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**Report 02.462**

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Report to the Policy, Finance and Strategy Committee from  
John Allard, Corporate Policy Manager

## **Funding Policy – Consultation**

### **1. Purpose**

For the Council to agree to a targeted consultation process as a way of assisting in the development of the funding policy.

### **2. Background**

In 1997 the Council adopted a funding policy to meet the requirements of the amendments to the Local Government Act. The first review of the funding policy was undertaken during 1999 and the Council adopted a new funding policy on 15 June 2000.

The Act requires the funding policy to be reviewed on a triennial basis. This Council reviews its funding policy as part of its long-term financial strategy (LTFS) process so that there is clarity on funding mechanisms before the budget setting process begins. It is anticipated that the funding policy could be adopted on an interim basis at the Policy, Finance and Strategy Committee of 31 October 2002.

### **3. Proposed Targeted Consultation**

As Councillors are aware, the current Local Government Act requires the Council to follow a three-stage process in preparing a funding policy, which can be summarised as:

- Stage one - Consider economic principles (beneficiary pays etc) as the basis for determining theoretical funding;
- Stage two - Modify the theoretical funding in accordance with any legitimate Council policies and other factors (eg fairness and equity);
- Stage three - Determine a practical funding mechanism within the lawful options available to achieve the allocation resulting from stage two.

Stage one of the funding policy was prepared with the assistance of a consultant economist and officers believe the analysis is robust and still holds. Therefore it is recommended that the focus of the review should be on stage two and stage three.

The factors taken into account and the relative importance given to them under stage two is a matter for judgement by Council. Councillors have informally expressed a range of views on this, particularly with regard to the funding policies of delivering flood protection and funding public transport services. Councillors will also be aware that some territorial authorities have raised concern about aspects of these policies in the past.

As a way of moving forward, officers recommend that the current funding policy is used as a basis for targeted consultation with the territorial authorities. It is proposed that in the first instance the territorial authorities are invited, by letter, to express any views they have on the current funding policy. If this generates divergent views on the appropriateness, say for example of the policy for funding flood protection, it may be appropriate to arrange a round-table discussion among elected representatives. In addition there would be a process for the public to express views on the funding policy.

Stage three depends on the lawful funding mechanisms available. Since the current funding policy was adopted there has been a new Rating Act. The implications of this are discussed in the next section.

A copy of the current funding policy is appended as **Attachment One**.

#### **4. New Rating Tools**

The new Local Government (Rating) Act gives all local authorities access to the same rating tools. Property taxes remain the principal basis for councils to fund services that are provided for the community as a whole and rateable properties continue to be the basis for the liability of rates. This means, for example, that we cannot levy a congestion charge which is the economically efficient funding mechanism (stage one) in our current funding policy for Funding Public Transport Services.

The key change in the legislation is that regional councils now have the option to set differentials on their general rate or to set a uniform annual charge.

General rates are applied where the local authority decides that all or part of the costs of a particular function should be met by the community as a whole. A uniform annual charge is a fixed charge irrespective of property value and has typically been applied by territorial authorities to services such as water or sewerage.

Targeted rates are applied where the local authority decides that all or part of a particular function should be funded by a specific rate and perhaps targeted to particular categories of rating units. This replaces the works and services rates in the previous legislation.

Officers have reviewed each of the funding mechanisms in the funding policy to see if the new tools would better deliver the allocation of benefits identified as a result of stages one and two.

Officers have concluded that no change is required as a result of the new legislation, other than works and services rates being known as targeted rates.

## **5. Conclusion**

It is recommended that the Council agree to a process of targeted consultation in the August/September period using the current funding policy document as a basis.

## **6. Recommendations**

That the Committee recommends to Council that:

- (i) *That the report is received and the contents, including the funding policy in Attachment One, are noted.*
- (ii) *That the Council agrees to use the current funding policy as a basis for targeted consultation.*

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