

# FINANCIAL STRATEGY

There are a number of strategies and policies that address and manage various facets of the financial operations of the Council. The objective of these various strategies and policies is to prudently manage the Council's finances in such a manner as to protect the public's investment and to minimise the exposure to risk. This acknowledges that at all times the Council is managing finances that belong to the Taranaki community. The purpose of this section is to outline these various policies and strategies in one location.

The Council looks to operate a balanced budget whereby in each year the operating expenditure is covered by sufficient operating revenue.

Levels of service and operating programmes are established in the variety of policies, plans and strategies that the Council has prepared and adopted pursuant to a number of pieces of legislation. These key planning documents include the *Regional Policy Statement*, regional plans for the coast, air, soil and fresh water, biosecurity strategies for plant and animal pests, land transport plans and strategies, civil defence emergency management plans and the asset management plans for the regional gardens and flood control assets.

Expenditure budgets are set to deliver upon those levels of service and operating programmes.

The funding of the expenditure budgets and operating programmes is based upon a number of principles. The application of these principles is outlined in the *Revenue and Financing Policy*. First is the principle of beneficiary or exacerbator pays. Where a party directly benefits from the service provided by the Council or causes the Council to provide a service or incur expenditure then that party directly pays for that service.

Second, where the Council is providing services that are part of national programmes or the government provides subsidies to the Council to provide certain services then the Council will claim for those government grants/subsidies.

Third, where the Council provides services to a specific area or group within the regional community but there is no mechanism to direct charge those beneficiaries or exacerbators then the Council will use targeted rates to match the costs and benefits of those services.

The balance of the Council's funding requirements will be funded by general rates.

General rates are reduced by investment returns. The Council receives investment returns from its treasury, equity and land investments. By using these investment returns to reduce the general rates the Council is effectively providing these returns back to the regional community.

Many of the services that the Council supplies are used equally by all members of the regional community and have no correlation with property ownership or valuation. (e.g., community representation and democracy). In these instances the Council looks to use uniform annual general charges (UAGCs) to match costs and benefits. There is a statutory limit to the level of UAGCs that the Council can impose. Once this limit is reached the rest of these services need to be funded by property value general rates. The

remainder of the Council's general rates are set on the capital value system of rating.

All of the Council's rates are collected by three Taranaki-based district councils. This is fiscally and operationally the most effective and efficient collection system.

Dividends from Port Taranaki Ltd are variable and subject to fluctuations. To accommodate these fluctuations the Council uses a dividend equalisation reserve. Since 1996/1997, when the debt the Council inherited from corporatisation of the port was fully repaid, the level of dividends received has generally exceeded the budget. These surpluses have been accumulated in the dividend equalisation reserve. Where the port is unable to return dividends at the levels budgeted for then the dividend equalisation reserve is used to subsidise the need to increase general rates.

In 2001/2002 the Council provided funding for the construction of new grandstands at Yarrow Stadium. The adopted funding policy for this activity was the repayment of two-thirds of the funding by means of rates over a ten-year period. Until such time as the rates are no longer in place the Council will operate a surplus of revenue over expenditure to the extent of the Yarrow Stadium rates.

In terms of assets and investments, the Council's strategy is to maintain, in real terms, the value of the Council's assets and investments. The Council maintains its infrastructure assets in an "as new" condition and the regional gardens to the standards set in their asset management plans.

The Council holds treasury, equity and land investments on behalf of the regional community. In real terms, the Council intends to maintain the value of these investments in the long-term. The Council intends to hold these investments for strategic reasons on behalf of the regional community.

The Council will use public debt to construct infrastructure assets or to finance investments where the benefits of the expenditure spread over a number of years. The use of public debt matches the costs of the expenditure with the benefits. At this stage, the Council does not have, nor does it plan to have, any public debt.

The Council holds a number of reserves to provide cover for specific events or to address statutory or other obligations. The Council intends to maintain the minimum level and number of reserves.

The net financial value of the Council is to be maintained, in real terms in the long-term. The Council is not intending to significantly increase or decrease the community's net ownership of the Council.