a number of new areas covered by the new legislation surrounding broader liability management have been added. The consultation on the policy will be part of the draft Long Term Council Community Plan process.

## **RECOMMENDATIONS**

1. That the information be received.
2. That the draft Liability Management and Investment Policy be approved for consultation through the Long Term Council Community Plan process.

Report prepared by: Bruce Wilkin, Funds Accountant.



## 10 REVENUE AND FINANCING POLICY

### PURPOSE OF THE REPORT

The purpose of this report is to forward the Draft Revenue and Financing Policy document prepared in conformity with the provisions of the Local Government Act 2002 and to recommend that Council adopt the Draft Revenue and Financing Policy for community consultation under the Long-term Council Community Plan and Annual Plan process.

### BACKGROUND

Waitakere City Council's first Funding Policy was adopted in 1995 after extensive public consultation. It was substantially amended during 1997/98 in the preparation of the 1998 Funding Policy to reflect the policy development process prescribed in the Local Government Amendment Act (No 3) 1996. The current Funding Policy was adopted in June 2000, after public consultation, as part of Council's 2000/2001 - 2009/2010 Annual and Strategic Plan.

Under the Local Government Act 2002, all local authorities are required to adopt a Revenue and Financing Policy, by 30 June 2003, replacing the current Funding Policy adopted under the previous Act.

### STRATEGIC CONTEXT

The Revenue and Financing Policy is an important instrument of Council's financial management. How the activities are funded clearly can have a significant impact on the financial viability of Council services and the current and future interests of the community.

Under the Local Government Act 2002, Council is required to adopt a Revenue and Financing Policy as part of the financial policies and this is to be included in the Long Term Council Community Plan.

### ISSUES

The current Funding Policy, developed as prescribed in the previous Local Government Act, is based on a three-step process that determines how costs are shared and funding tools are selected. At the first step, costs are allocated purely on the basis of who benefits (beneficiary pays principle) or who generates costs ("exacerbator" or "polluter" pays principle) principles. At the second step, cost allocation made at step 1 could be modified, if desired, to accommodate considerations such as fairness, equity, transitional impacts and Council policies. The appropriate funding tools are selected at the final step.

While there is no fundamental change to the substance of these funding criteria, the process involved in the development of the Revenue and Financing Policy is different under the Local Government Act 2002. The new Act does not prescribe a three-step process, which begins with the application of economic criteria to arrive at the funding mechanisms. Instead, it sets out the factors that need to be considered in developing the Revenue and Financing Policy.

Section 101 (3) of the new Act states 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 to be funded, all of the following need to be considered:
  - (i) The community outcomes to which the activity primarily contributes;
  - (ii) The distribution of benefits between the community as a whole, any identifiable part of the community, and individuals;
  - (iii) The period over which those benefits are expected to occur;
  - (iv) The extent to which the actions or inactions of particular individuals or a group contribute to the need to undertake the activity;
  - (v) The costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities; and
- (b) The overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural well being of the community.

Although Waitakere City Council's existing Funding Policy reflects these considerations, it has been developed following the three-step process. Therefore, the rationale for the funding policy needs to be realigned to comply with the requirements of the new Act.

With regard to community outcomes, the transitional provisions in the new Act allow Councils to use the information currently available in preparing the first Long Term Council Community Plan for the year beginning in July 2003 or July 2004.

Council is currently in the second year of a two-stage consultation process originally designed to develop the 10-year strategic Plan. The draft Revenue and Financing Policy is based on the community outcomes, which have been identified as the 2020 vision statements in the draft Long-term Council Community Plan. These community outcomes reflect Council's Eco-City vision, which has guided all its activities on a path towards sustainable development over the last ten years.

The draft Revenue and Financing Policy has realigned the existing Funding Policy with the provisions of the new legislation. It also includes the following policy proposals adopted by the Finance and Operational Performance Committee:

- The multi-unit rates differential: Imposition of Uniform Annual General Charge on each separately used or inhabited part of a rating unit (Minute No. 73/2003);
- Watershed differential: Inclusion of watershed and reservoir land under the business sector for the purpose of rating and application of the relevant rate in the dollar (Minute No. 73/2003);
- Farmland differential: The application of transitional provisions of the Local Government (Rating) Act 2002 for any application for postponement of rates for the 2003/04 year and development of a rates postponement policy to be reported back to Council during 2003/2004 (Minute No. 72/2003);
- Car parking: Amending funding policy to enable charging for car parking and introduction of user charges as a pilot project in Henderson (Minute No. 75/2003); (this has a separate agenda item).

In addition, the Finance and Operational Performance Committee resolved that there should be community consultation on three options for the funding of water supply, based on the work of a Council appointed Focus Group, during the Long-term Council Community Plan and Annual Plan process (Minute No. 3306/2002). The three funding options are outlined in the Revenue and Financing Policy document and have a separate agenda item.

With regard to housing for older adults, the draft Revenue and Financing policy proposes a “self- funding regime” based on “cost recovery” and provides a definition of the term “cost recovery”. It also proposes a simplification of the current method of calculating rental and a phased increase in rents until all residents are on rents in line with the revised policy (City Development Committee Minute 1080/2002).

As a consequence of the enforcement of the Local Government (Rating) Act 2002, a technical modification to the current rates funding of wastewater service is required. It is proposed to charge for wastewater service as a targeted rate under the provisions in the Local Government (Rating) Act 2002.

The Local Government Act 2002 has introduced comprehensive new provisions allowing the preparation of development contributions policy and requirements. With the development of a Development Contributions Policy in accordance with the new legislation, it is proposed to use these provisions to recover, as development contributions, capital expenditure relating to the growth of the city.

## **RESOURCES**

Resources to complete consultation on the Revenue and Financing Policy are provided for in the current year budgets for the Annual Plan and Strategic Review.

## **CONCLUSION**

Under the Local Government Act 2002, Council is required to adopt a Revenue and Financing Policy as part of the Long-term Council Community Plan. The transitional provisions in the new Act allow Council to use the information currently available on community outcomes, which have been identified as the 2020 vision statements in the draft Long-term Council Community Plan. The draft Revenue and Financing Policy realigns the current funding policy to comply with the requirements of the new legislation and outlines some changes that have either been made or are proposed to this policy, for community consultation.

## **RECOMMENDATIONS**

1. That the information be received.
2. That the draft Revenue and Financing Policy be adopted for community consultation as part of the draft Long Term Council Community Plan and Annual Plan 2003/2004 - 2012/2013 subject to changes with regard to the grouping of activities under strategic platform headings.

Report prepared by: Ariya Randeni, Senior Policy Analyst - Economic Policy.

