

## Notice of Meeting:

I hereby give notice that a meeting of Hamilton City Council will be held on:

**Date:** Thursday 4 June 2015  
**Time:** 9.00am  
**Meeting Room:** Council Chamber  
**Venue:** Municipal Building, Garden Place, Hamilton

Richard Briggs  
Chief Executive

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## Council OPEN AGENDA

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### Membership

Chairperson	Her Worship the Mayor J Hardaker
Deputy Chairperson	Cr G Chesterman
Members	Cr M Forsyth Cr M Gallagher Cr K Green Cr A King Cr D Macpherson Cr G Mallett Cr A O'Leary Cr R Pascoe Cr L Tooman Cr E Wilson Cr P Yeung

**Quorum:** A majority of members (including vacancies)

**Meeting Frequency:** Monthly

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Jude Pani  
Democracy Manager

**29 May 2015**  
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## **Terms of Reference:**

- To carry out leadership functions including advocacy and facilitation on behalf of the community.
- To exercise all non-delegatable and non-delegated functions and powers of the Council.
- To make those decisions which are required by legislation to be made by resolution of the local authority.
- To consider any matters referred to it from any of the Standing or Special Committees.
- To authorise all expenditure not delegated to staff or other Committees.
- To receive the Council Risk Register and legal issues reports.
- To receive reports from the Audit & Risk Committee.
- To develop and approve the draft Long Term Plan (LTP) (including any amendments or variations) and Annual Plans (including the Budget and Funding and Financial policies); ensure their effective communication to the community; hear submissions and approve the final plan.
- To approve the Hamilton Plan and to retain overview of it through setting direction on key strategic projects and receiving regular reports on its overall achievement
- Make decisions in respect of District Plan matters.
- The authority to agree to settle and submit draft consent orders to the Environment Court relating to an appeal on a Proposed District Plan, Plan Change, Plan Variation or Notice of Requirement to designate land or for a heritage order, or a resource consent application.
- The authority to reject a private plan change request.

## **Financial:**

- To determine all financial matters not delegated.
- To receive reports of the exercise of financial delegated authority pursuant to the Public Bodies Contracts Act 1959.
- To approve Council's borrowing programme and treasury management strategy.
- To undertake the statutory audit processes and to consider and approve the external audit arrangements, to receive the Auditor's reports and to approve the audited annual report.

## **Procedural Matters:**

- Delegation of all Committee powers.
- Adoption of Standing Orders.
- Confirmation of all Standing and Special Committee minutes.
- Approval of Special Orders.
- Employment of Chief Executive, setting of the Chief Executive's performance targets and review of the Chief Executive's Performance and Remuneration (in accordance with the Employment Agreement).
- Other Delegations.

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**1 Apologies**

**2 Confirmation of Agenda**

The Council to confirm the agenda.

**3 Declaration of Interest**

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as an elected representative and any private or other external interest they might have.

**4 Public Forum**

No public forum required.

**Committee:** Council

**Date:** 4 June 2015

**Report Name:** 10-Year Plan Final  
Deliberations

**Author:** Blair Bowcott

<b>Report Status</b>	<i>Open</i>
<b>Strategy, Policy or Plan context</b>	<i>10-Year Plan 2015/25 Including Infrastructure Strategy</i>
<b>Financial status</b>	<i>The changes proposed in this report do not change the financial strategy outlined in the 2015-25 Consultation Document</i>
<b>Assessment of significance</b>	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance and Engagement Policy, a decision in accordance with the recommendations is considered to have a high degree of significance</i>

## 1. Purpose of the Report

- The purpose of this report, having heard submissions through the consultation period, is to consider submissions and to determine any changes to be made to Hamilton's 10-Year Plan 2015-25.

## 3. Executive Summary

- Council has now completed the consultation on the 10-Year Plan 2015-2025 Consultation Document.
- Council's consultation process took advantage of changes to the Local Government Act that has allowed for a more focused, interactive and inclusive approach to listening to the community.
- Overall the number of submissions was low for a 10-Year Plan. Staff have concluded that this reflects the largely non-controversial, business as usual proposal.
- All submissions written and verbal have been analysed and whilst there are submissions advocating advancing and deferring some projects there is no strong preference to change the plan as proposed.
- Staff recommend Council adopts the 10-Year Plan in accordance with the Option 1 proposal in the Consultation Document, with amendments for the Risks and Opportunities outlined in this report.
- In order to finalise the 10 Year Plan, Council need to make decisions on 4 June 2015 on the final budget and prepare, have audited and adopt the full 10-Year Plan (approximately 300 pages) by 30 June 2015. The auditors will be auditing the full document from 15 June 2015.
- The full 10-Year Plan will include all the supporting documents previously adopted by Council and listed on the 10-Year Plan website <https://haveyoursay.hamilton.govt.nz/strategy-research/801fad8d>
- All submissions can be accessed from this link: <http://www.hamilton.govt.nz/10yearplan>

**12. Recommendations**

- a) That this report be received.
- b) That after considering submissions the draft 10-Year Plan 2015-25 budgets are amended as follows:
  - (i) That the changed budgets, listed in Attachment 3, Table 1 “impact from budget update and review” are approved.
  - (ii) That funding of \$120,000 p.a. is added to the City Safe expenditure to maintain service levels after the loss of the Community Safety and Crime Prevention Grant.
  - (iii) That additional funding for Hamilton and Waikato Tourism of \$195,000 p.a. is budgeted as requested in their submission, subject to the other funding partner councils confirming their increased share in their final 10-Year Plans.
- c) That the Municipal Pool is permanently closed.
- d) That as a result of these changes the key Financial Strategy limits are:

Limit	Achieved
Rates increases to existing ratepayers will not exceed 3.8%.	3.8% - 2016 to 2025
Balance the books target by 2016	2016 to 2025
The debt to revenue ratio will be reduced to 200% or below by 2020 and thereafter will remain below 200%.	2020 to 2025

- e) That after adjusting the 10-Year Plan budgets for the above resolutions, staff prepare the 10-Year Plan 2015-25 for audit and adoption by 30 June 2015.

**13. Attachments**

- 14. Attachment 1 - 2015-25 10-Year Plan: Other Major themes from submissions
- 15. Attachment 2 - 2015-25 10-Year Plan: Funding requests
- 16. Attachment 3 - 2015-25 10-Year Plan: Proposed Amendments to 10-Year Plan Budgets
- 17. Attachment 4 - 2015-25 10-Year Plan: Background information 2015 05 15
- 18. Attachment 5 - 2015-25 10-Year Plan: Submission Summary Report 11-05-2015

**19. Background**

- 20. Consultation
- 21. Council’s 10-Year Plan project has been underway for the last 18 months, beginning with asset management planning. Reviews of plans, policies, services levels and budgets have been undertaken, culminating in the publication of the Hamilton’s 10-Year Plan Consultation Document 2015 -2025 in April 2015.
- 22. Public consultation closed on 15 May 2015, and feedback was received through written submissions, social media and eight engagement sessions.
- 23. A total of 726 submissions were received during the consultation period, as below:
  - 333 online written submissions
  - 317 standardized Generation Zero web form submissions (tick box approach, with ability to add individual comments)
  - 65 verbal submissions (does not include 48 verbal submitters who also provided written submissions – included in the 333 above)
  - 1 written submission included a petition (342 signatures) requesting a binding poll on the sale of pensioner housing

## 24. The Big Issue – Balancing Investment with Affordability

### 25. Background

26. The 10-Year Plan Consultation Document 2015-25 set out Council's priorities, plans and budgets for Hamilton over the next year.
27. This highlighted the issue of balancing investment and affordability, with three options outlined for public feedback:
- Option 1: Council's proposal (keeping to the current financial strategy, with the exception of debt to revenue borrowing limit being achieved one year later in 2020)
  - Option 2: Borrow more, do some projects earlier
  - Option 3: Borrow less, do some projects later
28. The Consultation Document was based on Option 1.

### 29. Submission overview

30. Please refer to Attachment 5 (Submission Summary report).
31. The majority of submitters did not explicitly indicate a preference for an Option. Of those who did select an option, the majority selected either Option 1 or Option 2.
32. Submitters sometimes nominated an option that best represented their opinion, however this was often with a caveat regarding their changes to this option.
33. In written submissions many submitters did not discuss how bringing projects forward or deferring them would impact Council's debt to revenue ratio or the goal to balance the books by 2020. In the engagement sessions however, a number of submitters requesting that projects be brought forward were asked about the implications on our debt targets. They responded that responding to growth was more important and that pushing the debt to revenue target dates out beyond 2020 was a lesser concern to them.
34. In analysing submissions staff have focused on how submitter preferences, either directly stated or through implication of requested changes, will impact Council's current financial strategy. For many submitters, this preference was expressed through their support, or rejection, of specific projects.

### 35. Bringing Projects Forward

36. A high number (80) of submitters discussed specific projects with an emphasis on asking Council to bring projects forward.
37. The main reasons given to bring these forward included the perceived need for these projects in the community and growth in population leading to greater demand for services.
38. Key projects nominated to be brought forward included:
- Cycling infrastructure
  - North East Aquatic Centre (currently outside 10-Year Plan)
  - Community facilities in Rototuna (especially sports fields and playgrounds)
  - Northern road links (Borman Rd and North City Rd)
  - Founders Theatre
39. Some submitters have indicated an understanding of the impact of bringing these projects forward on the financial strategy (increase in total debt and deferring the achievement of the 200% debt to revenue ratio beyond 2020) and suggested that an increase in overall debt is acceptable provided the appropriate projects are chosen. Stakeholders requesting this response include:
- Members of Parliament (Labour and National)
  - Property Council of New Zealand - focus on projects that have an inter-generational timeframe
  - Tainui Group Holdings – projects focusing on growth in core infrastructure
  - Sport Waikato – key infrastructure where demand will exceed supply
40. A different approach nominated by some submitters was to develop public private partnerships to enable certain projects to be brought forward without impacting Council's

- debt. These partnerships were talked about in general terms only and did not refer to specific proposals for projects.
41. Please refer to Attachment 4 (Option 2) for the list of projects that could be completed earlier, in the 10-Year Plan Consultation Document 2015-25.
  42. Deferring projects
  43. A relatively lower number of submitters (34) have requested Council to restrain spending through deferring specific projects. There was a bias to defer community infrastructure projects, while retaining the core infrastructure projects for roading, water and waste water.
  44. A few submitters have indicated a preference for maintaining a \$440million debt cap and to defer non core infrastructure projects.
  45. Projects nominated by submitters to be deferred include:
    - Hamilton Gardens (5 projects in 5 years)
    - River Plan (focus on Wellington St Beach)
    - Refurbishment of Founders Theatre
    - North East Aquatic Centre and the Indoor Recreation Centre
  46. Deferring these projects has little impact on the debt to revenue limit date of 2020 as these projects are of low value in the context of our capital spend and are already in the latter part of the plan or beyond 2025.
  47. 301 submitters, through the Generation Zero standardised submission, requested Council to limit city debt to below \$440 million by deferring some new road projects. This approach was also referred to by Cycle Action Waikato.
  48. Please refer to Attachment 4 (Option 3) for the list of projects that could be completed at a later time, in the 2015-25 10-Year Plan Consultation document.
  49. What has changed
  50. Since Council's adoption of the draft 10-Year Plan, some important factors that influence the property market (and consequentially growth) have changed.
    - 30% loan-to-value – The Reserve Bank intends in October 2015 to introduce new loan-to-value (LVR) limits on lending to property investors in the Auckland Council area that would require those borrowers to have at least a 30 per cent deposit.
    - Capital gains tax – From 1 October 2015 anyone selling a residential property, that is not their main home within two years of purchasing will face tax on the capital gain. The new test will not apply to the family home, death estates or properties sold as part of a relationship settlement.
    - The Official Cash Rate has remained unchanged since July 2014 at 3.5 percent but the market is forecasting a reduction. Since April both fixed and floating mortgage interest rates have continued to track downwards.
    - Anecdotal feedback around the property market indicates that interest in Hamilton property from Auckland buyers is increasing.
  51. These factors were cited by a number of submitters as reasons why Council must continue to support and fund core growth infrastructure.
  52. In addition, on-going conversations with the University of Waikato indicate there is upward pressure on population projections over the next 10 to 30 years.
  53. Staff have considered the submitters comments and other factors, but propose no changes to the growth assumptions. Whilst these factors may increase pressure on growth, other factors such as falling dairy payout prices may offset this. The growth model remains realistic.
  54. After considering the submissions on the Big Issue – Balancing Investment with Affordability, Council have two options:

**Staff Conclusion**

Option A: Adopt Council’s proposal, as per the 10-Year Plan Consultation Document 2015-25,  
**Or**  
 Option B: Make changes to 10-Year Plan Consultation Document 2015-25, with consideration of the requests to advance or defer the timing of projects.

55. Staff recommend that Council adopts the preferred Option 1 proposal, from the 10-Year Plan Consultation Document 2015. While the submissions have commented on all three options, no fundamental new information or strong community reaction to the proposal has been raised by submitters that Council has not previously considered when preparing the draft budget.

**56. Other Major Themes From Submissions**

- 57. Please refer to Attachment 1 for a discussion on the major themes discussed by stakeholders.
- 58. A summary of the major themes are:

Theme	Comment
Permanently closing the Municipal Pool	<ul style="list-style-type: none"> <li>Submissions were split on the permanent closure of the pool, however organisations who have previously engaged in our strategic plans have supported the closure.</li> <li>No new information has been raised by submitters that Council has not previously considered in making the proposal.</li> </ul> <p><b>Staff are recommending that Council permanently close Municipal Pool.</b></p>
Cycling Infrastructure	<ul style="list-style-type: none"> <li>A large number of submissions were received to invest in cycling infrastructure.</li> <li>The consultation document only indicated a significant spend from year 13 onwards.</li> <li>Further analysis of the budgets shows that Council plans to spend approximately \$12.75m including NZTA subsidy on cycling infrastructure across the 10 Year Plan.</li> </ul> <p><b>Staff have concluded that no changes are required to the 10-Year Plan.</b></p>
Pensioner Housing	<ul style="list-style-type: none"> <li>A petition was received calling for a binding referendum on the sale of pensioner housing. The petition does not meet the threshold for consideration under the Citizens Initiated Referendum Policy.</li> <li>This was not a 10-Year Plan consultation issue and Council has made its decision on this on 27 November 2014.</li> <li>No new information has been raised by submitters that Council has not previously considered in making the proposal.</li> </ul> <p><b>Staff have concluded that no changes are required to the 10-Year Plan.</b></p>
Public source of non-fluoridated water	<ul style="list-style-type: none"> <li>74 standardized submissions were received requesting a non-fluoridated water source.</li> <li>Council previously considered and rejected this matter on 20 March 2014.</li> <li>No new information has been raised by submitters that Council has not previously considered in making the proposal.</li> </ul> <p><b>Staff have concluded that no changes are required to the 10-Year Plan.</b></p>

## 59. Submissions requesting funding

60. As is usual with 10-Year Plan submissions Council received a number of funding requests. These are listed in Attachment 2.
61. Staff are recommending the request from Hamilton and Waikato Tourism for an additional \$195,000 per annum funding grant be added to the budget, consistent with council's previous resolution to get a regional approach from the Mayoral forum. This funding is subject to the other funding councils confirming their increases in their final 10 Year Plan, noting that all councils have made decisions to approve their increased share.
62. Staff propose the following three requests are addressed through existing work programmes and no changes are made to the 10-Year Plan:
- Te Awa River Ride Charitable Trust request for \$100,000 in each of 2016/17 and 2017/18, be considered by the Integrated Transport Programme Working Group
  - Te Runanga o Kirikiriroa requesting the Kirikiriroa marae and urban marae be considered as community houses/centres for funding be referred to the Multi-Year Community Contestable Grant application process.
  - Creative Waikato request for \$20,000 to be included for arts and culture project grants. These types of projects are eligible from the Single and Multi-Year Community Contestable grant funds.
63. The other requests for funding are not supported as they have been previously considered by Council.

## 64. Changes Arising from New Information (Risk and Opportunities)

65. The 10-Year Plan budgets have been reviewed subsequent to the Consultation Document being approved.
66. The following operating budget lines have been identified as being large enough to require a change.

Budget	Reason	2015/16 Change
Water Supply Revenue	Loss of revenue from major client	(\$390,000)
Parking Revenue	Adjustment to reflect actual results	(\$100,000)
Community Safety & Crime Prevention Grant	Loss of grant income from Ministry of Justice	(\$120,000)
Community Safety and Crime Prevention staff and Contractors	Reduce expenditure funded from Ministry of Justice grant	\$120,000
Pool Staff Costs	Increased for safety	(\$100,000)
Interest Costs	Revised for latest information	\$1,056,000
Total increase in surplus		\$466,000

67. The loss of the \$120,000 grant from the Ministry of Justice directly impacts the level of service provided by City Safe. Staff are recommending that \$120,000 of the surplus be reinstated to the budgets to maintain the Community Safety and Crime Prevention level of service, to mitigate the loss of the Ministry of Justice grant.
68. In addition \$1m of capital expenditure on the Authority upgrade is transferred one year, 2015/16 to 2016/17, to reflect current estimated timing for the project.
69. The combination of the above changes and the proposed \$195,000 increase in the Hamilton and Waikato Tourism grant results in a net increase in the surplus for \$151,000 in 2015/16. This is detailed in Attachment 3, and summarised as follows:

Budget Change	2015/16 Change
Total increase in surplus from changes to operating budgets	\$466,000
Reinstatement of City safe budget to maintain level of service	(\$120,000)
Increased Hamilton and Waikato Tourism grant	(\$195,000)
Total increase in surplus	<u>\$151,000</u>

70. These changes do not impact the balanced budget target but do have a minor implication on the debt to revenue ratio. The target of a debt to revenue ratio of 200% is still achieved at 2020. These impacts are shown in more detail in Attachment 3.

### 71. Options

72. Council has four key options as it considers its response to the submissions on the 10-Year Plan Consultation Document 2015-25:

- Prepare the 10-Year Plan in accordance with the Consultation Document.
- Prepare the 10-Year Plan in accordance with the Consultation Document 2015-25, as amended by the Risks and Opportunities recommendations outlined in this report. **This option is recommended by staff.**
- Amend the proposal by determining to bring forward (advance) specific projects in a response to submissions seeking a greater response to growth and extend the date that the Financial Strategy debt targets are met.
- Amend the proposal by determining to push back (delay) specific projects in response to submissions seeking greater financial stringency and bring forward the date that Financial Strategy debt targets are met.

### 73. Risk

74. Council must adopt its 10-Year Plan by 30 June 2015 and decisions on submissions are required to be made on 4 June 2015 to enable this to occur in accordance with the Local Government Act. Failure to complete the process by 30 June 2015 will prevent Council from striking the rates for 2015/16 at the level required to support the budgets included in the 10-Year Plan, delay the introduction of capital value rating and will introduce significant reputational risk.

### Signatory

Authoriser	Richard Briggs, Chief Executive
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## Attachment 1: Other Major Themes from Submissions

The following paragraphs discuss other key issues which were identified during the consultation process. The recommended staff responses are included.

### Permanent closure of Municipal Pool

1. The 10-Year Plan Consultation Document 2015-25 highlighted the proposal to permanently close the Municipal Pool as a key issue requiring community feedback.
2. The majority of submitters did not respond to this issue, indicating passive community support.
3. 94 submissions were opposed to permanently closing Municipal Pool, including community advocacy group Sink or Swim. Rationale: The pool has heritage value to the city, the pool servicing a number of primary schools, increases the livability of the central city, provides support for the River Plan through maintaining recreation near the river and has health benefits as an outdoor pool.
4. Of those opposing the closure, a number suggested for Council to do one of the following instead:
  - Advance \$4.8 million of funding from Option 2 and use for the refurbishment of Municipal Pool.
  - Raise external funding to pay for the cost of the refurbishment.
  - Pay for the refurbishment by stopping other projects, such as Wellington Street beach development (noting this is not currently funded in the budget).
5. 58 submitters supported the closure of Municipal Pool. This was based on concerns that the pool is too expensive to refurbish and a preference for money to be spent elsewhere (such as a pool in Rototuna).
6. Sport Waikato indicated support for the closure of Municipal Pool, noting a lack of pool service in the north of the city.
7. The Waikato Regional Sports Facility Plan also supports the closure of Municipal Pool, rationalizing that capital would be better invested in a new indoor community pool, preferably in the north-east of the city.

Staff are concluding that no new information has been raised that Council has previously not considered. Staff are therefore recommending that Council resolve to permanently close Municipal Pool.

### Cycling Infrastructure

8. There were 311 standardised submissions received through a social media based campaign, from community based organisation Generation Zero. The form included five issues that could be selected and a free field box where any other comments could be made.
9. The vast majority of these submitters request for Council to:
  - Commit at least \$1 million per year over the next ten years (\$10 million) to develop cycle infrastructure.
  - Include funding for cycling infrastructure in Transport Budget
  - Make reducing car dependence and carbon emissions a priority in the 10 Year Plan
  - Investigate the 'Green Ring' cycle project
  - Review all new road projects, deferring some to limit city debt below \$440 million
10. Cycle Action Waikato also requested for Council to bring forward the planned \$7 million strategic cycling network from beyond year 10 and to increase spending to \$12 million over the 10-Year Plan.
11. An analysis of the draft 10-Year shows Council is spending approximately \$12.75m including NZTA subsidy on cycle infrastructure over the next 10 years (see table 1 below for

breakdown). In addition to this, there is the \$7 million Strategic Cycle Way Network project proposed to start in year 13 of the Infrastructure Strategy.

12. Council also adopted a draft Biking Plan for a round of public engagement at the Strategy and Policy Committee 26 May 2015. This Plan is a 30 year vision and proposes a package of interventions including educational and promotional activities alongside new or upgraded infrastructure.

**Table 1: Spending on Cycle Infrastructure over the next 10 Year**

Funding area	Timeframe	Estimated Cycling Allocation \$(000)
Integrated transport budget	Annual	600 <sup>#</sup>
Minor Improvements to transport network budget	Annual	150 <sup>^</sup>
Major Road Upgrades:		
• Wairere Drive (Cambridge to Cobham Drive)	2015/16	2,150*
• Resolution Drive extension	2016-2019	2,550*
• Northern Rototuna Expressway crossing	2016-2019	500
• Rototuna High School transport corridor	2015/16	60
<b>Total</b>		<b>\$12,750</b>

\*Note that programmes above include a NZTA subsidy of 51% of the total cost of project provided they align with priority areas within the network.  
<sup>#</sup> Note, subject to prioritization by the discretionary transport budget working group.  
<sup>^</sup> Note, subject to projects

13. HCC staff are aware of the Green Ring project and it is not, at this stage, part of the primary or secondary cycling network identified in the Biking Plan.
14. As Council is proposing to spend approximately \$12.75 million on cycle infrastructure over the next 10 years, no change to the 10-Year Plan is recommended.
15. The above table does not include any projects arising from Council's application to the government's Urban Cycle Fund.

#### Pensioner housing

16. A petition with 342 signatures was received from Hamilton Residents & Ratepayers Association (Sub No. 308) opposing the sale of pensioner housing and calling for a binding referendum on the sale of pensioner housing.
17. Three additional submissions opposed to the sale of pensioner housing were received.
18. The consultation document did not include any reference to sale of the pensioner housing portfolio as that was the subject of a special consultation process in October 2014. Council resolved on 27 November 2014 to sell the pensioner housing portfolio to social housing providers.
19. This petition does not meet the threshold for council to consider under the citizen initiated referendum policy.
20. No new information has arisen since Council made its decision on 27 November 2014 and therefore no change is recommended.

#### Public source of non-fluoridated water

21. 74 standardised submissions requested for Council to establish a number of public access points with non-fluoridated water.
22. Council resolved on 20 March 2014 to re-commence fluoridating Hamilton City's water supply, with no alternatives sources of water with no added fluoride to be made available.

23. Options for the provision of a non-fluoridated source of water that have previously been reported to Council are:
24. Option 1
25. The provision of a source of city water with no added fluoride at the Water Treatment Plant has been considered but is not recommended as it would not only be costly to implement but it would be technically and operationally challenging and would add significant risk to compliance with the drinking water standards.
26. The cost to implement this is estimated to be in the order of \$200,000 to \$300,000 and there is no budget for this.
27. Option 2
28. Council could choose to provide a public unfluoridated supply of drinking water at a location to be determined using de-ionising technology (water cooler type facility), which would provide approximately 1 litre of unfluoridated water per minute. The facility would be a standard water cooler that is refilled via the deionizer and could be located in a Council building or facility that has the necessary power, water and wastewater services.
29. The estimate cost is in the order of \$10,000 to \$15,000 to install and up to \$3,000 operational cost per annum and there is no budget for this.
30. Both Option 1 and Option 2 are unbudgeted and are not recommended by staff.

## Attachment 2: Funding requests

The following submitters have requested additional funding from Council that is not included in the proposed budget.

ORGANISATION	AMOUNT	REASON FOR REQUEST	STAFF COMMENTS
<b>Hamilton and Waikato Tourism</b> Sub no. 292	Requesting an additional investment of \$195,000 p.a.	Leverage further investment from other Councils and to improve promotion of City tourism opportunities.	<p>Council resolved that this request remain unfunded until Mayoral Forum had agreed that this would be funded across all partner councils. This funding request is therefore contingent on all other councils participating in the Hamilton and Waikato Tourism partnership confirming their increased funding on the same ratio as that proposed for each Council. All other councils in the region have confirmed their part of the extra funding, subject to ratification through the adoption of their 10-Year Plans.</p> <p><b>Recommendation: Council to fund \$195,000 per annum.</b></p>
<b>Te Awa River Ride Charitable Trust</b> Sub no. 21	\$100,000 2015/16 and \$100,000 2016/17	To support the development of the southern extension	<p>Through the Integrated Transport Programme Working Group, Council allocated up to \$900,000/yr plus subsidy for cycling, pedestrian and public transport projects. There is a focus on ensuring each project leverages NZTA funding up to 51% of project costs. However, there are projects that have a good strategic fit with Council programmes that do not meet the NZTA subsidy requirements. It is likely that the Te Awa request would not qualify for NZTA subsidy. However there is a good alignment for with the Proposed Biking Plan.</p> <p><b>Conclusion: Funding for this project to be considered by the Discretionary Transport Programme Working Group.</b></p>
<b>Creative Waikato</b> Sub no. 170	\$40,000	Feasibility study for Regional Art Gallery	<p>The development of a Museum Strategic Plan is currently underway. This review will provide guidance to Council on issues such as this project and should be completed prior to making a decision on funding.</p> <p><b>Conclusion: This request be re-considered during the development of the 2016/17 Annual Plan once the Waikato Museum Strategic Plan has been completed.</b></p>
	Significant project funding up to \$20,000	Adjust Community Funding process to focus a part on arts and culture and significant projects	<p>The Arts and Culture Fund, Performing Arts Contestable Grant and Single Grant Community fund have been amalgamated and now called the Single Year Grant, which is contestable. All art related applications are still eligible to apply to both the Single Year and Multi-Year Grants.</p> <p><b>Conclusion: Requests can be made to the existing grant funds.</b></p>
<b>Uleisure</b> Sub no. 116	Annual partner pool grant increased from \$30k to \$35k 2016 and then to \$42,500 in 2021	Capital and operation grant for 50yr old pool	<p>The Partner Pools programme was reviewed last year. The recommendation is to continue with current funding ratio as already agreed.</p> <p><b>Conclusion: The existing partner pool funding remains unchanged.</b></p>

<p><b>Riverlea Theatre and Arts Centre</b> Sub no. 193</p>	<p>Gift the land to the Trust – valued at \$460,000 plus GST (if any)</p>	<p>Reverse decision of Council to sell land that the theatre is on as requiring Riverlea to purchase the land or leave is unacceptable.</p>	<p>Council resolved to sell the Riverlea on 25 September 2014. Riverlea Theatre and Arts Centre are given the option to purchase the land in the first instance. This land is surplus to Council's requirements, and there is no reason to hold on to it. The money from the sale of the land will be used to pay Council debt.</p> <p><b>Conclusion: No new information has been brought forward since Council made this decision.</b></p>
<p><b>Te Runanga o Kirikiriroa</b> Sub no. 677</p>	<p>Not specified</p>	<p>Support for Kirikiriroa Marae and other urban maraes in the city as a community house / centres.</p>	<p>HCC provide funding to support the operational management of community infrastructure to deliver services, programme and activities that benefit the social, cultural, artistic and environmental wellbeing of communities in Hamilton, through the Multi Year Community Contestable Grant This grant is allocated for a 3 year period. The Multi-Year application round for these grants opened 20 April and closed on 18 May 2015 with the allocation committee to convene in June to make their decisions regarding successful applicants that will be funded from 1 July 2015- 30 June 2018. The intent of the HCC grants are to fund operational expenses, and cannot be used for capital projects.</p> <p>Note that a full strategic review of HCC owned community facilities has recently commenced and should be completed September/October this year. The outcome of this review will provide guidance to Council on future direction of how facilities such as these could be supported.</p> <p><b>Conclusion: The request could be considered by the Multi-Year Community Contestable Fund.</b></p>
<p><b>Living Wage</b> Sub no. 164</p>	<p>Requests for Council to introduce the living wage (\$19.25 per hour in 2015)</p>	<p>A living wage is necessary to provide workers and their families with basic necessities of life</p>	<p>There would be a significant cost to Council to implement the Living Wage for Council staff and contractors.</p> <p><b>Conclusion: Council previously considered the Living Wage in its budget deliberations. No new information has been raised that has not previously considered by Council.</b></p>

### Attachment 3: Proposed Amendments to 10 Year Plan Budgets (Risks and Opportunities)

1. The 10-Year Plan 2015-2025 budgets have been reviewed subsequent to the Consultation Document being approved.
2. This has included reviewing revenue lines for water services, parking, theatres, and nursery as suggested at recent Finance Committee meetings. Many of these areas had already been considered as part of preparing the 10 Year Plan draft budgets, but assumptions and estimates were reviewed again to ensure the most current information was used.
3. No material adjustments have been identified, though five amendments to the 10 Year Plan draft budgets and one amendment to the capital programme are required as a result of the budget update in recommendation b (i).
4. These will result in a small improvement to the expected surplus and debt levels.
5. The purpose of this report, having heard submissions through the consultation period, is to consider submissions and to determine any changes to be made to Hamilton's 10-Year Plan 2015-25.

#### 6. Recommended changes

Staff comments	Recommendations
<b>Water Treatment &amp; Supply Revenue</b>	
<ul style="list-style-type: none"> <li>• Council has previously identified through the 10-Year Plan monitoring report provided to Finance Committee the loss of major customers related to Water Supply. These customers have either ceased to operate or, in one case, have constructed their own plant.</li> <li>• The loss of these customers has been partially offset by new customers.</li> </ul>	As a result, it is recommended that water supply revenue be reduced by \$390,000 per annum to the expected level for the 2015-25 10 Year Plan period.
<b>Parking Revenue</b>	
<ul style="list-style-type: none"> <li>• A review of parking revenue was carried out and current estimates were compared with the actual results since the budget was prepared.</li> </ul>	As a result, it is recommended that Council reduce parking revenue to reflect the \$100,000 per annum reduction in revenue expected. Total parking revenue in 2015/16 is still expected to be \$5.356m (previously \$5.456m).
<b>City Safe – Community Safety &amp; Crime Prevention</b>	
<ul style="list-style-type: none"> <li>• Council currently receives, as part of its overall City Safe programmes, a \$120,000 per annum grant from central government for Community Safety &amp; Crime Prevention. This is used to fund initiatives such as the CBD Burglary and Crime Reduction Programme and the City Safety Ambassador programme.</li> <li>• Notice was recently received that this grant would be ceasing.</li> </ul>	<p>As a result, it is recommended that grant revenue should be reduced by \$120,000 per annum. Council also employ some staff &amp; contractors to deliver services as specified by the grant programmes.</p> <p>Usually, with the loss of grant revenue the level of service provided would be expected to be reduced. The cost associated with the programme delivery against the grants is \$120,000 per annum.</p>

	<p>As these programme initiatives are and continue to be a Council priority, as reflected in the Central City Safety Plan, the 2014/15 Annual Plan, and other documents, it is recommended that Council consider maintaining the City Safe service level unchanged.</p> <p>Council therefore has two options in relation to the service provision:</p> <ol style="list-style-type: none"> <li>Council could reduce expenditure to reflect the reduced service. This is the position included as part of the budget update in recommendation b (i) and shown as part of the first subtotal in table one.</li> <li>Council could choose to retain this service, despite the loss of the grant revenue, by allocating \$120,000 per annum from part of the \$466,000 increased surplus identified through the recommended changes. This is recommendation b (ii) and is included in the Total Impact on the Surplus in table one.</li> </ol>
<b>Pool Staffing</b>	
<ul style="list-style-type: none"> <li>Throughout the summer, pools operated by Council had increased demand. At Water World, in particular, this placed increased demand on services and additional staffing was required to address health and safety concerns as a result. Water World operates a total of 14 shifts each week.</li> </ul>	<ul style="list-style-type: none"> <li>After considering the demand and safety concerns, a net increase, after some reallocation of resources from other areas, of \$100,000 per annum increases in staff costs for community pools is recommended</li> </ul>
<b>Interest Costs</b>	
<ul style="list-style-type: none"> <li>Council has reforecast the likely opening debt position and the forecast results after the changes identified above.</li> <li>In addition, interest rates over recent months have continued to be at near record lows and the long term interest curve has remained favourable.</li> <li>Council has, in accordance with its treasury policy and the recommendation of its treasury advisors, increased its swap positions at favourable rates.</li> <li>Despite no change in the interest rate assumptions for floating debt, Council has reduced its expected weighted average interest rate and therefore overall interest costs.</li> </ul>	<ul style="list-style-type: none"> <li>It is therefore recommended that interest costs be reduced by between \$1m and \$1.4m per annum, as shown in table one.</li> </ul>
<b>Authority upgrade</b>	
<ul style="list-style-type: none"> <li>Only one change is proposed for the Capital programme</li> <li>Information services have advised that they expect the timing of Authority system upgrade costs to be \$0.5m in 2015/16 and \$1.5m in 2016/17, compared with \$1.5m and \$0.5m as originally proposed in the Draft 10 Year Plan</li> </ul>	<ul style="list-style-type: none"> <li>It is therefore recommended that a \$1m reduction be made to the 2015/16 capital programme and the 2016/17 capital programme be increased by a corresponding amount.</li> </ul>

Budget.	
<ul style="list-style-type: none"> <li>This results in \$1.0m falling back one year, but does not impact on scope, timing of expected go live or services expected to be delivered.</li> </ul>	

## 7. Impact on Key Financial Strategy Measures

- The recommended changes are not material and Council could choose not to amend the Draft 10-Year Plan budgets. If Council did not amend the budgets these items would be reported variances until amended in the 2016/17 Annual Plan or the 2018-28 10 Year Plan.
- Amending the 10-Year Plan 2015-25 budget for the operating items will result in a small improvement to the projected Accounting and Balancing the Books surpluses, as follows:

Table One: Recommended Operating Budget Adjustments											(Unfav)/ Fav	
\$000's	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025		
<b>IMPACT FROM BUDGET UPDATE &amp; REVIEWS – Recommendation b (i)</b>												
<b>Revenue</b>												
Water Supply	(390)	(399)	(409)	(419)	(431)	(443)	(456)	(470)	(486)	(502)		
Parking	(100)	(102)	(105)	(108)	(110)	(114)	(117)	(121)	(125)	(129)		
City Safe - Community Safety & Crime Prevention Grant	(120)	(123)	(126)	(129)	(133)	(136)	(140)	(145)	(149)	(155)		
<b>Total Revenue</b>	<b>(610)</b>	<b>(624)</b>	<b>(639)</b>	<b>(656)</b>	<b>(674)</b>	<b>(693)</b>	<b>(713)</b>	<b>(736)</b>	<b>(760)</b>	<b>(786)</b>		
<b>Expenditure</b>												
City Safe – remove grant related expenditure	120	123	126	129	133	136	140	145	149	155		
Pool staffing	(100)	(102)	(105)	(108)	(110)	(114)	(117)	(121)	(125)	(129)		
Interest savings	1,056	1,093	1,266	1,203	1,112	1,154	1,211	1,275	1,347	1,405		
<b>Total Expenditure</b>	<b>1,076</b>	<b>1,114</b>	<b>1,287</b>	<b>1,225</b>	<b>1,134</b>	<b>1,177</b>	<b>1,234</b>	<b>1,299</b>	<b>1,372</b>	<b>1,431</b>		
<b>Subtotal: Impact on Surplus from budget update</b>	<b>466</b>	<b>490</b>	<b>648</b>	<b>569</b>	<b>461</b>	<b>484</b>	<b>521</b>	<b>563</b>	<b>612</b>	<b>645</b>		
<b>REINSTATEMENT OF EXPENDITURE TO MAINTAIN SERVICE LEVEL – Recommendation b (ii)</b>												
City Safe – Reinstate expenditure to maintain service level	(120)	(123)	(126)	(129)	(133)	(136)	(140)	(145)	(149)	(155)		
<b>INCREASED FUNDING OF HAMILTON &amp; WAIKATO TOURISM – Recommendation b (iii)</b>												
Hamilton & Waikato Tourism Grant	(195)	(195)	(195)	(195)	(195)	(195)	(195)	(195)	(195)	(195)		
<b>Total Impact on Surplus</b>	<b>151</b>	<b>172</b>	<b>327</b>	<b>245</b>	<b>133</b>	<b>153</b>	<b>185</b>	<b>223</b>	<b>268</b>	<b>295</b>		

- In the table favourable movements are shown as positive and (Unfavourable) movement in brackets.

**Table Two: Accounting Surplus after Tax and Before Revaluations**

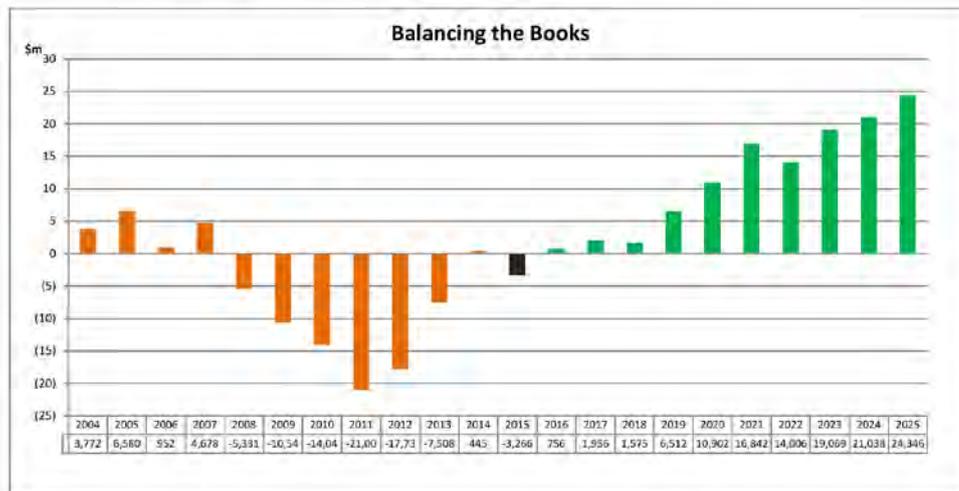
\$000's	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Accounting Surplus After Tax at 9 April 2015	9,085	10,334	9,866	14,953	19,525	25,515	22,718	27,814	29,810	33,162
Impact of changes	151	172	327	245	133	153	185	223	268	295
<b>Accounting Surplus After Tax</b>	<b>9,237</b>	<b>10,505</b>	<b>10,193</b>	<b>15,198</b>	<b>19,658</b>	<b>25,668</b>	<b>22,903</b>	<b>28,037</b>	<b>30,078</b>	<b>33,458</b>

**Table Three: Impact on Balancing the Books Surplus**

\$000's	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Balancing the books at 9 April 2015	604	1,785	1,248	6,267	10,769	16,689	13,821	18,846	20,770	24,050
Impact of changes	151	172	327	245	133	153	185	223	268	295
<b>Balancing the Books Surplus</b>	<b>756</b>	<b>1,956</b>	<b>1,575</b>	<b>6,512</b>	<b>10,902</b>	<b>16,842</b>	<b>14,006</b>	<b>19,069</b>	<b>21,038</b>	<b>24,346</b>

- The Accounting and Balancing the Books surpluses are both expected to improve by between \$151,000 and \$327,000 each year. The impact on 2015/16 is an improvement of \$151,000.
- The improved result provides Council with a small increase in surplus.

**Graph One: Balancing the Books Surplus**

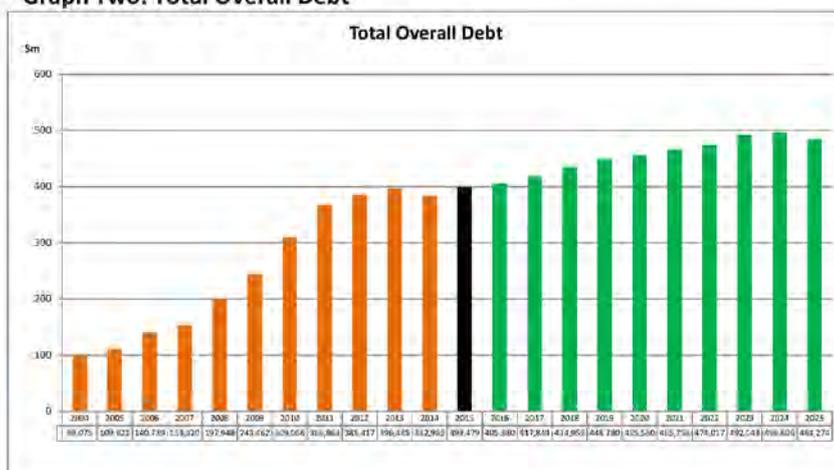


**Table four: Recommended Capital Programme Adjustments**

\$000's	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Authority Upgrade	1,000	(1,026)	-	-	-	-	-	-	-	-
<b>Total Capital Programme</b>	<b>1,000</b>	<b>(1,026)</b>	<b>-</b>							

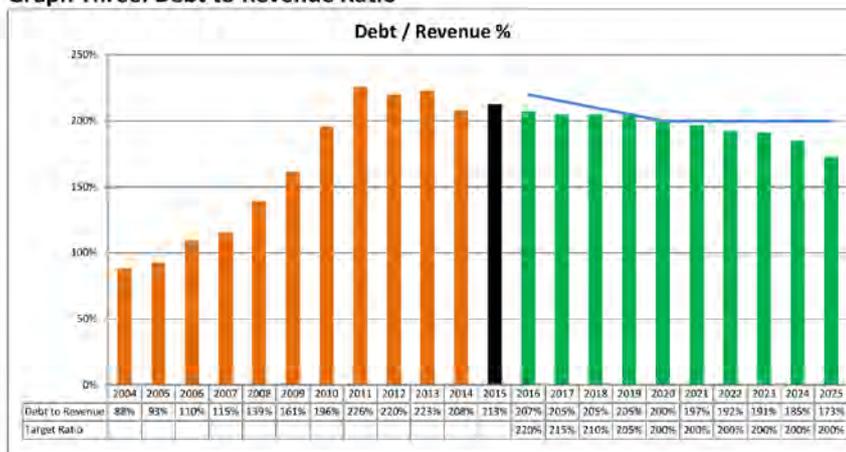
- After allowing for the recommended capital programme change, the improved surpluses reduce Total Overall Debt by \$2.13m at the end of the 10 Year Plan.

**Graph Two: Total Overall Debt**



- The \$674,000 reduction in revenue reduces the borrowing capacity in the most marginal year (2020), by \$1.3m. Total Overall Debt has reduced by \$1m by this point as a result of the recommended changes.
- The critical debt to revenue ratio at 2020 remains at 200%.

**Graph Three: Debt to Revenue Ratio**



## Attachment 4: Background information

In response to submissions requesting the advancement or deferral of projects, the following tables show the projects that were for movement in the Consultation Document 2015-2025. They are unchanged from the Consultation Document.

### Option 2: Bringing projects forwards

In the 2015-25 10-Year Plan Consultation document, the following table listed seven projects that could be completed earlier (pg. 35).

**Table 1: Projects that could be completed earlier**

Project	Project Cost \$M*	Debt by 2025 \$M	Additional cost to do this project earlier \$M	When we will achieve our borrowing limit
<b>Option 1: Our proposal</b>		486.4		2020
<b>This Option</b>				
<b>a) New pool</b> Starting 2017: 6 years earlier	4.8	487.6	1.2	2021
<b>b) New Rototuna sports park</b> Starting 2016: 6 years earlier	4.8	489.9	3.5	2021
<b>c) Indoor recreation centre grant</b> Starting 2018: 4 years earlier	4.0	487.8	1.4	2021
<b>d) Founders Theatre refurbishment</b> Starting 2016: 5 years earlier	13.9	494.9	8.5	2022
<b>e) Borman Road East Starting 2016</b> Starting 2016: 5 years earlier	17.7	490.9	4.5	2022
<b>f) Borman Road West Starting 2016:</b> Starting 2016: 2 years earlier	2.7	486.6	0.2	2020
<b>g) Upgrade to North City Road</b> Starting 2016: 2 years earlier	7.2	486.7	0.3	2021
<b>Do all 7 projects earlier:</b>	55.0	506.0	19.6	2023

\*Figures in this column exclude inflation

**Option 3: Deferring projects**

In the 2015-25 10-Year Plan Consultation document, the following table listed seven projects that could be completed at a later time (pg. 36).

**Table 2: Projects which could be deferred**

Project	Project Cost \$M*	Debt by 2025 \$M	Debt reduction if this project is deferred \$M	When we will achieve our borrowing limit
<b>Option 1: Our proposal</b>		<b>486.4</b>		<b>2020</b>
<b>This Option</b>				
a) <b>New pool</b> Deferred beyond 2025	4.8	479.6	6.8	2020
b) <b>New Rototuna sports park</b> Deferred beyond 2025	4.8	479.3	7.1	2020
c) <b>Indoor recreation centre grant</b> Deferred beyond 2025	4.0	479.9	6.5	2020
d) <b>Founders Theatre refurbishment</b> Deferred beyond 2025	13.9	466.2	20.2	2020
e) <b>Rototuna Infrastructure: the extension to Borman Rd east and west and the development of water and wastewater</b> From 2016 -2020 deferred until 2021-2025 and beyond	13.5	481.1	5.3	2018
f) <b>Rotokauri Industrial Infrastructure: roading upgrades and water and wastewater infrastructure</b> From 2016-2020 deferred until 2021-2022	5.4	485.5	0.9	2020
g) <b>Peacocke Stage 2 Infrastructure: roading upgrades and property purchases</b> From 2016-2020 deferred until 2021-2023	2.6	485.9	0.5	2020
<b>Defer all 7 projects:</b>	<b>48.9</b>	<b>439.2</b>	<b>47.2</b>	<b>2017</b>

\*Figures in this column exclude inflation

### Attachment 5: 2015-25 10 Year Plan Submissions Summary Report

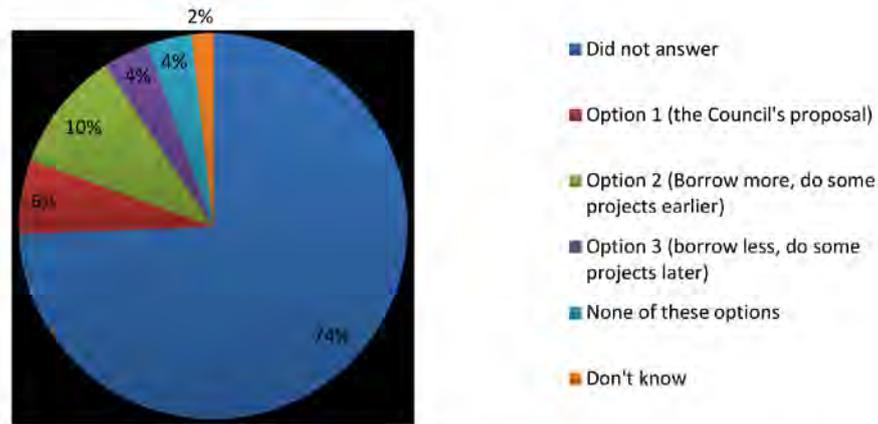
Submission Period:	13 April – 15 May 2015
Written submissions:	333
Generation Zero:	317
Verbal submissions only*	65
Petition	1 (342 signatures)
<b>Total Submissions:</b>	<b>726</b>

\*An additional 48 submitters made both a written and verbal submission. These are included in the written submissions total above.

Based on previous 10-Year Plan consultations, the number of submissions received is low. Note that previous consultation processes would not have counted comments made at engagement sessions as submissions.

#### 1. OPTIONS – BALANCING AFFORDABILITY WITH INVESTMENT

Which option do you support?



As shown above, the majority of submitters did not select a preferred option. Of those who did specify an option, the majority selected Option 2 (10%) or Option 1 (6%). Note: Submitters were only categorised into a particular option if they explicitly indicated a preferred option in their written submission or verbal comments.

#### Option 1 (our proposal): right investment, right time

General comments indicating support for this option are noted below.

Key Issues raised by Submitters	No. of submitters
Sensible compromise between restricting spending and investing in city growth	11
Ensure service levels are maintained	6
Need to keep on top of our infrastructure growth requirements	5

### Option 2: Borrow more, do some projects earlier

General comments indicating support for option two are noted below.

Key Issues raised by Submitters	No. of submitters
Be innovative in finding other types of funding	18
City is growing so can afford higher debt	5
Use targeted rates for specific community projects	3

Submitters identified the following projects to be completed earlier than planned.

Projects to be completed earlier	No. of submitters
North East Aquatic Centre	41
Rototuna facilities (sports and play grounds)	23
Northern road projects	17
Cycling infrastructure	15
Founder Theatre	11

### Option 3: Borrow less, do some projects later

General comments indicating support for option three are noted below.

Key Issues raised by Submitters	No. of submitters
Non-core projects should be deferred until we can afford them	26
Stick to core business - providing infrastructure	15
City debt should remain capped at \$440m	11
Rates are unaffordable	7

Submitters identified the following projects to be completed later than planned.

Projects to be completed later	No. of submitters
Hamilton Gardens	14
River Plan projects (Wellington St Beach)	12
Founders Theatre	11
Rototuna pool and recreation centre	10

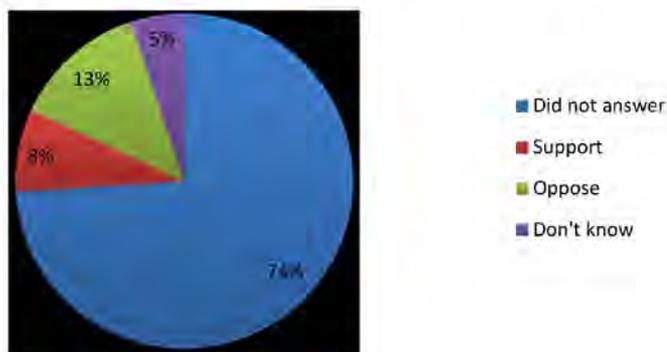
### None of these options

Key reasons for supporting this option are summarised below.

Summary of Issues	No. of submitters
Reallocate funding to encourage growth in cycling, pedestrian and public transport	44
Invest more in the Central City Zone increase the number of people choosing to live there	14
Invest in the Central City Zone	12
Reduce Debt	12
Opposes method of setting rates	9

## 2. PROPOSAL TO PERMANENTLY CLOSE THE MUNICIPAL POOL

Do you support or oppose the proposal to permanently close the Municipal pool?



The majority of submitters (74%) did not respond to this question. Of those who did respond to this question, 94 submitters opposed the closure pool, 58 supported the closure and 37 'did not know'.

Of the 537 submitters who did not answer the question, 70 were verbal submitters, 317 were Generation Zero submitters and 150 were written submitters.

A number of general comments were given for supporting or opposing the proposed closure.

	Key Issues raised by Submitters	No. of submitters
Supports closure	Too expensive to refurbish, money better spent elsewhere	23
	Better uses for the site through the River Plan	4
Opposes closure	Important to increase children swimming skills	40
	Valued community facility	37
	Pool is are a heritage site	29
	Refurbish, keep it simple	23
	Pool would support the River Plan	11

## 3. GENERATION ZERO SUBMISSION SUMMARY

317 submissions were received from a social media campaign through the community based organisation [Generation Zero](#). The form included five issues that could be selected and a free field box where any other comments could be made.

Key Issues raised by Submitters	No. of submitters
Please commit at least \$1 million per year over the next ten years (\$10 million) to develop cycle infrastructure.	317 (100%*)
Include funding for cycling infrastructure in Transport Budget	311
Make reducing car dependence and carbon emissions a priority in the 10 Year Plan	311
Investigate the ' <a href="#">Green Ring</a> ' cycle project	309
Commit at least \$10 million for developing cycle infrastructure in the 10 Year Budget	306
Review all new road projects, deferring some to limit city debt below \$440 million	301

\*of Generation zero submitters

#### 4. OTHER COMMENTS

A number of additional comments were received through the engagement process and are noted below.

Summary of Issues	No. of submitters
Requests non-fluoridated public water source	74
Increase support for community groups/services	24
Increase support for native biodiversity and sustainability projects	20
Supports use of sustainable water and energy technology	20
Opposes proposed waste and recycling system	16
Opposes fluoridation in drinking water	10
Opposes Pensioner housing sale	4 (petition of 342 signatures included)

NOTE: This report incorporates feedback from both written and verbal submission. If a submitter has provided both verbal and written feedback, they have only been noted once in statistics.

#### 5. OTHER PROJECTS

The following community projects were referenced specifically in the 10-Year Plan consultation document. A brief description on the type of feedback received for each community projects (if not referenced above) is below.

##### Founders Theatre

Feedback on the theatre was polarised, with submissions opposing refurbishment on the basis that it was not core infrastructure, while supporters citing the importance of the theatre for arts and culture and lack of a suitable venue elsewhere. There was strong support for bringing the refurbishment forward in both written and verbal submissions from key submitters such as Creative Waikato, Creative New Zealand, Hamilton Operatic Society and Hamilton and Waikato Tourism.

##### River Plan

There were a number of submitters who opposed the development of the Wellington Street Beach project. This predominantly came from people who disagreed with the Municipal Pool closure, as the promotion of Wellington St Beach was seen as a competing swimming location for Hamilton east and City Centre residents. A low number of submitters also indicated the River Plan was not a core infrastructure project and is therefore not essential and should be delayed.

##### Recycling wheelie bins

A small number of submitters opposed the proposal for wheelie bins, mostly based on the views that wheelie bins detracted from the streetscape and that money could be better spent elsewhere. Once again, this view principally came from supporters of refurbishing the Municipal Pools.

##### Indoor Recreation Centre

Aside from submissions from key strategic partners such as Sport Waikato supporting the proposal, there was very little interest in this topic from written or verbal submissions.

##### Sports fields

Submissions on sports fields were almost exclusively centred on provision within Rototuna and closely aligned to requests for other services in that area such as playgrounds, community hubs and a pool.

##### North East Aquatic Facility

The majority of submissions commenting on the proposed new pool principally come from those asking for the refurbishment or closure of Municipal Pool. Sport Waikato (sub. 318) advocated for the North East Swimming Pool to be advanced into the 10 Year Plan.

**Committee:** Council

**Date:** 4 June 2015

**Report Name:** Revenue and Financing and  
Rates Remission and  
Postponement Policy

**Author:** John Gibson

<b>Report Status</b>	<i>Open</i>
<b>Strategy, Policy or Plan context</b>	<i>10 Year Plan 2015 -2025</i>
<b>Financial status</b>	<i>N/a</i>
<b>Assessment of significance</b>	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is considered to have a high degree of significance</i>

## 1. Purpose of the Report

2. Council to consider any changes that may be required to the policies as a result of the written and verbal submissions.

## 3. Executive Summary

4. Council undertook the rates review using a special consultative procedure.
5. The Revenue and Financing Policy and Rates Remission and Postponement Policy form the technical implementation of the Rates Review.
6. Council has received no new substantive information from the 5 submissions received.

## Recommendations

- a) That the report be received
- b) That Council adopt the Rating Policy, Funding Needs Analysis, Revenue and Financing Policy and Rates Remission and Postponement Policy.

## 7. Attachments

8. Attachment 1 - Revenue and Financing Policy
9. Attachment 2 - Rates Remissions and Postponements Policy -2015
10. Attachment 3 - Rating Policy
11. Attachment 4 - Funding Needs Analysis 2015

## 12. Submission Overview

13. There have been four submissions to the Revenue & Financing Policy and one to the Rates Remission and Postponement Policy.
14. Each Revenue and Financing Policy submitter submitted on something different. They were:
- Use targeted rates to fund projects like walking and cycling (Generation Zero)
  - Use targeted rates to charge for refuse collection (Peter Finlay & Associates)
  - Cap rates to CPI ( Mr Archer)
  - Add clause to focus on core services (Tainui Group Holdings)
15. **Analysis:** The Revenue and Financing Policy addresses the implementation of current funding requirements. The policy provides a process for determining funding on significant projects, which allows for the introduction of targeted rates as one of the funding options. The policy is not the appropriate place to address rates capping or a focus on core services. In conclusion, no substantive matters have been raised that require detailed consideration for amendment of the policy.
16. A submission on the Rates Remission and Postponement Policy has been received from Braemar Hospital reinforcing their previous rates review submission. The submission requests a remission of rates as they operate under a charitable trust status.
17. **Analysis:** Further to the analysis previously done as part of the Rates Review they supplied information on two private hospitals in Christchurch and Dunedin that were of similar operation. Staff have undertaken further investigation on the rating of these hospitals and have found these hospitals pay similar level of rates to that which Braemar will pay at the end of the 10 year transitional period under the capital value rating system. In conclusion, no substantive matters have been raised that were not previously considered as part of the Rates Review.
18. Options (if applicable)
- Adopt the policies as drafted (Recommended)
  - Amend the policies as a result of the submissions.
19. **Risk**
20. **Changes arising from legal review**
21. There are a number of edits to the draft policies arising from legal review, these changes do not change the policies but improve the documentation of the policies.

## Signatory

Authoriser	Paul Conder, Chief Financial Officer
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## REVENUE AND FINANCING POLICY

### Policy Objectives and scope

1. This policy outlines the choices Council has made to determine the appropriate funding of operating expenditure and capital expenditure from the sources<sup>1</sup> of funds listed in the Local Government Act 2002 (LGA). The policy also shows how Council has complied with section 101(3)<sup>2</sup>. The comprehensive section 101(3) analysis is separately documented in the Funding Needs Analysis.
2. Determining the appropriate way to fund Council activities is complex. It is a process that takes account of many matters including, but not limited to:
  - Legal
  - Social
  - Competition
  - Affordability
  - Impact of change
  - Efficiency
  - Equity
  - Cost
  - Intergenerational equity
  - Transparency
  - Accountability
  - Business
  - Strategic Alignment
  - Benefit
3. This policy explains how Council plans to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.

### Principles of policy

4. Council has determined the following basic principles to guide the appropriate use of funding sources.
  - User charges are preferred when a private benefit can be identified and it is efficient to collect the revenue.
  - Subsidies, grants and other income options are fully explored prior to rates being used.
  - Each generation of ratepayers should pay for the services they receive and borrowing can assist to achieve this outcome.
  - Capital costs to replace assets that reach the end of their projected economic life is firstly funded from rates.
  - Capital costs to upgrade or build new assets is funded firstly from sources other than rates (e.g. subsidies, grants, fundraising, financial contributions) and then borrowing.
  - Growth related capital costs are funded by development contributions.
  - Rates systems should be simple and easily understood.
  - Rates are not a charge for the use of a service.

<sup>1</sup> The sources of funds are listed in section 103(2).

<sup>2</sup> All legislative references are to the Local Government Act 2002 unless otherwise stated.

- If no other funding source can be used it is then appropriate to fund the remaining revenue requirement for operating expenditure from rates.
5. Complying with these principles can at times be challenging. The Council must apply judgment in assessing many options to determine appropriateness in its development of budgets or acquisition of assets and the choice of funding sources to implement these.

## Policy guidelines

### Operating Cost Funding Sources

6. Operating costs are the day to day spending that maintains the services delivered by Council. This includes contributions to the wear and tear on assets used (depreciation), interest charged on borrowing for capital projects and corporate overheads.
7. Council must consider the funding of each activity in a way that relates exclusively to that activity. Some activities may be best funded by user charges, such as swimming pool admission fees, others with targeted rates, such as a water rate, and others from the general rate, such as road maintenance.
8. The funding sources for operating costs include:
- 9. User charges**
10. User charges are used for services where there is an identifiable benefit to an individual or group. User charges are a broad group of fees charged directly to an individual or entity. It includes:
- |   |                        |                              |
|---|------------------------|------------------------------|
| ▪ Entry fees.                                   | ▪ Regulatory charges.  | ▪ Memberships.               |
| ▪ Service charges.                              | ▪ Fines and penalties. | ▪ Planning and consent fees. |
| ▪ Hire.   | ▪ Connection fees.     | ▪ Statutory charges.         |
| ▪ Rent, lease, licenses for land and buildings. | ▪ Disposal fees.       | ▪ Retail sales.              |
| ▪ Deposits.                                     |                        |                              |
| ▪ Private works.                                |                        |                              |
| ▪ Permits                                       |                        |                              |
11. The price of the service is based on a number of factors, including:
- The cost of providing the service.
  - The estimate of the users' private benefit from using the service.
  - The impact of cost to encourage/discourage behaviours.
  - The impact of cost on demand for the service.
  - Market pricing, including comparability with other councils.
  - The impact of rates subsidies if competing with local businesses.
  - Cost and efficiency of collection mechanisms.
  - The impact of affordability on users.
  - Statutory limits.
  - Other matters as determined by Council.
12. Council's ability to charge user charges is limited by the powers conferred on it by many statutes and regulations. As a general rule fees for statutory functions should be set at no more than the cost of providing the service. In some cases legislation sets the fees at a level that is below cost and in other cases, where provided by legislation (e.g. Waste Minimisation Act 2008) Council may set fees at greater than the cost of providing the service. Council considers it appropriate to incorporate overhead charges in the determination of the cost of providing a service.

13. Where Council is charging for the sale of goods or services not required by statute, Council's preference is to charge a market price, having regard to the powers conferred on it referred to in paragraph 12. This includes leases, rents and licenses for land and buildings.
14. Fees and charges may be set by Council at any time and are reviewed by Council annually. A list of regular fees and charges is maintained on Council's website.
15. User charges revenue is allocated to the activity which generates the revenue.

**16. Grants, sponsorship, subsidies and other income**

17. Grants, sponsorship and subsidies are used where they are available. Many of these items are regular and predictable and therefore can be budgeted. Some items of other income are unexpected or unpredictable and may not be able to be prudently budgeted (e.g. reparation payments, Civil defence and other reimbursements, legal settlements and insurance payouts)
18. Council expects to continue receiving substantial subsidies for road maintenance from government or its agencies. While this is recorded as operating income a large portion is for capital costs.

**19. Investment income**

20. Council's investment policy is documented in its Liability Management and Investment Policy. These investments generate income such as dividends, interest, and rents.
21. Income from assets is receipted to the activity that owns the asset.

**22. Development contributions, financial contributions, proceeds from the sale of assets and lump sum contributions**

23. Council does not collect revenue from these funding sources to fund operating costs.

**24. Reserve funds**

25. Council maintains a small number of cash funded reserve funds. Some of these reserve funds are available to meet operating costs (e.g. cemetery maintenance).
26. Council generally uses these funds for the purposes that the reserve was created.

**27. Borrowing**

28. Council borrowing is generally undertaken at a whole of Council level subject to the constraints on rates increases, debt levels set by the financial strategy.
29. Council generally plans to fund all cash operating costs from sources other than borrowing but may in specific circumstances, where it determines it is prudent to do so, fund some operating costs from borrowing.

**30. Rates**

31. Having appropriately exhausted all other funding sources, Council funds its remaining operating expenses from rates. For many activities this is the main funding source.
32. These matters were taken into account by Council when determining the funding requirements of each activity in the Funding Needs Analysis, as required by section 101(3)(a).
33. Council may establish targeted rates to fund operating costs.
34. Further information on rates can be found from paragraph 75.

### 35. Summary of sources of funding for operating costs by activity

36. Council has applied the above preferences for the use of the funding sources to each activity in its Funding Needs Analysis. Table 1 describes the extent each funding source is used to fund operating costs following the initial s101(3)(a) assessment. Council has modified this assessment with its s101(3)(b) assessment, which requires Council to consider the overall impact of allocation of liability for revenue needs on the community as described from paragraph 84. This includes the creation of the transitional rate, which is a targeted rate designed to address the impact of the change from land value to capital value for the general rate.
37. These ranges are expressed as a percentage of the cost of the activity. A key to interpret the graphics follows the table.

**Table 1: Summary of funding sources by activity s.101(3)(a) only**

Activity	User charges	Grants, subsidies & other	Invest. Income	Fin. Cont.	Dev. Cont.	Reserve Funds	Borrowing	General Rates	Targeted rates
Parking Management	✓	X	X	X	X	X	X	X	X
Housing	✓	X	X	X	X	X	X	X	X
Building Control	✓	X	X	X	X	X	X	X	X
Cemeteries & Crematorium	✓	X	X	X	X	✓	X	X	X
Strategic Property Investment	X	✓	✓	X	X	X	X	X	X
Planning Guidance & Compliance	✓	X	X	X	X	X	X	✓	X
Animal Education and Control	✓	X	X	X	X	X	X	✓	X
Waste Minimisation	X	X	X	X	X	X	X	✓	X
Landfill Site Management	X	X	X	X	X	X	X	✓	X
Arts Promotion	X	X	X	X	X	X	X	✓	X
Partnership with Maaori	X	X	X	X	X	X	X	✓	X
City Planning	X	X	X	X	X	X	X	✓	X
Emergency Management	X	X	X	X	X	X	X	✓	X
Stormwater Network	X	✓	X	X	X	X	X	✓	X
Refuse Collection	X	✓	X	X	X	X	X	✓	✓
Sewage Treatment and Disposal	✓	X	X	X	X	X	X	✓	✓
Hamilton Gardens	✓	X	X	X	X	X	X	✓	X
Economic Initiatives	X	X	X	X	X	X	X	✓	✓
Libraries	✓	✓	X	X	X	X	X	✓	X
Museum	✓	✓	X	X	X	X	X	✓	X
Community Development	✓	✓	X	X	X	X	X	✓	X
Community Parks	✓	X	X	X	X	X	X	✓	X
Gullies and native plantings	X	✓	X	X	X	X	X	✓	X
Streetscapes	X	✓	X	X	X	X	X	✓	X
Sports Parks	✓	X	X	X	X	X	X	✓	X
Governance & Civic Affairs	✓	X	X	X	X	X	X	✓	X
Theatres	✓	✓	X	X	X	X	X	✓	X
Sewage Collection	✓	X	X	X	X	X	X	✓	✓

Indoor Recreation	✓	✓	x	x	x	x	x	✓	x
Environmental Health and Public Safety	✓	✓	x	x	x	x	x	✓	x
Water Treatment and Storage	x	x	x	x	x	x	x	✓	✓
Water Distribution	✓	x	x	x	x	x	x	✓	✓
Transport Network	✓	✓	x	x	x	x	x	✓	✓
Zoo	✓	✓	x	x	x	x	x	✓	x
Stadiums	✓	x	x	x	x	x	x	✓	x
Claudlands	✓	✓	x	x	x	x	x	✓	x
Pools	✓	✓	x	x	x	x	x	✓	x

**Table 2: Summary of funding sources by activity**

Key

Range Name	Range	Key
Unlikely	0	x
Minimal	0% -20%	✓
Low	20% -40%	✓
Moderate	40% - 60%	✓
High	60% - 80%	✓
Most	80% - 100%	✓
All	100%	✓

38. Council budgets will normally be set within these ranges. As these ranges are expressed as a percentage of the cost of the activity they may change over time because of changes in expenditure rather than changes in revenue. If budgets were marginally outside these ranges, it is unlikely that Council will consider that matter to have a high degree of significance and therefore warrant a consultation to change the Revenue and Financing Policy. It is also likely that actual funding sources will be different from budgeted funding sources.

## Funding Sources for Capital Costs

39. Capital costs are those costs associated with the purchase and improvement of assets and for the repayment of debt. The funding sources for capital costs include:
- 40. User charges**
41. User charges are generally not available for capital costs as individual user contributions would generally be too large to be affordable. Borrowing and charging users annually for financing costs (interest and principal) via rates is often a more affordable method of charging users contributions.
42. Council does charge for capital works that are solely for private benefit (e.g. a network extension to a single dwelling) or where capital works are undertaken outside of asset management plans at the request of individuals (e.g. a rural seal extension for dust suppression).
- 43. Grants, subsidies, and other income**
44. Council relies on significant subsidies for capital works in its roads and bridges activity. Other activities are able to access grants and subsidies from time to time. Other income can be from many and varied sources and is unlikely to be predictable enough to budget for in advance. Other income used to fund capital costs could include bequests, insurance payouts, and legal settlements.
45. Grants, subsidies and other income are used wherever they are available.
- 46. Development contributions**
47. Council collects development contributions to fund capital costs necessary to service growth over the long-term.
48. Council has a Development and Financial Contributions Policy. Most contributions received are transferred to loan accounts<sup>3</sup>. Development contribution funds received will be applied to the projects as identified by the policy. Projects identified in the policy may be either completed projects (with debt yet to be repaid from future development contributions) or future projects planned to be undertaken.
49. Note that, in addition to the requirements of sections 101(3) and 103 the Development and Financial Contributions Policy additionally describes funding matters further as stipulated by section 106(2)(c).
- 50. Financial contributions**
51. Council collects financial contributions under the Resource Management Act 2001 to avoid, remedy or mitigate adverse effects on the environment as conditions to resource consents. The requirements for these contributions are outlined in the Operative and Proposed Hamilton District Plans. Most contributions are received as revenue by the vesting of assets in Council; some contributions may be paid to Council.

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<sup>3</sup> Many growth developments are undertaken in anticipation of growth. The growth portion of the project is funded from borrowing. When this occurs the development contribution receipts are then used to repay the debt.

**52. Proceeds from the sale of assets**

53. From time to time Council disposes of assets. Many of these are low value items and the revenue is received by the activity that owns the assets.
54. Council's Strategic Property activity holds some higher value assets that are intended for sale. Unrestricted proceeds from the sale of these assets will be used to repay debt, unless resolved otherwise by Council<sup>4</sup>. Restricted revenues will be placed in the appropriate reserve fund and used for the purpose required by the document that imposes the restriction (e.g. municipal endowments reserve).

**55. Reserve funds**

56. Council maintains some reserve funds for capital projects and will approve the use of the funds when a project meets the specific criteria for the reserve.

**57. Borrowing**

58. Council must borrow to fund its asset programme. The amount of borrowing available is restricted by Council's financial strategy debt limits.
59. Borrowing, both the capital (principal) and interest components, is generally repaid by future rates.
60. Borrowing spreads the cost of the project over a longer period, smoothing changes in rates and ensuring that ratepayers who enjoy the benefit of long-lived assets contribute to their costs.

**61. Lump sum contributions**

62. Council has the option when undertaking a major project to seek lump sum contributions to the capital cost of the project from those who are identified in the projects "capital project funding plan"<sup>5</sup>. Lump sum contributions are provided for in the Local Government (Rating) Act 2002 and have stringent requirements placed on how they are used. Where a lump sum payment option is proposed ratepayers choose to participate or not. Council has previously used these provisions and may do so in the future.
63. Council does not presently plan to seek lump sum contributions.

**64. Rates**

65. Rates are primarily used to fund the day to day expenses including depreciation and borrowing interest costs. In each year Council calculates the cash surplus from operating revenue less operating costs to determine the amount of rates funding available to fund capital projects.
66. The greatest portion of this funding is rates assessed to pay for depreciation (which is a non-cash operating costs which council funds annually). These funds are used to fund renewal projects.
67. A portion of rates funds the capital (principal) repayments of debt.
68. Council may establish targeted rates to fund capital projects.

**69. Summary of sources of funding for capital costs by activity**

70. Council uses the following guidelines when considering the funding of capital projects:

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<sup>4</sup> As required by the Investment and Liability Management Policy.

<sup>5</sup> Local Government (Rating) Act 2002 - s.117A

- All projects are first funded from grants, subsidy or other income, which are budgeted as operating revenues.
  - Growth projects for network infrastructure that are required to meet increased demand are funded from development contributions, to the extent provided for in the Financial and Development Contributions Policy.
  - Reserve funds for other purposes are considered. Council has a small number of cash funded reserves available for capital costs projects.
  - Targeted rating options may be considered.
  - Projects that have exhausted previous funding sources are funded from from general rates and/or debt.
71. A single project may have a mix of each of these funding options.
72. Whenever Council resolves to consider funding a separate project, Council will consider the sources of funds above, the Revenue and Financing Policy and complete a section 101(3) assessment to determine an appropriate funding policy for the project. Generally Council will resolve the funding policy at the time the project is proposed in an Annual Plan or Long-term Plan.

#### Overall funding consideration

73. Council is required by section 101(3)(b) to consider the overall impact of the allocation of liability for revenue needs on the community. It allows Council, as a final measure, to modify the overall mix of funding that would otherwise apply after the s 101(3)(a) analysis.
- i. Council will transition the impact of the change from the land value general rate of 2014/15 to a capital value general rate over 10 years. This is achieved by using the transitional targeted rate.
  - ii. Council will modify the allocation of the rates liability between sectors of the rating base by the use of differentials on the general and transitional rates.
  - iii. Council may waive or discount fees and charges where it considers it appropriate to do so. Some matters Council may consider in deciding whether it is appropriate to waive fees are for social reasons, for the promotion of events and facilities, for commercial reasons, due to poor service or to minimise risk.
  - iv. Council may remit rates where it considers it appropriate to do so and as documented in the Rates Remissions Policy. These policies address social matters as well as adjusting rates for benefits that differ for some rates assessments (e.g. additional or no provision of some services).
  - v. Council may use accounting provisions and reserve funds to spread the costs of activities over multiple years for the purpose of smoothing the cost to users and ratepayers.
  - vi. Council may modify the allocation of liability for growth related network infrastructure projects when considering the matters required by s106 in the Financial and Development Contributions Policy.

#### Rates

74. Council's final consideration of funding by rates comes:

- After considering how the other funding sources will be used to fund operating and capital costs, and
- After that has been applied to activities in the Funding Needs Analysis, and
- After being adjusted for the overall funding considerations

75. The following section outlines the revenue and financing policy requirements that are used to set rates. To have a full understanding of rates they should be read having regard to the analysis above and in conjunction with the Rating Policy, Funding Impact Statement and Rates Resolution.

#### 76. General rates

77. The general rate is allocated to properties based on the capital value of the property. Council does not have a uniform annual general charge.

78. Council has chosen to differentiate the general rate into four differential rating categories (residential, commercial, CBD commercial and rural). The full definition of these categories is contained within the Rating Policy.

79. Council has determined in its Funding Needs Analysis that all or part of the following activities should be funded from the general rate:

- |                                  |                                 |  |
|----------------------------------|---------------------------------|--|
| ▪ Planning Guidance & Compliance | ▪ Sewage Treatment and Disposal | ▪ Governance & Civic Affairs             |
| ▪ Animal Education and Control   | ▪ Hamilton Gardens              | ▪ Environmental Health and Public Safety |
| ▪ Stormwater Network             | ▪ Economic Initiatives          | ▪ Water Treatment and Storage            |
| ▪ Catchment Management           | ▪ Libraries                     | ▪ Water Distribution                     |
| ▪ Refuse Collection              | ▪ Museum                        | ▪ Transport Network                      |
| ▪ Waste Minimisation             | ▪ Community Development         | ▪ Zoo                                    |
| ▪ Landfill Site Management       | ▪ Community Parks               | ▪ Stadiums                               |
| ▪ Arts Promotion                 | ▪ Gullies and native plantings  | ▪ Claudelands                            |
| ▪ City Planning                  | ▪ Streetscapes                  | ▪ Leisure Facilities                     |
| ▪ Theatres                       | ▪ Sports Parks                  | ▪ Emergency Management                   |
| ▪ Sewage Collection              |                                 |  |

80. The general rate differential factors for 2015/16 will be calculated as shown in the Rating Policy.

81. In setting the differential sectors, and the differential factors, Council considered the requirements of the Local Government Act and a number of other considerations, including:

- The activities funded by the general rate and the s101(3) considerations for the activities.
- The historic relationship between the differential sectors and the existing level of the differential under the land value general rate.
- The impact of any change, or rate of change to the differential.
- The views of those impacted by the differentials.

- Other reasonable options, and the advantages and disadvantages of those options.
- The overall impact of the differential on ratepayers.

## 82. Targeted rates

### 83. Transitional Rate

84. Council has decided to move to a capital value general rate from a land value general rate. Having considered the overall impact of the change on ratepayers, Council determined that the impact of the change should be transitioned over 10 years. For transparency, Council has chosen to achieve the transition by setting a transitional rate that is similar in effect to the prior land value general rate. The aggregate of the amounts raised by the capital value general rate and the land value transitional rate will equal the amount Council would otherwise have raised from the general rate if the transition were not occurring.

85. The transitional rate is a land value rate, differentiated by 7 differential rating categories (Residential, Commercial/Industrial, CBD Commercial/Ind, Multi Unit Residential, Rural Residential, Rural Small and Rural Large).

86. The full definition of these differential categories is contained within the Rating Policy. How the allocations to these categories are calculated is documented below under "Transition from land value to capital value general rates".

87. The transitional rate arises as a result of Council's s.101(3)(b) consideration of the overall impact in the allocation of liability for revenue. This rate mitigates the impact of the change from land value to capital for general rate. Council has determined in its Funding Needs Analysis that all or part of the following activities should be funded from the targeted rates (note these are the same activities as funded by the general rate):

- |                                  |                                 |  |
|----------------------------------|---------------------------------|--|
| ▪ Planning Guidance & Compliance | ▪ Sewage Treatment and Disposal | ▪ Governance & Civic Affairs             |
| ▪ Animal Education and Control   | ▪ Hamilton Gardens              | ▪ Environmental Health and Public Safety |
| ▪ Stormwater Network             | ▪ Economic Initiatives          | ▪ Water Treatment and Storage            |
| ▪ Catchment Management           | ▪ Libraries                     | ▪ Water Distribution                     |
| ▪ Refuse Collection              | ▪ Museum                        | ▪ Transport Network                      |
| ▪ Waste Minimisation             | ▪ Community Development         | ▪ Zoo                                    |
| ▪ Landfill Site Management       | ▪ Community Parks               | ▪ Stadiums                               |
| ▪ Arts Promotion                 | ▪ Gullies and native plantings  | ▪ Claudelands                            |
| ▪ City Planning                  | ▪ Streetscapes                  | ▪ Leisure Facilities                     |
| ▪ Theatres                       | ▪ Sports Parks                  | ▪ Emergency Management                   |
| ▪ Sewage Collection              | ▪                               |  |

88. The transitional rate differential factors for 2015/16 will be calculated as shown in the Rating Policy.

**89. Transition from land value to capital value general rates**

90. In 2014 Council decided to change from the land value general rate to a capital value general rate. In order to minimise the effect of the change on individual ratepayers Council decided to transition the change over 10 years.
91. This is implemented by changing the general rate to capital value from 1 July 2105 and at the same time introducing a targeted rate based on land value and differentiated similarly to the land value general rate of 2014/15. Each year 10% of the total cost of the activities funded by the general and transitional rate will be transferred as shown on the table 3.

Table 3: Transition Process

Year	Land Value Transition Rate	Capital Value General Rate
2015/16	90%	10%
2016/17	80%	20%
2017/18	70%	30%
2018/19	60%	40%
2019/20	50%	50%
2020/21	40%	60%
2021/22	30%	70%
2022/23	20%	80%
2023/24	10%	90%
2024/25	0%	100%

1/10 each year

92. The total rates requirement for the activities funded from the activities listed will be split between each rate according to these ratios each year. This allows for adjustments in budgets over time.

### 93. Other Targeted Rates

94. Council collects a few targeted rates either to fund activities as identified in the Funding Needs Analysis or as a result of Council's overall funding considerations.

Table 4: Targeted rate types

Name	Activities funded	Basis for Rate
<b>Access Hamilton</b>	Access Hamilton projects and finance costs in the Transportation Activity.	Capital value across whole city.
<b>Business Improvement District</b>	BID projects as part of the Economic Initiatives Activity.	Fixed amount per SUIP <sup>6</sup> and a rate per dollar of capital value for all properties in the BID area <sup>7</sup> .
<b>Hamilton Gardens</b>	Gardens Development projects in the Hamilton Gardens activity.	Fixed amount per SUIP across the whole city.
<b>Metered water supply</b>	Water Distribution and Water Treatment and Storage activities.	Fixed amount per water connection supplied with water and a charge per unit of water consumed or supplied to non-residential properties.
<b>Commercial Non-metered</b>	Water Distribution and Water Treatment	Fixed amount per SUIP with water

<sup>6</sup> SUIP or Separately used or inhabited part of a rating unit is as required, defined each year in the Funding Impact Statement.

<sup>7</sup> The BID area map is in the Rating Policy.

<b>Water Supply</b>	and Storage activities	supplied or available.
<b>Services water</b>	Sewage Distribution and Sewage Treatment and Storage activities	Fixed amount per property and a rate per dollar of land value for connected land used for certain purposes as defined in the rating policy.
<b>Services refuse</b>	Refuse Collection activity	Fixed amount per property and a rate per dollar of land value for connected land used for certain purposes as defined in the rating policy.
<b>Services sewerage</b>	Sewage Collection and Sewage Treatment and Disposal activity	Fixed amount per property and a rate per dollar of land value for connected land used for certain purposes as defined in the rating policy.
<b>Horsham Downs Hall</b>	Council invoices and collects the following rate on behalf of Waikato District Council.	Fixed amount to properties within the Hall district.

## References

95. Funding Needs Analysis, section 101(3), provides the background and analysis to explain the funding decisions made by Council. It is guided by the funding principles and choices of funding sources documented in the Revenue and Financing Policy.
96. The Development and Financial Contributions Policy provides further analysis, as required by section 106(2)(c). This explains why Council has chosen to use development and financial contributions to fund the capital costs needed to meet increased demand for community infrastructure.
97. The Liability Management and Investment Policy places restrictions on the use of the proceeds from asset sales.
98. The Rating Policy further clarifies the funding requirements of Council by documenting matters not included in the Funding Impact Statement, rates resolution or this policy. It includes the allocation of activity rates requirements to different differential categories, detailed definitions and maps for rating areas.
99. The Funding Impact Statement is included in each Long-term Plan and Annual Plan as required by clauses 15 or 20 of schedule 10. This statement shows the results of the detailed rates calculation for the first year of the plan.
100. Together the above documents form the necessary components to lawfully charge under the Local Government Act for the revenue requirements of Council. Council must also comply with other legislation in regard to the setting of some fees and charges and the Local Government (Rating) Act 2002 for the setting of rates.

## Rates Remissions and Postponements Policy

### Policy objectives and scope

1. To have a rating system which:
  - Appropriately spreads the incidence of rates.
  - Provides sufficient revenue to cover costs.
  - Complies with relevant legislation.
  - Is transparent to the ratepayer and promotes accountability.
2. Rates remissions modify the rates liability on particular rating units in order to ensure an appropriate rate liability.
3. Postponements allow for the delay in payment of rates in certain specific circumstances.
4. Council must comply with the requirements of the Local Government Act 2002 (LGA) and the Local Government (Rating) Act 2002 (LGRA).

### Remissions policy guidelines

#### General

5. All rates remissions are deducted from the rates assessment when the rates are assessed at the start of each rating year.
6. All applications (except for penalty and natural calamity or disaster remissions) must be received one month prior to the rates being assessed. Remissions received after this date will be applied to the following financial year. Rates remissions are not made retrospectively.
7. All references to the remission of the general rate shall also apply to the transitional rate.

#### Not-for Profit Community Organisations

8. Council extends the status of non-rateable properties under of Schedule 1 of the Local Government (Rating) Act 2002 to not-for-profit community organisations.
9. These organisations must deliver social benefits to the community where neither government nor business is best or appropriately placed to do so. An application for rating relief from this remission is required and is available on Council's website.
10. Where a property is used for multiple purposes, a division of the rating unit will be undertaken for rating purposes.
11. The policy is:

- That these rating units will have all rates remitted except for water, refuse and sewerage services supplied. (This is done by remitting all rates and charging water, refuse and sewerage rates as targeted rates).

#### Conditions and Criteria

12. A qualifying not-for profit community organisation is defined as:
- The organisation must be either a registered Charitable Trust or an IRD approved donee organisation.
  - The organisation and anyone using the organisations property must not be operating any activity for private profit.
  - The organisation must deliver social benefits as a substantial part of its activities.
  - The organisation must complete and provide all information requested on the application form and respond to any further enquiry for information to support the application.
  - New remission will be approved in public meeting by the Finance Committee.
  - As annual declaration form is required to be completed confirming that the organisation still occupies the property and meets the purpose of this policy.

#### Penalties Remission

13. The objective of the policy on penalties remissions is to consider requests for remission of penalty charges on rates.

#### Conditions and Criteria

14. Council's policy is that rates penalties may be remitted under the following criteria:
- Remission may be granted where payment has been received after the date fixed for imposition of a penalty charge, provided that none of the previous four instalments were similarly received late.
  - Remission may be granted where a ratepayer either:
    - Makes satisfactory arrangements for regular and substantial reduction of arrears. (These arrangements are to include the remission of penalty charges as long as such arrangements are fully met); or,
    - provides sufficient information which, if considered genuine and if substantiated with reasonable excuse for late payment, would justify remission for late penalty charges,
15. The practice of a penalty for non-payment of rates by due date is an accepted standard practice for local authorities and delay in mail delivery does not constitute justification for remission.
16. A written application for remission is required if the request does not meet the above criteria.

### Hardship Relief

17. The objective of this policy is to receive and consider applications for rates remission in the cases of extreme financial hardship.

#### Conditions and Criteria

18. Council will remit part of the rates owing on a rating unit in cases of extreme hardship. Council has approved the following criteria for determining the application of this policy:
- Ratepayers must apply to Council in writing to be considered for a remission.
  - The maximum remission is \$447 - (updated 1 July 2015).
  - The maximum remission amount to be increased by the average percentage general residential rates increase annually.
  - The application will be assessed independently from the Government Rates Rebate Scheme.
  - For the purposes of calculating the remission the basic allowable income factor is set at \$22,858 - (updated 1 July 2015).
  - The income threshold level will be adjusted by the annual percentage change in the Super Living Alone benefit payment each year.
  - The following essential elements must be met before any remission is granted:
    - The applicant must be the owner of the rating unit, must reside at the property and the property must be classified as a residential rating category. Companies, trusts and other similar ownership structures of these properties do not qualify for this remission;
    - Council must be satisfied that extreme financial hardship on any individual exists or would be caused by requiring payment of the whole or part of the rates;
    - the applicant must declare total household income and their total financial position for the purposes of the remission calculation;
    - the applicant's total assets must not exceed the "total assets" formula described in the Postponement due to Financial Hardship Policy;
    - all applications for rates remission be treated on a case-by-case basis and approved/declined by either the Chief Financial Officer or Revenue Manager; and
    - Council shall consider whether postponement of rates is a more suitable option.

### Property affected by Natural Calamity or Disaster

19. The objective of this policy is to enable rate relief to be provided to assist ratepayers experiencing extreme financial hardship due to a calamity or natural disaster that affects their ability to pay rates.

#### Conditions and Criteria

20. Remissions approved under this policy do not set a precedent and will be applied only for each specific event and only to properties affected by the event.

21. Council may remit all or part of any rate on any rating unit where the application meets the following criteria:
- Where erosion, subsidence, submersion or other natural calamity or disaster has affected the use or occupation of any rating unit.
  - It is applicable for each single event and does not apply to erosion, subsidence or other incidences that may have occurred without a recognised major natural calamity or disaster.
  - Council can set additional criteria for each event where it considers it to be fair and reasonable to do so. This is because the criteria may change depending on the nature and severity of the event and available funding at the time. Council may require financial or other records to be provided as part of the remission approval process.
  - The extent of any remission shall be determined by Council on a case-by-case basis.

### Organisation with Club Liquor Licence

22. Schedule 1, Part 2, Local Government (Rating) Act 2002 provides that land owned or used for games or sports is only rateable as to 50% of the rate that would otherwise be payable. However, the Local Government (Rating) Act 2002 excludes land, in respect of which a club licence under the Sale and Supply of Alcohol Act 2012, from receiving the 50% non-rateable status. The objective of this policy is to ensure appropriate sporting clubs and organisations receive a rates remission if the rates reduction is not available due to that exclusion.
23. It is difficult to determine the portion of the property to which the liquor licence applies. A further consideration is that often the liquor licence is not held to generate profit but helps to cover the operating costs of the sporting club or organisation.

### Conditions and Criteria

24. To ensure consistency, sporting clubs and organisations that hold a club liquor licence, may be eligible for the 50% remission if they meet the following criteria:
- The club or organisation must qualify as 50% non-rateable under Schedule 1, Part 2, Local Government (Rating) Act 2002.
  - The club or organisation must not operate for private pecuniary profit.
  - The club or organisation must hold the liquor licence as an incidental activity to the primary purpose of occupancy.
  - The restaurant, bar and gaming machines area for Chartered Clubs are excluded from this remission and will be rated at the full commercial rating.
  - The club or organisation will be required to complete a yearly statutory declaration confirming that they meet the condition and criteria under the policy.
  - Council may remit 50% of the rate levied in respect of the land relating to the liquor licence where it considers it to be fair and reasonable to do so.

### Hardship Relief for 100% Non-Rateable Community Organisations (Needs Based)

25. The objective of this policy is to facilitate the ongoing provision of the Community Organisations (Needs Based) and their services to the residents of Hamilton City where the charging of the full targeted rate for water, sewerage and refuse may affect the Community Organisations (Needs Based) viability.

#### Conditions and Criteria

26. Council may remit up to 40% of the targeted rates levied for water, wastewater and refuse in respect of the rating unit, where the application meets the following criteria, and where it considers it to be fair and reasonable to do so:
- Organisations must not operate for private pecuniary profit.
  - Organisations must not receive any funding from government agencies or have any contracts for fee for service with government agencies.
  - Organisations must operate on a voluntary basis and have no full-time or part-time paid employees or contractors operating in this capacity.
  - The cost of the full targeted rates for water, wastewater and refuse will cause the Organisations extreme financial hardship and/or cause the organisation to operate at a financial deficit.
27. Organisations (Needs Based) must provide the following documents with their application:
- Statement of Objectives
  - Constitution or Trust Deed
  - Full financial accounts
  - Information showing extreme financial hardship and operating position
  - Information on activities and programmes
  - Information on funding sources
28. Each application shall be determined by Council on a case-by-case basis.
29. Applications for this remission must be made annually by the Community Organisation (Needs Based).

### Hardship Relief for 50% Non-Rateable Sporting and Cultural Organisations

30. The objective of this policy is to facilitate the ongoing provision of the Sporting and Cultural Organisations and their services to the residents of the City where the charging of rates may affect the Sporting and Cultural Organisations viability. Council will remit general and transitional rates up to an amount, so that the amount payable is equivalent to the rates on the water, sewerage and refuse services the property receives.

#### Conditions and Criteria

31. The application must meet the following criteria and conditions to qualify for the above remissions:
- Organisations must not operate for private pecuniary profit.
  - Organisations must not receive any funding from government agencies or have any contracts for fee for service with government agencies.
  - Organisations must not hold a liquor licence under the Sale and Supply of Alcohol Act 2012.

- Gross annual income of the organisation must be less than \$600,000.
  - Organisations must operate on a voluntary basis and have no full-time and part-time paid employees or contractors operating in this capacity.
  - The charge of 50% of the general rate will cause the organisation extreme financial hardship and/or cause the organisation to operate at a financial deficit.
32. Organisations must provide the following documents with their application:
- Statement of Objectives
  - Constitution or Trust Deed
  - Full Financial Statements
  - Information showing extreme financial hardship and operating position
  - Information on activities and programmes
  - Information on funding sources
33. Each application shall be determined by Council on a case-by-case basis.
34. Applications for this remission must be made annually by the Sporting and Cultural Organisation.

### **Community Organisation with Retail Shops**

35. The objective of this policy is to facilitate the on-going provision of the Community Organisation (Needs Based) and their services to the residents of Hamilton. The remission is to acknowledge the benefits these community groups deliver to the city by way of helping those in need and supplying low cost items to the community.

#### **Conditions and Criteria**

36. The applicant must be a legally constituted charitable trust or incorporated society not for profit which delivers social benefits to the community where neither government nor business is best or appropriately placed.
37. The community retail shops will be rated at full commercial rates with a remission of 50%.

### **Council Owned Property**

38. The objective of this policy is to be administratively efficient by minimising unnecessary, uneconomic transactions by removing rates transactions for some Council owned properties. Council rates all its rateable properties but remits the rates on those properties that are used for non-commercial purposes. Commercial or investment properties are rated on the same basis as the private sector.

#### **Conditions and Criteria**

39. The following Hamilton City Council owned properties are considered to be non-commercial in their use and will attract 100% rates remission.
- Properties classified as community assets.
  - Administrative buildings.

- Infrastructural assets for transport, water, sewerage, storm water, and solid waste management.
- Sports facilities (including Waikato Stadium).
- Claudelands.
- Carparks (when no fee is charged).

### Water, Sewerage and Refuse Services

40. The objective of this policy is to not charge rating units for water, sewerage or refuse collection services when Council has not made that service available to the rating unit or;
- a. in the case of a residential water supply where Council is collecting the service charge on a commercial metered rate.

#### Conditions and Criteria

41. A service is not available when the water supply or sewerage networks or refuse collection is not able to be connected or provided to the property for physical reasons.
42. The remissions are as a rate in the dollar of capital and land value to recognise that portion of the general and transitional rate that is to be remitted.
43. The rate in the dollar is calculated by taking the percentage that each of water, sewerage and refuse collection services are of the general and transitional rate for each differential category.
44. No applications are required.

### Change of Use – Commercial to Residential

45. The objective of this policy is to adjust the rates on Commercial properties to residential rates where the property has changed use part way through the financial year.

#### Conditions and Criteria

46. Show homes:
- Show homes are rated commercial rates.
  - Where a show home is sold for residential use Council will calculate the difference in the commercial and residential rate from the next instalment after Council was notified in writing of the change of use.
  - The difference between the commercial and residential rate will be remitted from the rates for the remaining portion of the year.
47. Home occupation- Commercial:
- Where a division has been created for a commercial activity in a residential property and that commercial activity has ceased and the property is reverted to full residential use Council will calculate the difference in the commercial and residential rate from the next instalment after Council was notified in writing of the change of use.
  - The property will be inspected to establish the criteria have been met.
  - The difference between the commercial and residential rate will be remitted from the rates for the remaining portion of the year.

## Delegation

48. The Chief Financial Officer or Revenue Manager may approve decisions on the application of the remissions policies unless stated otherwise within this policy.

## Postponement policy guidelines

### Rates Postponement - Postponement due to Financial Hardship

1. The objective of this policy is to provide a measure of rating relief to property owners where the full payment of rates would otherwise cause financial hardship.
2. Section 110 of the Local Government Act 2002 and Section 87 of the Local Government (Rating) Act 2002 provides for Council to postpone rates in cases of extreme financial hardship. The Rating Act provides the necessary authority to grant relief after Council's full enquiry and on being satisfied that financial hardship exists or would be caused by non-postponement. Postponed rates are a charge against the property and must be paid either at the end of the postponement term or when the property is sold, whichever is the earlier.
3. All applications for postponement will be treated on a case-by-case basis and approved/declined by either the Chief Financial Officer or Revenue Manager.
4. Council has established base criteria against which the acceptability or otherwise of individual applications for rates postponement relief on grounds of hardship will be able to be judged. In Council's opinion, "hardship" may occur and a measure of relief may be able to be given when all of the following aspects are present:
  - The ratepayer is the property owner.
  - The property is used by the ratepayer as his or her permanent place of residence.
  - The property is used solely for residential purposes.
  - The ratepayer has not less than 25% equity in the property.
  - The total assets of the household are not more than those specified by the set formula The assessed rates which would otherwise be payable, when compared with the total gross annual income for the ratepayer's household, exceeds the appropriate figure as calculated on the application form.
  - For those property owners whose disposable income is too low to clear both arrears and current year's rates within a 24 month period, Council will consider the postponement of all or part of the arrears that would not be cleared within a two year time frame. An agreement to regularly pay a set amount to cover both current and the nominated amount of arrears is assumed. Each application will be considered on its individual merits.

### Total Assets Formula

5. The total asset formula is:
  - a. No property owner(s) would be eligible for rates postponement relief if the total assets held exceed:
    - The property to which the application for rates postponement relief relates;
    - Normal household chattels;

- A car;
- Other assets of whatever nature (including cash and investments) with a total value of more than \$17,947 - (updated 1 July 2015, to adjust annually by CPI index).

### Household Income Formula

6. The annual income formula proposed would have three elements to calculate the value of rates postponed:

- Initial Contribution

An initial contribution towards the cost of rates is charged before any relief is calculated. This sum is likely to cover the cost of all utility services to residential properties calculated on a uniform charge basis. This amount is \$790 - (updated 1 July 2015).

The minimum rates payable figure is adjusted annually by the movement in the CPI.

- Additional Contribution

The ratepayer should pay at least one-third of the remainder due, i.e. one third of the amount by which the rates exceed the initial contribution payable by the ratepayer.

- Abatement

Where the annual income is in excess of the household income limit, the postponed amount is reduced by \$1 for each \$20 of excess income. Council's current household income limit is \$16,980 - (updated 1 July 2015).

The household income limit is adjusted annually by the movement in the CPI and the updated figures are disclosed in the Annual Plan/Community Plan each year.

(The income limit before abatement applies is a 50% increase on Government income limits set for the Rates Rebate Scheme) and CPI adjusted since 1991 when the policy was first introduced.

The formula followed to establish the amount of postponed rates will be based on the above, combined with the general method used in the calculation of Government Rates Rebate.

### Applications for Rates Postponement

7. All applicants will be required to complete, in full, the application questionnaire annually. Staff will conduct an interview with the applicant, supported, where considered necessary, by advice and assistance from the Budget Advisory Service. The Chief Financial Officer will make the decisions on eligibility for postponement under delegated authority from the Chief Executive.
8. The Chief Financial Officer and Revenue Manager may approve, in cases of extreme hardship, the postponement of rates in accordance with Section 110 of the Local Government Act 2002 and Section 87 of the Local Government (Rating) Act 2002, subject to regular reporting of decisions made under this delegation to the Finance Committee. When deciding that extreme financial hardship applies, consideration must be given to any guidelines approved by Council.
9. The financial circumstances of successful applicants will be reviewed each year during the period of postponement in order to ascertain whether the situation has changed. For this purpose it is likely that the application questionnaire and a declaration will be required annually.
10. If the financial circumstances of the person in receipt of rates postponement improves during the term that relief has been granted to the extent that the payment of rates in whole would

not create a hardship, the remainder of the period of the postponed rates may be cancelled and the applicant could be required to pay all current rates, together with postponed rates and any accrued interest.

### **Process and Period of Postponement**

11. When an application for postponement is approved, it is suggested that the following provisions will apply:

- Postponement will first apply in the year a completed application is received. The amount of rates postponed will not incur additional charges.
- Instead of the Council requiring payment of the full annual rates bill in the year in which it falls due, the ratepayer will be required to pay to the Council the appropriate amount shown on the application form as the "Minimum Payment Scale". The balance of the total annual rates bill will be postponed.
- Any rates postponed shall be registered as a charge on the land.
- Interest may be charged annually on the postponed rates at 10% p.a. or at the same rate of interest that would be charged by the Council's bankers on any overdraft in the Council's name at the commencement of each rating year, whichever is less.
- The total amount of all postponed rates and charges will be postponed:
  - until the death of the property owner; or
  - until the applicant/occupier ceases to be the occupier (or one of the occupiers) of the land; or
    - until a date when the applicant/occupier ceases to:
      - use the property as his/her permanent place of residence; or to
  - use the property solely for residential purposes.
  - until a date upon which any of the statements certified by the applicant in the application for rates postponement are found to have been incorrect at the time they were made; or
  - until a date upon which all or any part of the rates due and owing by the property owner from time to time, and not postponed, become overdue - whichever occurs first.

12. In any case, rates postponement will be for a period of time not exceeding ten years from the date of application.

### **Any Part of the Postponed Rates May be Paid at Any Time**

13. Notwithstanding the above:

- The applicant may elect to "postpone" the payment of a lesser sum than that which he/she would otherwise be entitled to have postponed under this policy.
- Any part of the postponed rates and/or interest charges may be paid at any time.

### **Ratepayers to be Given Details of Postponed Rates Each Year**

14. Not less than once annually every ratepayer, a part of whose rates have been postponed under this policy, will be provided with:

- a statement showing the total annual rates currently due;
  - a breakdown showing year by year the total amount of the postponed rates and interest charges.
15. Following the end of the financial year, a schedule of rates postponed will also be provided to Council (annually), listing all the properties for which rates postponements have been granted and which remain outstanding.
16. When rates are no longer eligible to be postponed on the property, all postponed rates will be payable immediately.

#### **Prescribed Application Form**

17. The prescribed application form for rates postponement relief under this policy is available from the Revenue Manager.

#### **Financing the Postponement Programme**

18. Adoption of this policy represents a formal recognition of a loss of cash flow (at least initially). However, once the programme has been in place a number of years, it might be expected that the collection of previously postponed rates will finance current applications.
19. To the extent of this programme's acceptance, it is proposed the current loss of income will be financed by Council's general cash resources and/or bank overdraft.
20. Note: This system complements the rates rebate programme and other schemes run by Government and voluntary organisations. The criteria regarding "household assets and income" have remained at the 1 July 1991 level, in line with the Government Rates Rebate Scheme having also been held at the levels applying at that date.

#### **Any Part of the Postponed Rates May be Paid at Any Time**

21. Notwithstanding the above:
- The applicant may elect to "postpone" the payment of a lesser sum than that which he/she would otherwise be entitled to have postponed under this policy.
  - Any part of the postponed rates and/or interest charges may be paid at any time.

## **Maori Freehold Land Policy Guidelines**

### **Rates Remission and Postponement on Maori Freehold Land**

The objective of this policy is:

- To recognise situations where there is no occupier or no economic or financial benefit is derived from the land and there is no practical means of enforcing the rates assessed.
- To grant remission, (where part only of a block is occupied), for the portion of land unoccupied and unproductive.
- To encourage owners or trustees to use or develop the land.
- Where the owners cannot be found, to take into account the statutory limitation of time for the recovery of unpaid rates.

Council's current policy is that a remission of all or part of rates may be granted in respect of rating units which are Maori freehold land in multiple ownership, where the land is both unoccupied and unproductive.

This policy addresses the requirements prescribed under Section 108 and Schedule 11 of the Local Government Act 2002 and Section 114 of the Local Government (Rating) Act 2002. Conditions and Criteria are available on the council website.

### **Definitions**

The following definitions are taken from section 5 of the Local Government (Rating) Act 2002:

- Maori freehold land means land whose beneficial ownership has been determined by the Maori Land Court by freehold order.
- Maori freehold land in multiple ownership means Maori freehold land owned by more than five persons.
- Postponed rates means rates for which the requirement to pay is postponed.
- Remitted rates means rates for which the requirement to pay is remitted.

## RATING POLICY

### Policy objectives and scope

1. The setting of rates is a complex process. Council must comply with the requirements of the Local Government Act 2002 (LGA) and the Local Government (Rating) Act 2002 (LGRA).
2. In doing so, Council must complete the following in order to set a lawful rate.
  - A s.101(3) analysis (see Funding Needs Analysis).
  - Adopted a Revenue and Financing Policy (see the Long-term Plan).
  - Adopted a Funding Impact Statement (see either an Annual or Long-term Plan).
  - If thought appropriate a Rates Remissions and Postponements Policy.
  - Adopt an Annual or Long-term Plan.
  - Adopt a rates resolution, consistent with everything above.
3. In order to assist with this process Council has developed a number of policies that contribute to the rates system being clear and understandable. These are included in this rating policy.

### Policy

#### Description of Differentials

4. The following rates are rated differentially based on the use to which the land is put, the location of the land and the area of the land.
  - General rate
  - Transitional rate
5. The LGRA Schedule 2 allows councils to rate based on each of these factors. The Council is able to define that factor and rate based on that factor. A property may be described under different rates as having different factors.
6. All references in this policy and the Funding Impact Statement to residential, commercial, BID commercial and rural uses in targeted rates (except the transitional rate) use the terms as defined for the general rate.

#### General Rate Differentials

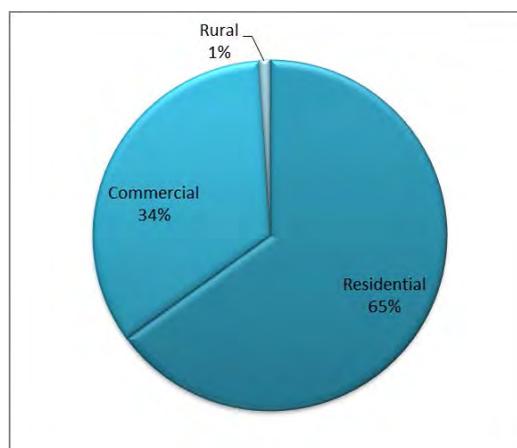
7. The general rate is differentiated into four rating categories:
  - Residential
  - Commercial
  - BID Commercial
  - Rural
8. These land uses are defined as follows:

**Table 1: General Rate Rating Categories**

General Rate Category	Description
<b>Residential</b>	<p>All rating units:</p> <ul style="list-style-type: none"> <li>i. Used solely or principally for residential purposes and don't meet the definition of commercial or rural; or</li> <li>ii. Land under development for a residential subdivision and no longer used principally for rural purposes or bare land marketed for residential section sales not under development.</li> <li>iii. Vacant land in District Plan residential zones for residential use, any vacant land in other District Plan zones that are predominantly used for residential purposes and any land used for other purpose not specified in the category definitions.</li> <li>iv. Any other rating units which do not meet the rating category description for Commercial, BID Commercial and Rural.</li> </ul>
<b>Commercial</b>	<p>All rating units:</p> <ul style="list-style-type: none"> <li>i. Used solely or principally for commercial or industrial purposes; or</li> <li>ii. Used solely or principally for commercial residential purposes, including, but not limited to, hotels, boarding houses, rest homes, show homes, motels, residential clubs, hostels. "Commercial residential purposes" are where a property is being provided for residential accommodation at a fee with the average occupancy period of the property not exceeding three months; or</li> <li>iii. The area of a chartered club used for the restaurant, bar and gaming machines; or</li> <li>i. The commercial portion of the property, which is used for both commercial/residential use, i.e. small business, operated from residential property; or</li> <li>ii. Vacant land located in District Plan; business, central city, knowledge and industrial zones and any vacant land in other District Plan zones that are predominantly used for commercial purposes.</li> </ul>
<b>BID Commercial</b>	All rating units that meet the definition of commercial above and are within the Business Improvement District as shown on the map in Appendix Two.
<b>Rural</b>	All rating units more than 2,000 square metres, which are used solely or principally for rural purposes. Rural purposes include agricultural, horticultural or pastoral purposes and the keeping of bees or poultry or other livestock.

9. The allocation of cost to each of these differential categories is as follows for 2015/16:

**Figure 1: General Rate Allocation Model**



10. For the purpose of the allocation the BID Commercial rating category is included within the commercial rating category.
11. This allocation is based on the allocation of costs to the general rate in 2014/15. Council has selected this as the appropriate model for the allocation of rates by considering the overall impact on rates as a result of the change from the land value general rate to this capital value general rate.
12. Every three years at the time of a revaluation, the differential factor would normally be adjusted to maintain the differential yield of the previous rating year. The next revaluation is 1 September 2015 for the 2016/17 rates. Due to the implementation of a new rates system this does not allow for the normal adjustments to be made. For this reason the ratios applied to 2015/16 will remain for 2016/17.
13. For the years 2017/18 and 2018/19 the differential factors will change based on changes in the use of properties and budgets (e.g. as more rural land is subdivided the share of the rates the rural sector pays will reduce).
14. The general rate allocation between rating categories for 2014/15 was based on a detailed allocation of costs. This included the reduction or removal of some activities from some differential categories where Council had decided the services were not provided (e.g. rural ratepayers allocation is adjusted to recognise they are not receiving full mains water supply and commercial ratepayers do not receive refuse collection services).

**Transitional Rate Differentials**

15. The transitional rate is differentiated into seven rating categories:
  - Residential
  - Multi-Unit Residential
  - Commercial
  - BID Commercial
  - Rural Residential
  - Rural Small
  - Rural Large
16. The transitional rate is being implemented to transition the impact of the change from the land value general rate to a capital value general rate over 10 years. Accordingly, the transitional rate is being assessed substantially on the basis of the land value general rate for 2014/15, including its differentials. However, in 2014/15 there was a rating differential category for Inner City Residential. This category existed to reduce the rate for residential properties that did not receive a refuse collection. These properties will now receive a rates remission for this service they do not receive, eliminating the need for a differential category.
17. These land uses are defined as follows:

**Table 2: Transitional Rate Rating Categories**

Transitional Rate Category	Description
<b>Residential</b>	All rating units: <ol style="list-style-type: none"> <li>i. Used solely or principally for residential purposes and don't meet the definition of commercial or rural; or</li> </ol>

	<ul style="list-style-type: none"> <li>ii. Land under development for a residential subdivision and no longer used principally for rural purposes or bare land marketed for residential section sales not under development.</li> <li>iii. Vacant land in District Plan residential zones for residential use, any vacant land in other District Plan zones that are predominantly used for residential purposes and any land used for other purpose not specified in the category.</li> <li>iv. Any other rating units which do not meet the rating category description for Multi-unit Residential, Commercial, BID Commercial, Rural Residential, Rural Small Holdings and Rural Large Holdings.</li> </ul>
<b>Multi-unit Residential</b>	All rating units used solely or principally for three or more residential dwellings/households on a single title including residential centres, but excluding properties categorised as Commercial.
<b>Commercial</b>	<p>All rating units:</p> <ul style="list-style-type: none"> <li>iv. Used solely or principally for commercial or industrial purposes; or</li> <li>v. Used solely or principally for commercial residential purposes, including, but not limited to, hotels, boarding houses, rest homes, show homes, motels, residential clubs, hostels. “Commercial residential purposes” are where a property is being provided for residential accommodation at a fee with the average occupancy period of the property not exceeding three months. Hostel is the residence or lodging place for persons.; or</li> <li>vi. The area of a chartered club used for the restaurant, bar and gaming machines; or</li> <li>iii. The commercial portion of the property, which is used for both commercial/ residential use, i.e. small business, operated from residential property; or</li> <li>iv. Vacant land in District Plan business, central city, knowledge and industrial zones and any vacant land in other District Plan zones that are predominantly used for commercial purposes.</li> </ul>
<b>BID Commercial</b>	All rating units that meet the definition of commercial above and are within the Business Improvement District as shown on the map in Appendix Two.
<b>Rural Residential</b>	All rating units more than 2,000 square metres, used solely or principally for residential purposes as the home or residence of not more than two households which receive full water and wastewater services from the Council.
<b>Rural Small Holding</b>	All rating units more than 2,000 square metres and less than 10 hectares, which are used solely or principally for rural purposes. Rural purposes include agricultural, horticultural or pastoral purposes and the keeping of bees or poultry or other livestock.
<b>Rural Large Holding</b>	All rating units 10ha and more, which are used solely or principally for rural purposes. Rural purposes include agricultural, horticultural or pastoral purposes and the keeping of bees or poultry or other livestock.

18. The allocation of cost to each of these differential categories is as follows:

**Table 3: Transitional Rate Allocation Model**

Transitional Rate Category	Allocation of Cost
<b>Residential</b>	63.2%
<b>Multi-unit residential</b>	1.7%
<b>Commercial</b>	33.9%
<b>Rural Residential</b>	0.1%
<b>Rural Small Holding</b>	0.8%
<b>Rural Large Holding</b>	0.3%

19. For the purpose of the allocation the BID Commercial rating category is included within the commercial rating category. This has the effect of any loss in revenue from a reduced BID area general rate factor remaining allocated within the commercial sector.
20. This allocation is based on the allocation of costs to the general rate in 2014/15 and applies to the transitional rate. The model for the general rate allocation between rating categories for 2014/15 was based on the detailed allocation of costs. This included the reduction or removal of some activities from some differential factors where Council had decided the services were not provided (e.g. rural ratepayers allocation is adjusted to recognise they are not receiving water supply and commercial ratepayers are not receive refuse collection services).
21. Every three years at the time of a revaluation, the differential factor would normally be adjusted to maintain the differential yield of the previous rating year. The next revaluation is 1 September 2015 for the 2016/17 rates. Due to the implementation of a new rates system this does not allow for the normal adjustments to be made. For this reason the ratios applied to 2015/16 will remain for 2016/17.
22. For the years 2017/18 and 2018/19 the differential factors will change based on changes in the use of properties and budgets (e.g. as more rural land is subdivided the share of the rates the rural sector pays will reduce).

#### Targeted Rates - Services Category

23. Services category of ratepayers are a group of ratepayers that are defined by the use the rating unit is put for the purpose of charging water, sewerage and refuse collection targeted rates.
24. Services category rating units are defines as rating units that are provided with one or more of water, sewerage or refuse collection services and are used:
  - As a reserve under the Reserves Act 1977.
  - For conservation, wildlife management or preservation purposes and not for private pecuniary profit and accessible to the public.
  - By council for:
    - Public garden, reserve, or children playground.
    - Games and sports.
    - Public hall, athenaeum, museum, gallery or similar institution.
    - Public baths, swimming baths and sanitary conveniences.
    - Cemeteries or crematorium.
  - By the Queen Elizabeth the Second National Trust
  - By the Royal Foundation of the Blind, except as an endowment.
  - By or for an education establishment, special school or other institution under s159(1) of the Education Act 1989.
  - By a district health board for health and health related services.
  - Solely and principally as a place of religious worship, Sunday or Sabbath school or other form of religious worship and not for private pecuniary profit.
  - As Maori meeting house that is Maori freehold land not exceeding 2ha.

- As railway or for the loading and unloading of goods or passengers from trains.
- For the free maintenance or relief of persons in need, not exceeding 1.5 hectares.

#### Rates based on location

25. Council has established one rate based on the location of a rating unit. Rating boundaries have been drawn with the intention of encompassing entire rating units. Should a boundary split a rating unit Council will rate the property based on the predominate use of the property.
26. The Business Improvement District map is shown in Schedule 1. and is used for the General, Transitional and BID rates.

#### Separately Used and Inhabited parts

27. Council has elected to rate all fixed rates on the basis of separately used or inhabited parts of a rating unit.
28. Council must define the term in its funding impact statement in each Annual Plan or Long-term Plan.

#### Divisions

29. A division is the separation of parts of a property record in the District Valuation Roll (DVR) into two or more parts in the Rating Information Database (RID). A division is done only for the purpose of charging the correct rates liability according to the properties use.
30. Council has elected to undertake the division of properties, where there are two or more uses (being the rating categories, or as non-rateable or 50% non-rateable properties).
31. Where a division is required Council measures the area of the property applied to each use and requests its valuer to apportion the values of the DVR to these portions.
32. Where a division is not required rates based on use or location shall be calculated on a properties predominant use.

#### Rates Payable by Instalments

33. Council provides for rates to be paid in four equal instalments. A ratepayer may elect to pay weekly, fortnightly, monthly by automatic payment through the banking system. Rates can also be paid by direct debit (weekly fortnightly, monthly or quarterly), internet and other banking methods.
34. Any payments received for rates are applied to the oldest debt first.

#### Minimum Economic Rate

35. Council will not collect the rates payable on a rating unit if the sum of those rates is so small as to be uneconomic to collect. Council has determined that it is uneconomic to collect rates owing on any rating unit of less than \$20.00 (including GST) per annum.

#### Rates Penalties

36. Council must set its rates penalties as part of its rates resolution.
37. Generally Council will resolve the following penalties:

- A 10% penalty is added on the next day to any balance of any instalment not paid by due date.
- A 10% penalty will be added to any balance that remains unpaid from previous years. This will be added on 1 July of each year, or 5 working days after Council has passed the rates resolution (whichever is the later).
- A further 10% penalty will be added to rates that remain unpaid from previous years. This will be added 6 months after the penalty made in 2 above.

38. Any payments received for rates are applied to the oldest debt first.

### Three Yearly Revaluations of Property Values

39. Council has chosen to revalue rateable property values of properties every three years, the maximum timeframe allowed by the Rating Valuations Act 1998. The next revaluation is as of 1 September 2015 for effect in the 2016/17 rating year.
40. The revaluation may affect the amounts assessed against individual rating units within each differential rating sector relative to other rating units in that sector.

### Public Availability of Information

41. Council may charge a fee for supplying any person with a copy of information from the rating information database.

### Objections and Disputes

42. The Local Government (Rating) Act 2002 provides for the right of objection to Council's implementation of their rating policies. Any objections to the allocation of property use to the council differential categories needs to be in writing to the Revenue Manager for consideration.

### References

43. Funding Needs Analysis, section 101(3), provides the background and analysis to explain the funding decisions made by Council. It is guided by the funding principles and choices of funding sources documented in the Revenue and Financing Policy.
44. The Revenue and Financing Policy further clarifies the funding requirements of Council.
45. The Funding Impact Statement is included in each Long-term Plan and Annual Plan as required by clauses 15 or 20 of schedule 10. That statement shows the results of the detailed rates calculation for the first year of the plan.
46. The Rate Remissions and Postponements Policy provides information on rates that are reduced to implement policy objectives that affect the overall liability for rates a property has. It also provides options for individuals to postpone rates in particular specified circumstances.

Schedule 1: Rating Maps



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## FUNDING NEEDS ANALYSIS

### Purpose and Scope

1. The Funding Needs Analysis provides the background and analysis to explain the funding decisions made by Council. It is guided by the funding principles documented in the Revenue and Financing Policy.
2. To comply with section 101(3),<sup>1</sup> Council must, for each activity, determine the appropriate sources of funding<sup>2</sup> for each activity. In determining this Council must take into consideration under s 101(3)(a):
  - The community outcomes to which the 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 the actions or inaction 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.
3. Having completed the above analysis Council must then consider, under section 101(3)(b):
  - The overall impact of any allocation of liability for revenue needs on the community.
4. The legislation places no more or less weight or priority on any one of the factors listed in section 101(3).
5. The following sections document the matters and approaches Council has taken to determine the funding needs of an activity and how that translates into Council's decision on the appropriate funding sources to be used.

### Previous reviews

6. In 2004/14 Council prepared its first Long Term Council Community Plan (later to be named the Long Term Plan). A requirement of the plan was to every three years review and consult on the Revenue and Financing Policy. The Funding Needs Analysis was incorporated in its entirety in these previous Revenue and Financing Policies up until the 2012/22 - 10 Year Plan.
7. At each review Council has considered particular activities that may need re-analysis.

<sup>1</sup> All references to legislation are to the Local Government Act 2002, unless otherwise stated.

<sup>2</sup> The funding sources are listed in s103 LGA.

### Funding Sources for Operating Costs

8. Operating costs are the day to day spending that maintains the services delivered by Council. This includes contributions to the wear and tear on assets used (depreciation), interest charged on borrowing for capital projects and corporate overheads.
9. Council must consider the funding for each activity in a way that relates exclusively to that activity. Some activities may be best funded using user charges such as swimming pool admission fees, others with targeted rates such as the Hamilton Gardens rate and others from the general rate such as road maintenance. Distinct funding enables ratepayers or payers of user charges to assess more readily whether or not the cost of the service provided to them either directly or indirectly represents good value. They can also more easily determine how much money is being raised for the service and spent on the service, which promotes transparency and accountability.
10. The available funding sources for operating costs include:
  - User charges
  - Grants, sponsorship, subsidies and other income
  - Investment income
  - Reserve funds
  - Rates
    - General rate
    - Targeted rates
11. Each funding source and how Council prefers to use that funding source for operating expenses is described in detail in the Revenue and Financing Policy and is applied in this analysis.

Table 2: Consideration of legal requirements for operating expenses

Headings -s.101(a) reference	Matters Council might consider
<b>Community outcomes - s.101(3)(a)(i)</b>	Council determines which of its 10 community outcomes an activity contributes to. Council has not established a link between community outcomes and funding requirements for an activity.
<b>Distribution of benefits - s.101(3)(a)(ii)</b>	The distribution of benefits is given consideration by Council, reflecting its area of benefit preference to funding sources for an activity.  Council has considered how the benefit of activity applies to households, businesses and the community as a whole.
<b>Period of benefit- s.101(3)(a)(iii)</b>	For most operational expenses the benefit is received in the year the expense is incurred.  For most activities Council cash funds depreciation (a non-cash operating expense) from revenue sources and this along with other surplus cashflow will be used to fund capital costs for either asset renewal or debt repayments.  Some operational expenses (provisions) may have a benefit over multiple years and so Council may choose to fund the activity over that period.
<b>Who creates the need- s.101(3)(a)(iv)</b>	Some things Council must do because the actions or inactions of individuals or groups create the need to undertake the activity.  Council may choose to target these people or organisations

Headings -s.101(a) reference	Matters Council might consider
<p><b>Separate funding- s.101(3)(a)(v)</b></p>	<p>through, charges or rates.</p> <p>Council must consider the practicalities of separate funding along with transparency and accountability.</p> <p>In some cases while it may be desirable to charge individuals there may be no practical way of doing so</p> <p>With regard to the rates contribution, Council is of the view that separate rating mechanisms for separate activities is not feasible, and would in any event make a complex rating system which is expensive to maintain and becomes confusing to interpret. In Council's opinion this does not contribute to improved transparency and accountability.</p>

Analysis for operating costs by activity

- Schedule 1 analyses each activity against the requirements of section 101(3)(a).

### Funding Sources for Capital Costs

13. Capital costs are those costs associated with the purchase and improvement of assets and for the repayment of debt. The funding sources for capital costs include:
- User charges
  - Grants, sponsorship, subsidies and other income
  - Investment income
  - Financial contributions
  - Development contributions
  - Proceeds from the sale of assets<sup>3</sup>
  - Reserve funds
  - Borrowing
  - Rates
    - General rate
    - Targeted rates
14. Each funding source and how Council prefers to use that funding source for capital expenditure is described in detail in the Revenue and Financing Policy and is applied in this analysis.

#### Analysis for capital costs by activity

15. Council does not fund its capital costs on an activity by activity basis.
16. As described in the Financial Strategy, Council has a challenge to manage growth, affordable rates increases and debt. In order to achieve the appropriate balance between these variables Council takes the following approach.
- i. Council sets the annual rate increase,
  - ii. The existing budget plus an estimate for growth determines the rates income.
  - iii. Activity operating revenue and expenditure budgets are determined, within this constraint.
  - iv. An amount is budgeted for Development Contributions payments, which is set aside to fund growth projects or growth debt, as determined by the Development Contributions Policy.
  - v. The net cash operating costs is determined (net of cash revenue budgets).
  - vi. This leaves the funded portion of operating costs. A small amount may be held in a cash funded reserve; otherwise the funds are available for capital costs. This amount largely represents rate funded depreciation but may include operating surpluses from some activities and accounting provisions not held in reserve funds. This funding is not held by activity and is available to fund any capital costs.
  - vii. Council sets the limit on debt, which determines the debt funding available for capital costs.
17. Consequently, despite the potential availability of the funding sources in paragraph 13, this process results in the following funding available for capital costs:
- Cash from general rates for use on all activities.
  - Cash from targeted rates for use on Access Hamilton project (Activity: Transportation), Hamilton Gardens' development (Activity: Hamilton Gardens) and BID improvements (Activity: Economic Initiatives).
  - Cash from development and financial contributions.

<sup>3</sup> The Liability Management and Investment Policy states: "the proceeds from asset sales or investments will in the first instance be used to repay outstanding borrowings to reduce the overall debt, unless otherwise specifically authorised by Council. The exception to this is in relation to the sale of endowment properties where any surplus cash is held in the Municipal Endowment Fund to be used to reinvest in property."

- Cash from grants and subsidies, targeted to capital projects.
  - Cash from borrowing.
18. Council uses the following guidelines when considering the funding of capital projects:
- All projects are first funded from grants, subsidy or other income, which are budgeted as operating costs.
  - Growth projects for network infrastructure that are required to meet increased demand are funded from development contributions, to the extent the Development Contributions Policy provides.
  - Reserve funds for other purposes are considered. Council has a small number of cash funded reserves available for capital costs projects.
  - Targeted rating options may be considered.
  - Projects that have exhausted previous funding sources are funded from the surplus cash available from general rates and debt.
19. A single project may have a mix of each of these funding options.
20. Whenever Council resolves to consider a separate funding policy Council will consider the sources of funds above, the Revenue and Financing Policy and complete a section 101(3) assessment to determine the appropriate funding sources for the project. Generally, Council will resolve the funding sources at the time the project is proposed in an Annual Plan or Long-term Plan. In undertaking this assessment it shall have regard to the matters in table three.

Table 3: Consideration of legal requirements for capital expenses

Headings -s.101 reference	Matters Council might consider
<b>Community outcomes - s.101(3)(a)(i)</b>	A capital project is expected to contribute to the community outcomes in the same-way as the activity in which it is funded, unless Council resolves otherwise.
<b>Distribution of benefits - s.101(3)(a)(ii)</b>	The distribution of benefits is expected to be the same as that for the operating costs of the activity in which it is funded, unless Council resolves otherwise.  Council may choose to target those people or organisations who primarily benefit through financial and development contributions, lump sum options or targeted rates.
<b>Period of benefit- s.101(3)(a)(iii)</b>	For most capital projects the benefit is received over the life or the capacity life of the asset. Council will have regard to the equitable distribution of costs to each generation for the building and renewal of the asset.
<b>Who creates the need- s.101(3)(a)(iv)</b>	Some capital costs Council has to do because the actions or inactions of individuals or groups create the need to undertake the activity.  Council may choose to target these people or organisations through financial and development contributions or targeted rates.
<b>Separate funding- s.101(3)(a)(v)</b>	Council must consider the practicalities of separate funding along with transparency and accountability.  In some cases while it may be desirable to charge individuals there may be no practical way of doing so.

21. Note that for growth related network infrastructure a separate s.101(3) analysis is required in the Financial and Development Contributions Policy, as required by s106.

### Activity Funding Needs Analysis – Operating Costs

22. Schedule One lists each activity<sup>4</sup> and documents Council's assessment of the components of section 101(3)(a) as it applies to that activity. Table two list the matters Council might consider under each part of the section.

#### Funding Bands

23. After considering the section 101(3)(a) components, Council considers to what extent each of the funding sources is able to fund each activity. This policy is intended to be in place for the next three years before it is reviewed and because things change over time, it is not possible to precisely determine the percentage allocated. For this reason Council has decided to band the percentages into the categories listed in table four.
24. The assessment in Schedule One identifies the most likely sources of funding an activity is budgeted to receive. In all case rates funds the balance of the activity after all other sources have been maximised. It is likely that from time to time Council will be able to secure additional funding that may be become available.
25. Council budgets will normally be set within these ranges. As these ranges are expressed as a percentage of the cost of the activity they may change over time because of changes in expenditure rather than changes in revenue. If budgets were marginally outside these ranges, it is unlikely that Council will consider that matter to have a high degree of significance and therefore warrant a consultation to change the Revenue and Financing Policy. It is also likely that actual funding sources will be different from budgeted funding sources.

Table 4: Funding Bands

Name	Percentage Range
<b>Unlikely</b>	0%
<b>Minimal</b>	0% - 20%
<b>Low</b>	20% - 40%
<b>Moderate</b>	40% - 60%
<b>High</b>	60% - 80%
<b>Most</b>	80% - 100%
<b>All</b>	100%

#### Funding Sources and Rationale

26. This column of Schedule One identifies which of the funding sources Council plans to use in budgeting to fund the operating costs of each activity. It is determined by Council after consideration of each clause of section 101(3)(a).
27. The assessment of the funding sources is a complex matter of weighing up the requirements of section 101(3)(a) with the available sources and Council's preferences for using these sources. Council has documented its rationale for choosing each the funding source in this funding needs analysis.
28. The funding source for an activity may be modified by Council when Council considers the requirements of section 101(3)(b). If this has occurred it is considered as part of the overall funding considerations section of this policy.

<sup>4</sup> For a description of each activity see the 10-Year Plan.

**SCHEDULE ONE: Activity Funding Needs Analysis – Operating Costs**

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
<b>Water Supply</b>							
<b>Water Treatment and Storage</b>	Providing outstanding Infrastructure	<p>The primary benefit for having a safe and adequate volume of water is to households and business.</p> <p>Council considers that each household receives approximately the same benefit from a safe and adequate storage of water.</p> <p>Business and rural water users have greater variation in requirements for water.</p>	The benefit of most operating costs is expected to arise in the year the funding is sourced.	Very limited impact of the actions or actions of others.	Council considers that there is little benefit of separate funding for water treatment and storage from water distribution.	<p><b>HIGH</b> General rates Targeted rates</p> <p><b>MINIMAL</b> User charges</p> <p><b>UNLIKELY</b> All other funding sources.</p>	<p>General rates are the appropriate funding source for households as they are easy to administer and users receive the same benefit from the quality and quantity of supply.</p> <p>Metered water rates (targeted rates) and a targeted rate are appropriate for funding business and rural consumers.</p> <p>Where bulk water is supplied it is able to be charged on a user charges basis.</p>
<b>Water Distribution</b>	Providing outstanding Infrastructure	<p>The primary benefit for having an outstanding water distribution network is to households and business.</p> <p>1700 properties outside the district are supplied with water.</p> <p>Council considers that each household receives approximately the same benefit from a safe and adequate storage of water.</p> <p>Business and rural water users have greater variation in requirements for water.</p>	The benefit of most operating costs is expected to arise in the year the funding is sourced.	Very limited impact of the actions or actions of others.	Council considers that there is little benefit of separate funding for water treatment and storage from water distribution.	<p><b>HIGH</b> General rates Targeted rates</p> <p><b>MINIMAL</b> User charges</p> <p><b>UNLIKELY</b> All other funding sources.</p>	<p>General rates are the appropriate funding source for households as they are easy to administer and users receive the same benefit from the supply of water.</p> <p>Metered water rates (targeted rates) are appropriate for funding business and rural consumers.</p> <p>Where bulk water or outside of the district water is supplied it is able to be charged on a user charges basis.</p>

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
<b>Sewerage</b>							
<b>Sewage Collection</b>	Providing outstanding Infrastructure.	<p>The collection of sewage is primarily a benefit to households and business that are connected to the schemes by removing the waste from properties.</p> <p>Council considers that each household and business receives approximately the same benefit from the removal of sewage.</p>	The benefit of most operating costs is expected to arise in the year the funding is sourced.	Very limited impact of the actions or actions of others.	Council considers that there is little benefit of separate funding for sewage collection.	<p><b>HIGH</b> General rates.</p> <p><b>MINIMAL</b> Targeted rate. User Charges.</p> <p><b>UNLIKELY</b> All other funding sources.</p>	<p>In most cases it is not practicable to measure the quantity of each individual's contribution to the sewerage system.</p> <p>General rates are the appropriate funding source for households and business as they receive the same benefit from sewage collection.</p>
<b>Sewage Treatment and Disposal</b>	Providing outstanding Infrastructure.	<p>The treatment and disposal of sewage are primarily a benefit to the community as a whole by removing the health risks.</p> <p>The protection of the environment is a benefit to the serviced communities.</p> <p>Council considers that each household and business receives approximately the same benefit from the treatment and disposal of sewage.</p>	The benefit of most operating costs is expected to arise in the year the funding is sourced.	Some businesses have an adverse impact greater than most users due to the volume or nature of the waste produced.	Council considers that there is little benefit of separate funding for sewage treatment and disposal.	<p><b>MOST</b> General rates.</p> <p><b>MINIMAL</b> Targeted Rate User Charges.</p> <p><b>UNLIKELY</b> All other funding sources.</p>	<p>In most cases it is not practicable to measure the quantity of each individual's contribution to the sewerage system.</p> <p>There are some businesses that produce abnormal sewage where direct charging is able to be made. This is required by the Trade Waste Bylaw in addition to the targeted rate. Their share of costs is recovered by way of trade waste user charges.</p> <p>The community benefits from the safety and environmental effects of sewage treatment and disposal.</p> <p>General rates are the appropriate funding source for households and business as they receive the same benefit from wastewater collection.</p>

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
<b>Stormwater</b>							
<b>Stormwater Network</b>	Providing outstanding Infrastructure	<p>The collection of stormwater are primarily a primarily a benefit to households and business by minimising and removing stormwater from properties.</p> <p>This benefit extends to the wider community as it includes the removal of stormwater from public spaces.</p> <p>Council considers that each household and business receives approximately the same benefit from the stormwater network.</p>	The benefit of most operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact	Council considers that there is little benefit of separate funding for stormwater collection.	<p><b>ALL</b> General rates.</p> <p><b>MINIMAL</b> Subsidy &amp; other</p> <p><b>UNLIKELY</b> All other funding sources.</p>	<p>There is no practical way to charge individuals or groups for any direct benefit.</p> <p>General rates are the appropriate funding source for households and business as they are easy to administer and users receive the same benefit from the stormwater network.</p> <p>Those who (either directly or indirectly) benefit should pay. Stormwater networks are funded from local amenity rates in the serviced townships.</p>
<b>Transport</b>							
<b>Transport Network</b>	Providing outstanding Infrastructure	<p>The transport network serves the whole district and everyone benefits directly in their personal use and indirectly through the supply of goods and services to businesses.</p> <p>Council considers that each household and business receives approximately the same benefit from transport network.</p>	The benefit of most operating costs is expected to arise in the year the funding is sourced.	<p>There is an impact of the actions or inactions of others.</p> <p>Costs are driven by traffic volumes and size. Large vehicles, wear roads out more quickly than motorcars.</p>	<p>Council considers that there is little benefit of separate funding for transport network generally.</p> <p>The Access Hamilton strategy has important strategic relationships and requires certainty of funding. For this reason separate funding is required for this component of the activity.</p>	<p><b>HIGH</b> General rates</p> <p><b>LOW</b> Subsidy &amp; other</p> <p><b>MINIMAL</b> Targeted rate User Charges</p> <p><b>UNLIKELY</b> All other funding sources.</p>	<p>While there is an individual benefit to using the roading network there is no practical means available to charge for this. Subsidies sourced from New Zealand Transport Agency (NZTA) are funded from licensing revenue that represents some element of user pays, particular in the case of Road User Charges, which is based on road kilometres travelled. Council also receives a minimal amount of regional petrol tax.</p> <p>Council maximises the amount of subsidy for the level of spending it approves.</p> <p>The subsidy revenue from NZTA is available to fund both operating and capital costs.</p> <p>A targeted roading rate based on</p>

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
							capital value funds Council's share of the operating costs for Access Hamilton strategy expenditure. Capital value is selected as it is considered it has the best available relationship to benefit received.
<b>Parking Management</b>	Providing outstanding Infrastructure  An Active, Strong Commercial City with Distinctive Suburban Villages	Parking provides a direct benefit to users. Having parking available in business areas provides an indirect benefit to businesses.  Council considers that users receive the primary benefit of parking management.	The benefit of most operating costs is expected to arise in the year the funding is sourced.  ..	There is an impact of the actions or inactions of others.  Demand is driven by volumes and time parked.	Identifying separate funding assists in the accountability and transparency of Council's expenditure on this activity.	<b>ALL</b> User charges  <b>UNLIKELY</b> All other funding sources.	There are well established user charges methodologies for city parking that assist in demand management.  Fines revenue is included in user charges and results in this activity operating at a surplus.
<b>Rubbish and Recycling</b>							
<b>Refuse Collection</b>	Providing outstanding Infrastructure	Removal of refuse provides a benefit to households.	The benefit of most operating costs is expected to arise in the year the funding is sourced.	Some households create more waste than others. This is managed by rules on volumes of waste.  Business refuse varies across business and is managed by Council not providing a refuse service.	Council considers that there is little benefit of separate funding for stormwater collection.	<b>MOST</b> General rates.  <b>MINIMAL</b> Targeted rates Grants and subsidies  <b>UNLIKELY</b> All other funding sources.	General rates are the appropriate funding source for households as they are easy to administer and users receive the same benefit from refuse collection.
<b>Waste Minimisation</b>	Providing outstanding Infrastructure	The whole community benefits from action in this area to minimise the negative impacts of waste.	The benefit of most operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact.	Council considers that there is little benefit of separate funding for stormwater collection.	<b>ALL</b> General rates.  <b>UNLIKELY</b> All other funding sources.	General rates are the appropriate funding source for households as they are easy to administer and users receive the same benefit from refuse collection.
<b>Landfill Site Management</b>	Providing outstanding Infrastructure	The whole community benefits from the responsible management and monitoring of	The benefit of most operating costs is expected to arise in the year the funding is	The actions of individuals or groups have a minor impact	Council considers that there is little benefit of separate funding for	<b>ALL</b> General rates.  <b>UNLIKELY</b>	General rates are the appropriate funding source for households as they are easy to administer and users receive the same benefit

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
		historic landfill sites.	sourced by ensuring the closed land fill is safe.		stormwater collection.	All other funding sources.	from landfill site management.
<b>Recreation</b>							
<b>Pools</b>	<p>Providing outstanding Infrastructure</p> <p>An Active, Strong Commercial City with Distinctive Suburban Villages</p> <p>Waikato is the Capital of High Performance Sport</p>	<p>The primary benefit from the leisure facilities is the use of the pools for recreation, social, sporting, educational, and water safety purposes.</p> <p>The regional visitor uses the facilities providing indirect benefits to business.</p> <p>Council considers that households receive a similar benefit from leisure facilities.</p>	The benefit of operating costs is expected to arise in the year the funding is sourced.	<p>The actions of most individuals or groups have some impact on this activity.</p> <p>There is a correlation between the numbers of people using the pool and operating costs.</p>	Identifying separate users pays funding assists in the accountability and transparency of Council's expenditure on this activity.	<p><b>MODERATE</b> General rates User charges</p> <p><b>MINIMAL</b> Grants Sponsorship</p> <p><b>UNLIKELY</b> All other funding sources.</p>	<p>The Active Hamilton strategy encourages participation. The cost effective pricing access to leisure amenities contributes to this.</p> <p>User charges are made for casual recreation use, fees for recreation programmes, swim school, and retail sales.</p> <p>User charges do not fully recover the cost of the private benefit and rates funding is required ensure cost effective access to this service can be provided.</p> <p>General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from leisure facilities.</p>
<b>Indoor recreation</b>	<p>Providing outstanding Infrastructure</p> <p>An Active, Strong Commercial City with Distinctive Suburban Villages</p> <p>Waikato is the Capital of High Performance Sport</p>	<p>The primary benefit from the indoor recreation is the use of the Te Rapa Sportsdrome for recreation, social, sporting, and educational purposes.</p> <p>The regional visitor uses the facilities providing indirect benefits to business.</p> <p>Council considers that households receive a similar benefit from indoor recreation</p>	The benefit of operating costs is expected to arise in the year the funding is sourced.	<p>The actions of most individuals or groups have some impact on this activity.</p> <p>There is a correlation between the numbers of people using the pool and operating costs.</p>	Identifying separate users pays funding assists in the accountability and transparency of Council's expenditure on this activity.	<p><b>HIGH</b> General rates</p> <p><b>LOW</b> User charges</p> <p><b>MINIMAL</b> Grants Sponsorship</p> <p><b>UNLIKELY</b> All other funding sources.</p>	<p>The Active Hamilton strategy encourages participation. The cost effective pricing access to leisure amenities contributes to this.</p> <p>User charges are made for casual recreation use and fees for recreation programmes.</p> <p>User charges do not fully recover the cost of the private benefit and rates funding is required ensure cost effective access to this service</p>

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
		facilities.					can be provided.  General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from indoor recreation facilities.
<b>Zoo</b>	Providing outstanding Infrastructure	The primary benefit of the Zoo is to users. An indirect benefit to business occurs as the zoo attracts regional tourism.  Zoological activities assist the international protection species.	The benefit of operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have some impact on this activity.  There is a correlation between the numbers of people using the pool and operating costs.	Identifying separate user pays funding assists in the accountability and transparency of Council's expenditure on this activity.	<b>HIGH</b> General rates  <b>LOW</b> User charges  <b>UNLIKELY</b> All other funding sources.	User charges are made for admission, events and retail sales.  User charges do not fully recover the cost of the private benefit and rates funding is required ensure cost effective access to this service can be provided.  General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from the Zoo.
<b>Arts and Culture</b>							
<b>Libraries</b>	Our Books are Balanced  Providing outstanding Infrastructure  Celebrated for our Arts and Culture	The primary benefit from libraries is to those that borrow and use of library material and resources.  Waikato ratepayers get the benefit of free access, which is funded from the Waikato District Council.  The library attracts visitors which benefit local businesses.  The community is enriched by the preservation of collections of regional significance and the contribution of the library to a well-informed and literate	The benefit of most operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact on this activity.	Identifying separate user pays funding assists in the accountability and transparency of Council's expenditure on this activity.	<b>MOST</b> General rates  <b>MINIMAL</b> User Charges Grants & Subsidies  <b>UNLIKELY</b> All other funding sources.	The private good component of library activities is recovered through user charges, and fines.  High levels of user charging results in a considerable drop off of usage and has proven to not be cost effective access. User recovery is also constrained by s.142 of the Local Government Act 2002.  Waikato residence use is paid for by as provided in a funding agreement with Waikato District Council.  General rates are the appropriate funding source for households and

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
		community.					business as they are easy to administer and it recognises the benefit from the libraries.
<b>Museum</b>	Providing outstanding Infrastructure  Celebrated for our Arts and Culture	The museum provides for exhibitions and use of the archives by visitors to the museum.  Businesses benefit from this visitor attraction.  The community as a whole has a collective sense of history due to preservation of collections of regional significance and the contribution of the museum to the regional visitor and tourism economy.	The benefit of most operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact on this activity.	Identifying separate user pays funding assists in the accountability and transparency of Council's expenditure on this activity.	<b>MOST</b> General rates  <b>MINIMAL</b> User Charges Grants & Subsidies Sponsorship  <b>UNLIKELY</b> All other funding sources.	User charges set at an appropriate level to promote and provide access to a range of experiences which celebrate the arts and history of the region.  General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from the libraries.
<b>Theatres</b>	Providing outstanding Infrastructure  Celebrated for our Arts and Culture	Theatres provide events and performing arts venues that assist in celebrating our arts and culture. Primary benefits are to the users.  Businesses benefit indirectly from these events.  The community is enriched by events and performances of regional significance.	The benefit of most operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact on this activity.	Identifying separate user pays funding assists in the accountability and transparency of Council's expenditure on this activity.	<b>HIGH</b> General rates  <b>LOW</b> User Charges  <b>MINIMAL</b> Grants & Subsidies Sponsorship  <b>UNLIKELY</b> All other funding sources.	User charges set at an appropriate level to promote and provide access to a diverse range of events and cultural experiences for residents.  General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from the theatres.
<b>Arts Promotion</b>	An Active, Strong Commercial City with Distinctive Suburban Villages  Celebrated for our Arts and Culture	The community is enriched by events and performances.	The benefit of most operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact on this activity.	Identifying separate user pays funding assists in the accountability and transparency of Council's expenditure on this activity.	<b>ALL</b> General rates  <b>UNLIKELY</b> All other funding sources.	General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from arts promotion.

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
<b>Safety</b>							
<b>Animal Education and Control</b>	An Active, Strong Commercial City with Distinctive Suburban Villages	Dog registration is a service that benefits dog owners by allowing legal ownership of dogs and enabling impounded dogs to be traced to their owners.  Dog ranging, pound keeping and response to animal complaints are activities that protect the public from the negative effects of the actions or inactions of dog owners.	The benefit of operating costs is expected to arise in the year the funding is sourced.	The actions or inactions of animal owners create costs for this activity and negatively impact on the community.  The negative impacts affect the whole community.	Identifying separate funding assists in the accountability and transparency of Council's expenditure on this activity.	<b>HIGH</b> User charges  <b>LOW</b> General rates  <b>UNLIKELY</b> All other funding sources	User charges recognise that the benefits of registration activities are to dog owners and the costs of responding to complaints about dogs and wandering stock are driven by the actions or inactions of animal owners.  General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from animal control.
<b>Environmental Health and Public Safety (including tagbusters)</b>	An Active, Strong Commercial City with Distinctive Suburban Villages	The benefits of inspection and licensing of premises (including food premises, camping grounds, hairdressers, liquor, offensive trades and funeral directors) accrue mostly to the business owner.  The protection of public health by ensuring these premises meet requirements is a benefit to the community.	The benefit of operating costs is expected to arise in the year the funding is sourced.	The allocation of charges is modified on grounds of fairness and equity to recognise that the costs of controlling the negative effects of the actions or inactions of animal owners should be borne by those owners.	Identifying separate funding assists in the accountability and transparency of Council's expenditure on this activity.	<b>MODERATE</b> General rates  <b>LOW</b> User charges  <b>MINIMAL</b> Grants and subsidies  <b>UNLIKELY</b> All other funding sources	User charges recognise the benefits to people who apply for licences.  General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from a safer community.
<b>Community Support</b>							
<b>Community Development</b>	The Third City Economy in New Zealand  An Active, Strong Commercial City with Distinctive Suburban Villages	The community development activity supports resilient and readiness of communities. All members of the community benefit from these activities.	The benefit of most operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact on this activity.	Council considers that there is little benefit of separate funding for community development.	<b>MOST</b> General rates  <b>MINIMAL</b> User charges Grants and subsidies.  <b>UNLIKELY</b>	This activity includes grants administration on behalf of others. This shows as an income and expense.  General rates are the appropriate funding source for households and

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
						All other funding sources.	business as they are easy to administer and it recognises the benefit from community development.
<b>Emergency Management</b>	An Active, Strong Commercial City with Distinctive Suburban Villages	Civil defence activities are provided for the benefit of the whole community.	The benefit of operating costs is in having plans in the event of an emergency at some time in the future.  The annual operating costs ensure there are up to date plans and staff and volunteers are trained. This expenditure is incurred in the year the funding is sourced.	The actions of most individuals or groups have a minor impact on this activity.	Council considers that there is little benefit of separate funding for emergency management.	<b>ALL</b> General rates  <b>UNLIKELY</b> All other funding sources.	In the event of activation Council may be entitled to subsidies for some civil defence costs such as welfare. Council does not budget for this income or the expense.  The planning for an emergency benefits the whole community and is fully rate funded.
<b>Housing</b>	Access to Affordable Housing	Tenants primarily benefit from community housing.  Council's objective for the community housing activity is that it should be self-funding and not be subsidised by rates.	The benefit of operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact on this activity.	Identifying separate funding assists in the accountability and transparency of Council's expenditure on this activity.	<b>ALL</b> User charges  <b>UNLIKELY</b> All other funding sources.	Rents are at, or near, market value and set in accord with the Housing for the Older Person Policy.
<b>Parks &amp; Green Spaces</b>							
<b>Hamilton Gardens</b>	Strongly connected to the River  Best Concept Garden in the World  An Urban Garden  Celebrated for our Arts and	The gardens are for the recreational enjoyment of the amenity by visitors. They are the region's largest visitor attraction.  The households benefit for the recreation and amenity of the gardens.	The benefit of operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact on this activity.	Council considers that there is little benefit of separate funding for emergency management.	<b>MOST</b> General rates  <b>MINIMAL</b> User charges  <b>UNLIKELY</b> All other funding	A small amount of user charges is achievable for private use of the facility such as weddings, festivals and retail sales.  It is not practical to charge casual users.  It is budgeted that all costs

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
	Culture	Business benefits from the visitor activity created by the attraction.				sources.	associated with the Gardens development meet from the Gardens targeted rate will be for capital costs.
<b>Community Parks</b>	Providing outstanding infrastructure Strongly connected to the River An Urban Garden	Community parks create amenity with green spaces and playgrounds throughout the city. The whole community benefits from this activity.	The benefit of operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact on this activity.	Council considers that there is little benefit of separate funding for community parks.	<b>MOST</b> General rates <b>MINIMAL</b> User charges <b>UNLIKELY</b> All other funding sources.	There is no practical way to collect revenues from private benefit of using these parks. There are some tenancies on community parks. General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from community parks.
<b>Gullies and native plantings</b>	Providing outstanding infrastructure Strongly connected to the River An Urban Garden	Gullies and native plantings create amenity with green spaces. The whole community benefits from this activity.	The benefit of operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact on this activity.	Council considers that there is little benefit of separate funding for gullies and native plantings.	<b>MOST</b> General rates <b>MINIMAL</b> Grants and subsidies <b>UNLIKELY</b> All other funding sources.	Some external funding is available for improving these areas. General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from for gullies and native plantings.
<b>Streetscapes</b>	Providing outstanding infrastructure An Urban Garden An Active, Strong Commercial City with Distinctive Suburban Villages	Streetscapes create amenity with green spaces. The whole community benefits from this activity.	The benefit of operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact on this activity.	Council considers that there is little benefit of separate funding for streetscapes.	<b>MOST</b> General rates <b>MINIMAL</b> Subsidies <b>UNLIKELY</b> All other funding sources.	General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from streetscapes.
<b>Sports Parks</b>	Providing outstanding infrastructure Waikato is the Capital of	Sports parks provide active recreation for training and competition for all levels of sport.	The benefit of operating costs is expected to arise in the year the funding is	The actions of most individuals or groups have a minor impact on this activity.	Identifying separate funding assists in the accountability and transparency of	<b>MOST</b> General rates <b>MINIMAL</b>	User charges set at an appropriate level to promote and provide the sustainable use of these facilities. General rates are the appropriate

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
	High Performance Sport Celebrated for our Arts and Culture	Users benefit directly from having the facilities available.  The whole community benefits from the amenity values, the health and wellbeing benefits. The community is enriched by the sports performance and events.  Business benefits indirectly from the events.	sourced.		Council's expenditure on this activity.	User charges  <b>UNLIKELY</b> All other funding sources.	funding source for households and business as they are easy to administer and it recognises the benefit from sports parks.
<b>Cemeteries &amp; Crematorium</b>	Providing outstanding Infrastructure  Celebrated for our Arts and Culture	The provision of burial facilities and services is for individuals.  The city in turn has available green space, protecting public health by ensuring the safe disposal of human remains, and in maintaining cemeteries and cemetery records for future generations to locate their ancestor's burial plot/site.  The crematorium is a regional facility and benefits those who choose cremation.	The benefit of operating costs is expected to arise in the year the funding is sourced.	The actions of some individuals or groups have some impact on this activity.	Identifying separate funding assists in the accountability and transparency of Council's expenditure on this activity.	<b>MOST</b> User charges  <b>MINIMAL</b> Reserve funds  <b>UNLIKELY</b> All other funding sources.	Individuals pay user charges for the initial acquisition and use of a burial site (burial fees and plot charges) or the crematorium.  The cemetery plot maintenance in perpetuity reserve fund contributes to maintenance costs.
<b>Economic Development</b>							
<b>Economic Initiatives</b>	The Third City Economy in New Zealand  An Active, Strong Commercial City with Distinctive Suburban Villages	Benefits accrue to the city as a whole from efforts to grow the economy. The benefits accrue to all sectors of the economy.  The targeted funding for the BID area benefits those businesses inside the area.	Economic initiatives benefits could accrue over a number of years as a result of some costs. However, the benefit of most operating expenditure is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact on this activity.	Council considers that there is little benefit of separate funding for streetscapes.	<b>MOST</b> General rates  <b>MINIMAL</b> Targeted rate User Charges  <b>UNLIKELY</b> All other funding sources.	User charges revenue is earned from some events promoted in this activity.  General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from cemeteries and the crematorium.  A targeted rate to fund the BID for those who get the benefit of the

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
							BID.
<b>Strategic Property Investment</b>	The Third City Economy in New Zealand	The primary benefit from strategic property is the use of the property by commercial tenants.	Commercial property benefits could accrue over a number of years as a result of some expenditure. However, the benefit of most operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact.	Identifying separate funding assists in the accountability and transparency of Council's expenditure on this activity.	<b>ALL</b> Investment Income  <b>UNLIKELY</b> All other funding sources.	The benefits accrue primarily to users who pay for the service provided by way of rents, lease, licenses etc.  Assets sale income, unless otherwise resolved is used to reduce debt.
<b>Claudeldands</b>	Providing outstanding Infrastructure  Waikato is the Capital of High Performance Sport  Celebrated for our Arts and Culture	Claudeldands provides venues for events that are attended by large numbers of people including high performance sport, conferences, functions, concerts and shows.  The community is enriched by the range of events and activities at the venue.  Events provide direct and indirect benefits to businesses.	The benefit of operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have some impact on this activity.  Each sport has their own specifications and requirements for stadia.	Identifying separate user pays funding assists in the accountability and transparency of Council's expenditure on this activity.	<b>HIGH</b> General rates  <b>LOW</b> User Charges  <b>MINIMAL</b> Sponsorship  <b>UNLIKELY</b> All other funding sources.	User charges are made for hireage, events and retail sales.  User charges do not fully recover the cost of the private benefit and rates funding is required ensure cost effective access to this service can be provided.  General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from Claudeldands.
<b>Stadiums</b>	Providing outstanding Infrastructure  Waikato is the Capital of High Performance Sport  Celebrated for our Arts and Culture	Stadiums provide venues for high performance sport and are attended by large numbers of people. The benefit to households of being able to attend live high performance sport is reflected in the importance of sport to our cultural and social wellbeing.  Sporting events provide direct and indirect benefits to businesses.  The community is enriched by	The benefit of operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have some impact on this activity.  Each sport has their own specifications and requirements for stadia.	Identifying separate user pays funding assists in the accountability and transparency of Council's expenditure on this activity.	<b>HIGH</b> General rates  <b>LOW</b> User Charges  <b>MINIMAL</b> Grants Sponsorship  <b>UNLIKELY</b> All other funding sources.	User charges are made for admission, events and retail sales.  User charges do not fully recover the cost of the private benefit and rates funding is required ensure cost effective access to this service can be provided.  General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from the stadia.

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
		events and performances of regional significance.					
<b>Planning &amp; Development</b>							
<b>City Planning</b>	<p>Providing outstanding Infrastructure</p> <p>Strongly connected to the River</p> <p>An Active, Strong Commercial City with Distinctive Suburban Villages</p> <p>An Urban Garden</p> <p>Access to Affordable Housing</p>	<p>City Planning provides professional resource management advice and leadership to Council, the community and the development industry; to facilitate the planned and sustainable growth of Hamilton City.</p> <p>The whole community benefits from this activity.</p>	The benefit of operating costs is expected to arise in the year the funding is sourced.	The actions of most individuals or groups have a minor impact on this activity.	Council considers that there is little benefit of separate funding for City Planning.	<p><b>ALL</b> General rates</p> <p><b>UNLIKELY</b> All other funding sources.</p>	General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from city planning.
<b>Planning Guidance &amp; Compliance</b>	<p>The Third City Economy in New Zealand</p> <p>Providing outstanding Infrastructure</p> <p>An Active, Strong Commercial City with Distinctive Suburban Villages</p> <p>An Urban Garden</p> <p>Access to Affordable Housing</p>	<p>Individuals that apply for consents and use the other services in this area are the predominant beneficiaries of this activity. Through their actions they directly drive the majority of the costs.</p> <p>These activities also provide benefit to persons other than the applicant such future owners and occupiers of the land (a property-based benefit).</p> <p>The whole community benefits as this activity aims to protect Hamilton's unique environment and residents' quality of life as the city grows and develops.</p>	The benefit of operating costs is expected to arise in the year the funding is sourced.	The actions of individuals and groups drive the costs in this activity.	Identifying separate funding assists in the accountability and transparency of Council's expenditure on this activity.	<p><b>HIGH</b> User Charges</p> <p><b>LOW</b> General rates.</p> <p><b>UNLIKELY</b> All other funding</p>	<p>A user charge recognises the benefits to people who apply for resource consents.</p> <p>General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from city planning.</p>
<b>Building Control</b>	The Third City Economy in	Individuals that apply for consents and use the other	The benefit of operating costs is	The actions of most individuals or groups	Identifying separate funding assists in the	<b>MOST</b>	User charges are favoured for those that apply for building

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
	<p>New Zealand</p> <p>Providing outstanding Infrastructure</p> <p>An Active, Strong Commercial City with Distinctive Suburban Villages</p> <p>Access to Affordable Housing</p>	<p>services in this area directly drive the majority of the costs.</p> <p>These building control activities also provide the public entering the building and future owners and occupiers of the building</p> <p>Information is supplied to the public through inquiries.</p> <p>The whole community benefits as this activity aims to protect Hamilton's unique environment and residents' quality of life as the city grows and develops.</p>	<p>expected to arise in the year the funding is sourced.</p>	<p>have a minor impact on this activity.</p>	<p>accountability and transparency of Council's expenditure on this activity.</p>	<p>User charges</p> <p><b>LOW</b> Other</p> <p><b>UNLIKELY</b> All other funding</p>	<p>consents, code compliance certificates, PIMs or LIMs:</p> <p>Some other income is collected in commissions.</p>
<b>Democracy</b>							
<b>Governance &amp; Civic Affairs</b>	<p>Our Books are Balanced</p> <p>The Third City Economy in New Zealand</p> <p>Providing outstanding Infrastructure</p> <p>Strongly connected to the River</p> <p>Best Concept Garden in the World</p> <p>An Active, Strong Commercial City with Distinctive Suburban Villages</p> <p>An Urban Garden</p> <p>Access to Affordable Housing</p> <p>Waikato is the Capital of High Performance Sport</p>	<p>The whole community benefits from this activity.</p>	<p>The benefit of operating costs is expected to arise in the year the funding is sourced.</p>	<p>The actions of individuals and groups drive the costs in this activity.</p>	<p>Council considers that there is little benefit of separate funding for City Planning.</p>	<p><b>ALL</b> General rates</p> <p><b>MINIMAL</b> User charges</p> <p><b>UNLIKELY</b> All other funding sources.</p>	<p>General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from city planning.</p> <p>A small amount of income is received every three years for providing election services to other organisations.</p>

Activity	Community Outcomes	Distribution of Benefits	Period of Benefit	Whose Act Creates a Need	Separate Funding	Funding Source and Bands	Rationale
	Celebrated for our Arts and Culture						
<b>Partnership with Maaori</b>	Celebrated for our Arts and Culture	The whole community benefits from this activity.	The benefit of operating costs is expected to arise in the year the funding is sourced.	The actions of individuals and groups drive the costs in this activity.	Council considers that there is little benefit of separate funding for City Planning.	<b>ALL</b> General rates  <b>UNLIKELY</b> All other funding sources.	General rates are the appropriate funding source for households and business as they are easy to administer and it recognises the benefit from city planning.



**Committee:** Council

**Date:** 4 June 2015

**Report Name:** Deliberations on 2015 Draft  
Development Contributions  
Policy

**Author:** Greg Carstens

<b>Report Status</b>	<i>Open</i>
<b>Strategy, Policy or Plan context</b>	<i>The Development Contributions Policy is a key policy that delivers on the Hamilton Plan goals that relate to having a sustainable growing city.</i>
<b>Financial status</b>	<i>The Draft 10-Year Plan includes budget to operate the policy, and revenue is forecasted from the policy from 1 July 2015.</i>
<b>Assessment of significance</b>	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

## 1. Purpose of the Report

2. This report summarises the key issues from submissions on Council's Draft 2015/16 Development Contributions' Policy ("Draft Policy").
3. The report provides analysis of key issues raised and seeks Council decisions on recommended changes to the Draft Policy ahead of the statutory requirement to adopt an updated development contributions ("DC") policy no later than 30 June 2015.

## 4. Executive Summary

5. 21 submissions were made from individuals and organisations to Council's Draft Policy. Feedback was received on 9 themes relating to the DC Policy, and the DC model that is used to generate the DC charges.
6. Many submitters made comment on the difficulty at gaining understanding and a sense of transparency with the DC policy and model. This perceived lack of transparency is in part the result of the complex model that has been generated over recent years in response to developer requests for more catchment areas and stronger causal nexus links.
7. Some feedback can be easily accommodated within this review and where this is the case it has been noted in the report or recommended to Council for a decision. Other feedback, which may not be supported by other submitters, will require more substantive policy changes and remodeling. It is recommended that these issues are referred to a working group of developer representatives and Council to work through in more detail following adoption of a new policy. It is proposed that a Terms of Reference for this working group is developed and considered by Council at its adoption meeting of 30 June 2015.
8. Some submitters have requested that while this process proceeds, that the DC charges be capped at the level contained in the 2013 Policy during 2015/16. While this is an option for

Council, it is not recommended by staff or legal advisors as there is not a strong policy rationale to introduce such a cap.

9. The report requires Council to make decisions on a number of policy matters so that the DC Policy, model and resulting charges can be updated ahead of final adoption on 30 June 2015.
10. As part of internal quality assurance on Council's DC model, PricewaterhouseCoopers ("PwC") have reviewed the model and are comfortable with it and have not raised any significant issues with how the model operates given the complexity of Council's DC Policy.

## Recommendations

- a) That the report be received.
- b) That a working group be established to work with the development community during 2015/16 on Council's Development Contributions Policy and Growth Funding Policy, and that staff report to Council on 30 June 2015 with draft Terms of Reference for this working group.
- c) That the Producers Price Index (PPI) adjustment be removed from the policy.
- d) That the timeframe for application for a remission of an advised development contribution be extended from 20 to 30 working days.
- e) That Council note the proposed staff responses to the submission themes outlined in section 57.
- f) That the Development Contributions Policy reflecting changes outlined in this report be presented to Council on 30 June 2015 for adoption, noting an effective date of 1 July 2015.

## 11. Attachments

12. Attachment 1 - List of submitters to DC Policy
13. Attachment 2 - Main submission themes
14. Attachment 3 - Detailed discussion of submission themes

## 15. Policy review

16. Background
17. Council is required to make decisions on the Draft Policy and have an updated policy to reflect the changes to the LGA adopted no later than 30 June 2015.
18. The recent changes to the LGA in August 2014 have:
  - Introduced requirements for additional statutory disclosures of information underlying the calculation of DC's.
  - Substantially narrowed the ability of councils to collect DC's for community infrastructure. Council made a decision in October last year to cease charging this component entirely.
  - Provided developers with more opportunities to challenge individual DC charges.
  - The changes include a series of 'DC principles' and also explicitly provides territorial authorities the ability to use averaging approaches in the calculation of charges, and consider administrative practicability when developing a policy.

19. The last review of the policy was undertaken during 2012/13. This involved:
- A significant focus on strengthening the link and transparency between individual projects and development in particular parts of the city – the ‘causal nexus’ issue. This was supported by previous submitters to the policy.
  - This was achieved by increasing the number of catchments used in the policy from a basic approach using 3 catchments to a sophisticated 32 catchment approach.
  - A large and thorough process to assess cost allocations for each project, including legal and economic input and advice on the method of assessment.
20. Council staff meet regularly with members of the development community through sector meetings and for matters relating to individual developments. Limitations and interpretation of the DC policy are often discussed as part of these engagements. Staff are regularly made aware of aspects of the DC regime that are not supported by developers and discuss these at length and explore options.
21. DC’s involve large sums of money and objections to their use are experienced across the sector. The review of the policy has been undertaken in this wider context.
22. Next steps
23. Following Council deliberations and decisions made in response to issues raised in this report, staff will:
- Amend the Draft Policy
  - Reflect changes in the DC model and generate updated charges
  - Develop terms of reference for a working party
24. The Final DC Policy including updated charges will be provided to Council for formal adoption at its meeting on 30 June 2015.
25. Strategic alignment
26. The Draft Policy is based on the Draft 2015-25 10-Year Plan capital programme. If Council makes changes to the 10-Year Plan then these changes will need to be reflected in the updated Draft Policy and any resulting charges.
27. The DC policy is a key mechanism to fund growth in Hamilton. The policy helps to deliver on the following Hamilton Plan goals:
- Our books are balanced
  - Being the third city economy
  - Having ‘outstanding infrastructure’
  - ‘Strong commercial central city’
28. In order to effectively deliver these goals, the policy needs to balance the need to raise revenue to fund infrastructure critical for growth, and balance the affordability and competitiveness of Council’s charges in relation to other centres competing for capital investment from developers.
29. The wider context should also not be forgotten, which is that the government enacted the DC legislation in 2002 with the intention that developers should contribute a significant share of the costs of growth infrastructure.
30. The Draft Policy seeks to balance these competing challenges and staff have made recommendations in this paper following consideration of these matters.
31. Legislative requirements or legal issues
32. Changes to the Local Government Act during 2014 have altered the empowering legislation for Development Contributions. The Draft Policy includes changes that have been made to reflect the changed legislation.

33. A number of the submissions to the Draft Policy have challenged the lawfulness of it. The legislative framework for the DC Policy is complicated and requires a high level of expertise to interpret it correctly. All such claims, and any other relevant risk matters, have been investigated by legal counsel who's advice is that the claims of unlawfulness made in the submissions do not represent a strong argument in law.

#### **34. Feedback themes and analysis**

35. In each section the themes are discussed and a recommended approach to feedback for Council to respond to is provided.
36. Submissions have been analysed and grouped into 9 broad themes:
- Establishment of a working group and capping charges at current rates
  - Cost allocations
  - Catchments
  - Charge level
  - Model and technical assumptions
  - Assessment and payment
  - Policy document
  - Engagement
  - Private Developer Agreements
37. A total of 21 submissions were received on the Draft Development Contributions Policy. Several of the larger development companies commented on many of the issues presented in this paper, but many only commented on a few, and some made only a single point.
38. The list of submitters (see Appendix 1) included large development groups or bodies, surveyors, and a large local business. This represents a small number of submissions when compared to the previous policy review in 2013.
39. The main submission point themes are detailed in Appendix 2.
40. Working group
41. The concept of a working party has been discussed with key stakeholders, in particular the Property Council and Tainui Group Holdings (TGH), to address a variety of issues raised by stakeholders during the submission process, and matters of contention and legacy issues that have existed from prior years.
42. Major themes that might be addressed by such a group include issues of transparency with the DC policy, and requested changes to the policy that might result in concessions typically for the financial benefit of developers. A working group could be established made up from:
- Representative elected members
  - Development community representatives (covering a range of types of developments and areas of the city but certainly including the Property Council and TGH)
  - Senior Council staff and advisors
  - Input from external consultants
43. The working group would look at some of the key matters raised through the recent submissions process, and more generally the structure and content of the policy, with a view to recommending policy changes back to Council as part of a subsequent policy review alongside the 2016/17 Annual Plan process.
44. The working group would also have an educational benefit for its members who would gain a better understanding of a range of matters relating to Council's DC Policy.
45. Staff recommend that a working group be established as outlined above and that a preliminary terms of reference be provided to Council for consideration as part of the adoption meeting for the final 2015/16 DC Policy on 30 June 2015.

46. Capping charges at the current rates
47. The Property Council stated in its submission that in order to lessen the risk of litigation on the policy, Council should cap the charges in the policy at the operative 2013/14 policy level.
48. Council has the ability to charge less than the charge that is calculated through the DC model, but not more. Going forward, the effect of charging less than the modeled charges would result in less DC's being collected with any budget shortfall being instead funded through rates.
49. It is estimated that the financial impact to Council over the next 12 months, with charges in the new 2015/16 policy capped at the 2013/14 policy rates, would be a reduction in DC revenue of between \$750k and \$1m. Additionally, there is a risk of foregoing up to \$4m of DC revenue over the 10-Year Plan period locked in for up to 8 years at the lower rate, taking into account some increased rates of development and associated lower charges.
50. While it is always an option for Council to cap charges, this is not supported by staff. Mitigating the risk of a legal challenge is not considered a reasonable policy rationale to support capping charges.
51. The proposed Draft Policy charges are for the most part lower than the current policy's, with the exception of Rotokauri. The Rotokauri charge has increased on average \$10,000 per section due in large part to a \$30m stormwater solution required to manage effects over the long term.
52. If all charges were capped at the current rates this would have the effect of subsidising Rotokauri residential development by approximately \$10,000 a section, with minimal capping relief to other parts of the city. This is a risk that other developers object to what would be seen as a selective subsidy for a small number of developers.
53. It is noted that the party requesting this overall cap on charges conversely objects to the current caps on charges in the Draft Policy, suggesting similar litigation risks.
54. The Property Council submit that Council's non-residential charge caps are inconsistent with the law and because of that Council faces likely litigation. This contradicts a separate section of the same submission which seeks a citywide cap on all DC's by fixing charges at the current policy rates, and states that litigation is likely too if that were not done.
55. Legal advice is that the policy and resulting charges are based on solid rationale and the Draft Policy is legally robust, and that there is no need to cap charges at the current levels from a litigation perspective.
56. It is not recommended that Council cap 2015/16 charges at the 2013/14 levels.

## **57. Responses to submission topics**

58. Due to the complexity required to address some of what are sophisticated submissions from experienced parties, the discussion and rationale for conclusions can be lengthy and technical. In the interests of readability, the following table provides proposed responses to identified topics of submissions with a minimum of commentary. The detail appears in Appendix 3 of this report.
59. It is worth noting that receiving only 21 submissions across the entire city means that most developers and a large part of total DC revenue (being mum's and dad's, small to medium subdivisions and small businesses) have not presented their views to Council directly. Staff have indirectly taken common interests of the wider development into consideration in its recommendations using general knowledge from regular contact with many developers, to take account of fairness and reasonableness for the wider community as per the purpose of DC provisions in the LGA.

(Recommendations to Council are highlighted)

<b>Submission Theme</b>	<b>Proposed response</b>
<b><u>Cost allocations</u></b>	
<b>Transparency</b>	It is recommended that a working group be established to work with the development community during 2015/16, and that staff report to Council on 30 June 2015 with draft Terms of Reference for this working group.
Open-access infrastructure	Some cost allocations were found to be in error or inconsistent with other allocations in this regard. These will be amended as appropriate.
Methodology	Cost allocation methodology be addressed through the working party process.
Information requests	Staff will provide further specific information on project cost allocations that is requested by individual submitters.
Increase charges and developer share of costs	Not recommend to increase charges without project and cost justification as considered unlawful.
<b><u>Catchments</u></b>	The current and proposed catchments be retained.
<b><u>Charge level</u></b>	Non-residential charge caps be retained.
Cap charges at 2013/14 Policy rates	Not recommended that Council cap 2015/16 charges at the 2013/14 levels.
Pay lesser of applicable and operative policy	Not recommended for inclusion in the Draft Policy based on legal advice.
<b><u>Model assumptions</u></b>	Staff amend the formulae for calculating DC's as expressed in the policy so they are clearer.
Interest rate	The interest rate used in the DC model be realigned to Councils average cost of capital interest rate (which has recently reduced from 6.3% to 6.1%).
Conversion	A review of Policy conversion factors be addressed through the working party.
<b>PPI</b>	It is recommended that the Producers Price Index (PPI) adjustment be removed from the policy.
Inflation	No changes be made in respect of capital cost inflation.
<b><u>Model review</u></b>	Staff make the (minor) amendments to the Model highlighted in the PwC DC Model review.
<b><u>Assessment and payment</u></b>	
Payment deferral	Not recommended that Council expand the qualifying criteria to defer payment of DC's.
Land use payments	Council make a minor amendment to policy wording regarding charging on land use consents, which retains Council's rights but is less general in its application.
DC credits	Not recommended that the credits provisions be expanded as requested, or that DC credits be noted on LIM reports.
Policy document	Not recommended that Council introduce a special assessments provision. Such a provision is not required by law, and Councils existing remission process serves as a reasonable alternative.
<b>Remissions</b>	It is recommended that the timeframe for application for a remission of an advised development contribution be extended from 20 to 30 working days.
LGA references	Additional (non mandatory) LGA references be added, but not if it makes the policy unnecessarily long or confusing.
Additional content	Requested disclosure, which is complicated and would need to be compiled, be provided separately or through the proposed working party.
<b>Growth Funding Policy</b>	Examining Council's Growth Funding Policy be part of the proposed working group process.

## 60. Financial Implications

61. The proposed changes to the DC Policy are estimated not to have a material impact on DC revenue and that the budget for DC revenue in the 2015-25 10-Year Plan remains appropriate.
62. Specific DC charges resulting from the changes to the DC Policy and model will be reported to 30 June 2015 Council meeting.

## 63. Risk

64. There are three significant risks identified with adoption of the DC policy.
  - Staff resourcing and organisational changes
  - Legal challenge
  - Adoption of a compliant policy by 30 June 2015
65. Staff resourcing and organisational changes
66. A significant risk exists in relation to maintaining the necessary skills and knowledge regarding development contribution policy especially with the recommendation to create a DC working group.
67. Over the next few months there are changes occurring with key staff responsible for development contribution policy and management including the resignation of a key senior staff member who is relocating overseas. This will leave interim gaps in knowledge and experience during the recruitment and training phase. In addition, the current proposed restructure shows a realignment of management roles for development contributions. For an interim period this will also impact the available knowledge relating to the development contributions and require significant consultant resource to support any working group process adequately.
68. Legal challenge
69. A number of submissions suggested that a legal challenge could be made to Council's policy. Where this has been suggested, legal advice has been taken from Council's solicitors and recommendations in this report have been prepared taking on board this advice. Specifics relating to legal challenges are set out in Appendix 3.
70. Adoption of a compliant policy by 30 June 2015
71. Council must have an updated policy adopted by 30 June 2015. If Council wants to make substantial or complicated changes to policy direction this may mean that the necessary modelling cannot be undertaken in time to complete charges calculations for the Policy review.

## Signatory

Authoriser	Blair Bowcott, General Manager Performance Group
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## Appendix 1 – Deliberations on 2015/16 Draft DC Policy

### Appendix 1 - List of submitters on DC Policy

sub No.	Name (if applicable)	Organisation
1	John Allan Gallagher	Gallagher Group
2	Tony Tynan	Blue Wallace Surveyors
3	Property Council New Zealand (Property Council)	Property Council New Zealand (Property Council)
4	Roger Hennebry	Grey Power Hamilton
5	Arthur Giffney	
6	Michael McLenna	Porter Properties Ltd & Porter Developments Ltd & Porter Hire Ltd
7	Ian Patton	
8	John Allan Gallagher	Gallagher Group
9	Thomas Andrews	Tristar Group Ltd
10	Andrew Yeoman	Yeoman Property Group
11	Jason Smith	ECS Group
12	Rotokauri Development Limited (RDL)	CKL Planning, Surveying, Engineering
13	Jon Webb & Tony McLauchlan	Chedworth Properties Limited
14	Robert Dol	Horotiu Farms Ltd (HFL)
15	Tama Potaka & Dean Shields	Tainui Group Holdings
16		Te Runanga o Kirikiriroa (TROC)
17	Colin Jones	Commercial & Industrial Consultants
18		Trig Developments (2011) Limited
19		Boffa Miskell
20	Kevin Honiss	Transland Group Ltd (Transland)
21	Aaron Wong	Generation Zero

## Appendix 2 – Deliberations on 2015/16 Draft DC Policy

## Appendix 2 - Main submission point themes – DC Policy

There were 21 submissions in total. This table shows major themes and the number of times they were commented on by submitters.

Theme (general)	Theme (more specific)	Number of times theme raised
<b>Capex recovery</b>		
	Capex recovery	3
<b>Capex recovery Total</b>		<b>3</b>
<b>Catchments</b>		
	Catchments	3
	Citywide	3
	Transparency	1
<b>Catchments Total</b>		<b>7</b>
<b>Charges</b>		
	Capped charges	3
	Charge level	2
	CI charge	2
	Methodology	1
	Transparency	1
<b>Charges Total</b>		<b>9</b>
<b>Cost allocation</b>		
	Benefits	2
	Citywide	8
	Cost allocation	4
	Historical costs	2
	Infill charge	2
	Methodology	6
	PDA's	1
	Stormwater	1
	Transparency	1
<b>Cost allocation Total</b>		<b>27</b>
<b>Engagement</b>		
	Engagement	3
	Transparency	1
<b>Engagement Total</b>		<b>4</b>
<b>Model</b>		
	Conversion factors	1
	HUEs	1
	Inflation	1
	Interest	8
	Methodology	2
	NPV	2
	PPI	1

Appendix 2 – Deliberations on 2015/16 Draft DC Policy

Theme (general)	Theme (more specific)	Number of times theme raised
	Rates	1
	Transparency	1
<b>Model Total</b>		<b>18</b>
<b>PDA</b>		
	PDA	2
	Remissions	1
	Vesting	1
<b>PDA Total</b>		<b>4</b>
<b>Policy</b>		
	Assessment	3
	Catchments	3
	Charge Deferral	1
	Credits	3
	Definitions	6
	Growth Funding Policy	4
	HUEs	1
	Inflation	1
	Interest	4
	Legality	1
	Methodology	1
	Model	1
	Payment triggers	6
	PDA	5
	Policy	2
	PPI	2
	Remissions	4
	Reserves	1
	Schedule of Assets	3
	Special assessments	6
	Supports Policy	1
	Transparency	4
<b>Policy Total</b>		<b>63</b>
<b>Transparency</b>		
	Transparency	2
	Charge composition	1
<b>Transparency Total</b>		<b>3</b>
<b>Supports Property Council submission</b>		
	Supports Property Council submission	10
<b>Supports Property Council submission Total</b>		<b>10</b>

**Appendix 3 – Detailed discussion of submitter themes**

1. This appendix contains the discussion and rationale for conclusions referred to in the main report. Because of the complexity required to address some of what are sophisticated submissions from experienced parties, the discussion and rationale for conclusions can be lengthy and technical.
2. General recommendations and staff responses below are shown in grey boxes. For formal recommendations seeking decisions from Council, refer to the main report.
3. **Cost allocations**
4. The term 'cost allocations' refers to the way in which the DC Model takes all of the costs in the 10-Year Plan capital programme that are related to growth, and attributes them to various areas of the city (including citywide), and then charges them to developments in those areas. The LGA dictates how this is to be done and sets out the rules that must be followed in doing so. It requires assessing the extent to which development causes and benefits from the new infrastructure in each area. Council reviewed its application of these rules and formalised this in methodology documents for the 2013 Policy.
5. Some submitters noted that these documents have not been updated for the current policy. The reason for this is that there have been no material changes to the methodology. Staff will, however, confirm and re-date the documents through the consultants that developed them (Covec Ltd and Brian Smith Advisory Ltd).
6. Concern was raised over the complexity added through the use of methodologies. Issue was also taken with a perceived lack of transparency in Council's current cost-allocation process which contributes to a lack of accountability for DC funded expenditure.
7. Staff acknowledge that the way DC policies are developed and the calculation of charges is complex, but hold that this complexity is required in order to reduce the amount of cross-subsidisation between developments in different areas and between developers and ratepayers.
8. 

It is proposed that certain key concerns around transparency be addressed through a working party process, as suggested by a number of submitters
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9. Concerns were also raised that the current allocations systematically understate the benefit of new open access infrastructure (e.g. parks and major arterial roads) to existing ratepayers. Staff maintain that this is not the case, as the level of benefit to existing ratepayers is explicitly addressed through the current cost allocations methodology.
10. A full day workshop with consultant Fraser Colegrave (Insight Economics) and engineers addressed each cost allocation point raised by submitters, which inform amendments and recommendations in this report.
11. A small number of cost allocations did contain minor errors and will be amended as appropriate.
12. There may be some cases in which the application of this methodology can be debated. Specific examples raised by the submitters, and suggestions of using simple population growth or average unit costs (including existing users) to set the charges, ignore the element of causation in Council's cost allocation methodology. Following the submissions, Staff have reviewed the most significant allocations for open access infrastructure and adjusted a small number of allocations the benefit portion was overstated in error.
13. Submitters noted that some of the Council's DC funded capital costs, including modeling and investigation work needed for growth infrastructure, that these costs are not eligible under the LGA for recovery via DCs. Staff have consulted with legal and technical specialists on this matter and support retaining Council's current position on these projects. Council's capitalisation policy has

recently been reviewed, and determined that these items should be capitalised. These items relate to growth, as design and planning precede and are necessary for the delivery of physical infrastructure.

14. Some submitters raised concerns over cross-subsidisation between catchments, with particular reference to the citywide and infill allocations unduly pushing costs onto the greenfield catchments. A number of specific examples of cost allocations were also identified by submitters as being problematic.
15. Staff do not recommend a change to the fundamental approach to cost allocations.
16. Staff agree to deliver direct to the submitter further disclosure of specific complicated information sought. This information will include:
  - A full mathematical formula for calculating DC's
  - Full copies of the growth and demand models
  - Re-dated methodologies
  - Other assorted requested documents and information.
17. Two submitters argued that developers should pay a larger share of costs than is currently the case, however the LGA prevents this.
18. For noting purposes, HCC is considered a sector leader in cost allocation and the granularity of its approach in order to deliver the fairness and equity of which the development community holds paramount. Its approach was ratified through technical and legal experts, including by Queens Counsel legal review.
19. Staff do not recommend any increases to DC charges above those determined by the DC model.
20. **Catchments**
21. Catchments are the areas referred to in the main report, and are a combination of District Plan growth structure plan areas, and waters catchments from geotechnical reports. Council's 2013 policy uses 32 catchments overall, including 10 general catchments based on 'growth cells' identified in the District Plan such as Rototuna, Rotokauri, Peacockes, and Ruakura. There are 2 wastewater catchments, and 19 stormwater catchments to better reflect the actual flow of stormwater.
22. Council's previous 2012/13 Policy had only 3 catchments.
23. The principal reason for the revision and expansion of catchments was to address developer concerns and strengthen the causal nexus between the location of growth infrastructure and new development, and draw more sophisticated links between the causes and benefits to developments in an area of that infrastructure.
24. The development community has and will always call for more measures and amendments that ultimately speak to individual developments and lower charges.
25. The purpose and intention of the DC provisions in the LGA is to allow a quite general approach to a DC charging regime. Councils shift from 3 catchments to 32 was a radical change prompted by major developers during submissions and hearings in 2012/13, who are also submitting on the current Draft Policy.
26. Council's approach to cost allocations places it as a national leader in granular catchment use especially when considering the compact nature of our city.

27. Staff recommend that the current DC catchments be retained.
28. **Capping charges**
29. DC charges are an output of the DC Model, and are calculated in such a way that complies with legislative requirements. They recover capital expenditure over the long term, and therefore represent significant sums of money. Submitters and developers often object to the quantum of charges, despite their legitimacy.
30. Council's current and proposed practice of capping non-residential charges was supported in one submission, opposed in another, and a third submitted that the charges distort the operations of the market, and potentially infringe the causal nexus test, and state that litigation is a likely outcome.
31. The non-residential charge caps provide consistency of charging between policy reviews, preserve Council's long term strategic planning investments, yields, and outcomes in greenfield cells. Some developers in dis-advantaged catchments may view this as inequitable.
32. Council's legal counsel's view is that its method and approach to the current caps in the Draft Policy is lawful.
33. It is recommended that non-residential charge caps are be retained.
34. The Property Council submit that Council's non-residential charge caps are inconsistent with the law and because of that Council faces likely litigation. This contradicts a separate section of the same submission which seeks a citywide cap on all DC's by fixing charges at the current policy rates, and states that litigation is likely too if that were not done.
35. It is not recommended that charges be capped at the current rates in the 2015/16 Policy.
36. One submitter requested that where the charge for a development that was consented under a previous policy (when the charge is crystallised, and comes to pay DC's today, should pay the lesser of the charge payable and the current charge as if it were assessed today. Legal advice is that this may be inconsistent with the LGA and therefore cannot be included in the policy.
37. **Model and technical assumptions**
38. Council's DC charges are calculated through a complex model and are based on a number of technical assumptions. Submitters raised a number of issues in relation to this.
39. Firstly, there is a suggestion that the basic methodology approach using NPV to account for financing costs associated with growth related expenditure is not lawful under the LGA. Staff have consulted with legal and technical specialists on this matter and who support retaining the current approach. Any concerns and possible alternative methodologies can be discussed via the proposed working party.
40. Secondly, submitters saw a conflict between how two formula were expressed in the policy. This is the equivalent of mathematical semantics, and can be remedied by expanding and clarifying the formula and including it in the final policy on 30 June. This was simply a matter of misunderstanding by the submitter.
41. It is recommended that staff address the way in which the formula for calculating DC's is expressed in the policy so it is clearer.
42. There was also concern that the interest rate used by Council (6.3%) is too high and should be lowered to 4% in line with the NZ Debt Management Office 10 Year rate. Staff note that the funding period for most DC projects is considerably longer than 10 years, up to a maximum of 30

years, and that the rate currently used is in line with the rate used by Council in preparing the 10-Year Plan and 30-year Infrastructure Strategy. These rates have, however, recently been revised downwards slightly, and the DC Policy rate will be adjusted down to 6.1% in line with these changes.

43. It is recommended that the interest rate used in the DC model be realigned to Councils average cost of capital interest rate (which has recently reduced from 6.3% to 6.1%).
44. An issue was raised with Council’s conversion factors to translate non-residential growth into residential equivalents. To review these conversion factors new NZTA surveys would need to inform it, and other modelling would need to be undertaken which is not achievable in the current timeframes.
45. It is recommended that a review of policy conversion factors be addressed through the working party process.
46. Finally, concern was raised over the application of adjustments to DC costs and charges for inflation and escalation through the Producers Price Index (PPI).
47. Removing PPI will have a financial impact, estimated to be in the order of \$2m over the 10 year period, however, as the submitters point out, the recovery of these costs is potentially in conflict with the legislation. Legal counsel supported the removal of PPI.
48. It is recommended that the Producers Price Index (PPI) adjustment be removed from the policy.
49. Staff disagree with a contention that the recent changes to the LGA make PPI the only form of inflation to be considered in calculating the DC charges but do agree that charging PPI and inflating capital costs could be more concisely applied. If the recommendation above was adopted, this would not be an issue, and legal advice is that there is some risk if PPI were to be retained.
50. It is recommended that no changes be made in respect of capital cost inflation.
51. **Model review**
52. As part of internal quality assurance on Council’s DC model, PricewaterhouseCoopers (“PwC”) have reviewed the model to ensure that the model:
- assumptions and workings reflect Council’s policy.
  - calculations and formulae work correctly.
  - logic is sound and appropriate.
  - The model is consistent with the policy and the LGA.
53. The model review will be completed throughout June 2015 as part of the finalization of the 2015/16 DC Policy.
54. In general, PwC are comfortable with the model and don’t see any major issues with how the model operates given the complexity of Council’s DC Policy.
55. Early findings from the review process indicate that the model is very complicated reflecting a complex DC Policy with many catchments for different types of infrastructure. This policy complexity has grown over recent years in response to development community requests to make stronger links between requirements for new infrastructure and individual developments (for example this this has resulted in 19 stormwater catchments alone). It has resulted in a paradox where as more transparency is sought between causation and benefits of individual projects, the

model becomes so complicated that it is hard to understand. The effect is that overall transparency and understanding becomes more difficult.

56. PwC have suggested that it would be very difficult for non-technical staff to understand the model and its workings.
57. Through the review of the model, PwC have identified a number of minor calculation issues that are being reviewed by staff and, if required, adjustments are being made to the model as a result. Any adjustments will be included in the model version that is used to generate charges for the Final 2015/16 Policy.
58. At the completion of the model review, PwC will prepare a report for stakeholders of the model. This will be a key piece of independent advice on the model for both Council and the development community.
59. **Assessment and payment**
60. Timing of payment and the opportunity to defer payment of DCs were raised by a number of submitters. Under the LGA development contributions may be assessed on application for resource consent, building consent and/or application for service connection.
61. Members of the development community have requested that the options for deferral of payment from the above triggers be expanded to cater to a greater range of developments across the city. The Draft DC Policy includes a postponement of payment provision, however this is limited to subdivision consents granted between 1 July 2008 and 30 June 2014 and will only be considered in cases in which the development leverages off existing catchment-specific infrastructure.
62. The LGA clearly outlines the circumstances under which development contributions are payable and for purposes of transparency and certainty it is advised that the triggers mirror these.
63. 

It is not recommended that Council expand the qualifying criteria to defer payment of DC's.
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64. It has also been requested Council provide clarification around the DC payment triggers outlined in the policy. Section 12 of the Draft Policy clearly outlines the payment triggers for DCs as per the LGA, but staff will consider any minor amendments such as an introductory statement and plain English clarifications, which could further clarify what these are.
65. It was also raised in a submission whether leniency may be shown where it is determined that DCs are payable on the commencement of a land use consent.
66. 

It is recommended that Council make a minor amendment to policy wording regarding charging on land use consents, which would retain Council's rights but be less general in its application.
--
67. Several submitters wanted changes to the policy to allow credits in a larger number of situations, and therefore pay less DCs. The amendments requested ask that council provide credits despite LGA provisions allowing the charging of DCs because of new demand created.
68. It is noted that the Draft Policy contains a change to remove the 3 year limit on credits for demolished buildings.
69. 

It is not recommended that the credits provisions are expanded as submitted, nor that DC credits be noted on LIM reports.
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70. One submitter suggested that DC credits be noted on LIMs, and while this may be a sensible suggestion, on advice it is understood that this is not a practicable option, and further is not required for compliance with relevant legislation.

71. **The Policy document**
72. This section refers to submissions made on policy clauses, or on the content or information provided in the policy document itself.
73. **Special Assessments**
74. There is no special assessment provision under the operative DC Policy. All consent applications lodged with Council are assessed under the relevant DC Policy to calculate modeled demand. A provision for special assessment was removed as part of the previous 2013/14 DC Policy review.
75. Developers may apply for a remission of the modeled DC charge within 20 working days of being advised of the charge in writing. Any remission application must be supported with evidence from an appropriately qualified professional and demonstrate that actual demand is substantially less than modeled demand.
76. A number in the development community have requested that a special assessment provision be added to the policy to ensure that a fair and equitable DC assessment be completed based on the specifics of a development prior to that of modeled demand. This touches on the fundamental debate around averaging which is allowed for under the LGA and taking into consideration the specifics of each development when assessing a DC.
77. Although the request for special assessment does have some merit, the information required to complete a special assessment is often not readily available at the beginning of the consenting process and would result in uncertainty and unresolved DC assessments for potentially a large number of developments across the city. Introducing a front end process, prior to assessment of modeled demand, would also require additional engineer resource to ensure that all special assessments were assessed and a revised DC charge was advised prior to granting of the consent, as well as an increase in administrative monitoring duties for staff.
78. The introduction of a special assessment process presents financial and uncertainty risk to Council because such requests are likely to be routinely filed with a consent application, an assessed charge could not be advised, and certainty would not exist around when required technical information would be received from the developer and a charge advised. Council would no longer be able to fully account for future DC revenue based on assessments because at that stage the quantum of all charges ultimately payable would not have been confirmed.
79. Such a provision is not required by law, and staff submit that Council's existing remission process is a reasonable alternative.
80. **It is not recommended that Council introduce a special assessments provision.**
81. In regards to the wider policy document, one submitter asked that the 20 working day timeframe for application for remission be extended beyond the 20 working days. Two submitters suggested at engagement meetings that 30 days would be more appropriate. Remission applications require a developer to have technical information as to how their development will progress, and often needs to seek external work such as Traffic Impact Reports. Staff are of the view that it is fair and reasonable to allow more time to do so. There are also process efficiencies to be gained in receiving more complete information.
82. **It is recommended that the timeframe for application of remission be extended from 20 to 30 working days following receipt of advice of DCs.**
83. Several submitters requested that specific references to parts of the LGA be included in the policy document. In many instances this is already the case, but also there is only so much duplication one can do.

84. It is not recommended that the PDA provisions in the LGA be duplicated in the policy.
85. A number of requests were made for additional information or detail, either in the policy or as supplementary information. The policy includes a great deal of detail and disclosure information, which tests the balance of providing detail and impairing overall transparency.
86. It was submitted that council needs to provide more detail regarding infrastructure capacity, explain the reserve contribution cap better, include additional LGA references, provide additional information on HUEs by catchment, and include some new policy definitions for selected terms. This information is held by Council but not currently compiled specifically for DC purposes.
87. The HUE and infrastructure capacity information requested would be a large amount of technical documentation, and has only been required by two separate large parties. It would not be appropriate to include such a large amount of detail in the policy for all users. The information is held by Council in the DC Model and engineering models, but significant staff resource and hence time would be required and this should be communicated to the submitting parties. Council is not required under the LGA to provide this level of detail in its policy.
88. It is recommended that the HUE and infrastructure capacity information, and other disclosure that is complicated and would need to be compiled, be provided separately or through the proposed working party depending on the nature of each.
89. **Engagement**
90. Formal consultation on the Draft Policy was undertaken between 13 April and 15 May 2015. The consultation period included a targeted information session on 20 April 2015, public engagement sessions and key stakeholder feedback session on 14 May 2015 as part of the 10-Year Plan consultation programme.
91. A number of submitters also met separately with Council staff and management and gained further detailed information on aspects of the Draft Policy and 10-Year Plan capital programme. Some submitters commented on the helpfulness of Council staff in these processes.
92. A number of submitters made reference on the engagement processes for the Draft Policy. Some were of the view that the approach to consultation and engagement on the Draft Policy had been inadequate. Particularly due to the complex nature of the policy, and the available time for review, coupled with the way in which information was provided contributed to a 'lack of transparency' with the policy.
93. In the past there has been a one month period earlier in the year for the review of draft policies before written submissions were due. Formal verbal hearings would then be offered a couple of weeks following the close of submissions. Some submitters noted that this process provided more time for their review of information and forming of opinions on draft policies and plans.
94. Council used a different format for consultation this year in response to greater flexibility offered by changes to the LGA last year. A number of submitters also noted that the less formal face to face feedback sessions were a good initiative and provided for better engagement.
95. **Private Developer Agreements**
96. A number of submissions raised matters relating to the nature or content of Private Development Agreements ("PDA's"). Changes to the LGA in 2014 include specific provisions for Council to enter into PDAs and outlined what information could be included in these agreements.
97. Council has had PDAs with developers for a number of years and they have become a key mechanism for ensuring infrastructure is provided as the city grows (for example forward funding of infrastructure and other complicated matters). Requests were made for Council to enhance its

use of PDAs to reflect the scope contemplated in the LGA. Including the provisions from the LGA that relate to PDAs in the Development Contribution policy is considered to be of little value and will result in expanding an already lengthy and complex policy. It is anticipated that as new PDAs are developed by Council that the range of types of agreement will increase from those that have been the practice in the past.

98. 

It is recommended that additional (non mandatory) LGA references be added, but not if it makes the policy unnecessarily long or less transparent.
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99. A couple of submitters suggested that where early developers in an area construct otherwise unfunded infrastructure that has potential to service more than their development, Council could use a PDA with that developer to contract out of the policy and agree to limit other developers from connecting to, and benefiting free of charge from, the provided infrastructure. It is likely that over the coming years that there will be a number of requests for PDAs of this type as more areas of the city are being developed that are generally unfunded in Council's growth programme. The current view of staff is that it is not appropriate for Council to contract into underwriting third party cost recovery, however it is a matter that could be referred to a working group to examine and make recommendation back to Council on.
100. **Support for the Property Council submission**
101. Ten submitters made explicit statements of support for the Property Council New Zealand submission. Other than a statement of support for the Property Council submission the majority of these submitters made no further submission points. These submitters comprised property developers, consultants and large local businesses.
102. **Other Information**
103. The Growth Funding Policy is currently not under review, however it is related to the DC Policy, and has attracted submissions in this regard.
104. These submissions suggested that it is unfair that developers in unfunded growth cells pay for citywide projects in other funded growth cells but also have to provide similar infrastructure (at their cost) in their growth cell but do not have other developers from other areas contribute to the cost as the project is unfunded by Council. This is caused through Council not being able to afford a funded growth capex programme in all potential growth cells of the city at one time. Council has made a number of prioritisation decisions regarding what cells would be developed ahead of others including substantial investment by Council and acceleration of infrastructure provision in the 2015-25 10 Year Plan. Council's Growth Funding Policy exists to explain how Council will deal with funding of infrastructure for development areas that are not supported through Council funded infrastructure in the timeframe desired by developers.
105. The Growth Funding Policy is currently not under review and therefore by default no recommendations to amend it appear in this report. A working party would address it and plans for any future review of it.

END

**Committee:** Council

**Date:** 4 June 2015

**Report Name:** Investment and Liability  
Management Policy

**Author:** Brett Brinkworth

<b>Report Status</b>	<i>Open</i>
<b>Strategy, Policy or Plan context</b>	<i>Investment and Liability Management Policy review and update</i>
<b>Financial status</b>	<i>Not applicable</i>
<b>Assessment of significance</b>	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

## 1. Purpose of the Report

- The Investment and Liability Management Policy is due for review and update. A revised policy is presented for consideration and adoption.

## 3. Executive Summary

- The Investment and Liability Management Policy has been updated to enhance our ability to manage Council's investments and liabilities while ensuring it is legislatively compliant and reflects best practice.

## Recommendations

- That the report be received.
- That the Investment and Liability Management Policy be adopted by Council.

## 5. Attachments

- Attachment 1 - Investment and Liability Management Policy
- Attachment 2 - Investment and Liability Management Policy (track changes copy)
- Attachment 3 - Investment and Liability Management Policy (current)

## 9. Key Issues

- It is a requirement of the Local Government Act 2002 for Council to maintain an Investment Policy and a Liability Management Policy.

11. The reviewed Investment and Liability Management Policy meets the legislative requirements in a single policy.
12. Council reviews the Investment and Liability Management Policy every three years to coincide with preparing the 10-Year Plan.
13. The updates to the existing policy ensure that the flexibility required to effectively manage Council’s investments and liabilities is enhanced while retaining appropriate controls. The Treasury Policy is a related Management Policy that guides management in meeting the Investment and Liability Management Policy.
14. PWC are Council’s treasury advisors and have been fully involved in the review of the policy and ensuring it is legislatively compliant and reflects best practice.
15. The major changes to the existing policy are:
  - The format of the policy has been changed to the latest HCC standard formatting.
  - The wording and layout has changed extensively to align with PWC best practice guidance to the sector.
  - Borrowing limits (para. 7.1) now include LGFA and HCC limits as we are required to comply with both.
  - Interest rate risk control limits (table below para. 10.6) – that is, the mix of fixed or floating interest rates – are now expressed annually rather than for the previous three time bands of 1 to 3 years, 3 to 5 years, and beyond 5 years.
  - Including the counterparty credit risk limits (para. 12.5) in the policy. These were previously contained only in the Treasury Management Policy, meaning that management could amend them
16. The limits contained in the Investment and Liability Management policy are Council’s limits and not the limits on management reflected in the Financial Strategy (which are lower). The Financial Strategy limits are reflected in the Treasury Management Policy that govern day-to-day treasury.

**Signatory**

Authoriser	Paul Conder, Chief Financial Officer
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<i>First adopted:</i>	
<i>Revision dates/version:</i>	21 May 2015
<i>Next review date:</i>	By 30 June 2018
<i>Engagement required:</i>	Not required
<i>Document number:</i>	D-1733840
<i>Associated documents:</i>	Treasury Management Policy
<i>Sponsor/Group:</i>	Chief Financial Officer/Finance



## INVESTMENT AND LIABILITY MANAGEMENT POLICY

### PURPOSE AND SCOPE

It is a requirement of the Local Government Act 2002 for council to adopt an investment policy and a liability management policy. The purpose of the Investment and Liability Management Policy is to provide the framework under which council operates investment and borrowing activities. This policy supports council's financial strategy and Revenue and Financing Policy, and is linked to the Treasury Management Policy which provides more detail for the day-to-day management of the treasury function.

### INVESTMENT POLICY

#### 1. Objectives

1.1 In its financial investment activity, Council's primary objective when investing is the protection of its investment capital and that a prudent approach to risk/return is always applied within the confines of this policy. Accordingly, only approved creditworthy counterparties are acceptable. The Council will act effectively and appropriately to:

- Protect the Council's investments.
- Ensure the investments benefit the Council's ratepayers.
- Maintain a prudent level of liquidity and flexibility to meet both planned and unforeseen cash requirements.

#### 2. Policy

2.1 The Council's general policy on investments is that:

- The Council may hold financial, property, forestry, and equity investments if there are strategic, commercial, economic, or other valid reasons (e.g. where it is the most appropriate way to administer a Council function).
- The Council will keep under review its approach to all major investments and the credit rating of approved financial institutions.
- The Council will review its policies on holding investments at least once every three years.

#### 3. Acquisition and Disposal of Investments

3.1 With the exception of financial investments, new investments are acquired if an opportunity arises and approval is given by Council, based on advice and recommendations from Council officers. Before approving any new investments, Council gives due consideration to the contribution the investment will make in fulfilling Council's strategic objectives, and the financial risks of owning the investment.

- 3.2 The authority to acquire financial investments is delegated to the Chief Financial Officer.
- 3.3 Proceeds from the sale of assets or investments will in the first instance be used to repay outstanding borrowings unless otherwise specifically authorised by Council. The exception to this is in relation to the sale of endowment properties where any surplus cash is held in the Municipal Endowment Fund to be used to reinvest on behalf of the fund. If assets are subject to legislative restrictions, the proceeds are used in accordance with the provisions of the appropriate legislation.
4. Investment Mix
- 4.1 Equity Investments
- 4.2 Equity investments, including investments held in CCO/CCTO and other shareholdings.
- 4.3 Council maintains equity investments and other minor shareholdings. Council's equity investments fulfil various strategic, economic development and financial objectives as outlined in the 10-Year Plan. Equity investments may be held where Council considers there to be strategic community value.
- 4.4 Council seeks to achieve an acceptable rate of return on all its equity investments consistent with the nature of the investment and their stated philosophy on investments.
- 4.5 Any purchase or disposition of equity investments requires Council approval. Council may also acquire shares that are gifted or are a result of restructuring.
- 4.6 Dividends received from CCO's/CCTO's and unlisted companies not controlled by Council are used firstly to repay debt in relation to that investment, and then used to reduce other Council debt unless otherwise directed by Council.
- 4.7 Any dividends received, and/or profit or loss arising from the sale of these investments must be recorded in accordance with appropriate accounting standards. Unless otherwise directed by Council, the proceeds from the disposition of equity investments will be used firstly to repay any debt relating to the investment and then utilised to reduce other council debt. Council recognises that there are risks associated with holding equity investments and to minimise these risks Council, through the relevant Council committee, monitors the performance of its equity investments on a twice yearly basis to ensure that the stated objectives are being achieved. Council seeks professional advice regarding its equity investments when it considers this appropriate.
- 4.8 New Zealand Local Government Funding Agency Limited Investment
- 4.9 Despite anything earlier in this Policy, the Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment.
- 4.10 The Council's objective in making any such investment will be to:
- Obtain a return on the investment.
  - Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for the Council.

- Because of these dual objectives, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments. In connection with the investment, Council subscribes for uncalled capital in the LGFA and is a Guarantor.

#### 4.11 Property Investments

- 4.12 Council owns property investments for strategic and commercial purposes.
- 4.13 Council reviews ownership through assessing the benefits, including financial returns, in comparison to other arrangements that could deliver similar results.
- 4.14 Surpluses generated from property investments are treated as income in the related Council activity.
- 4.15 Property disposals are managed to ensure compliance with statutory requirements and where appropriate consultation with the community.
- 4.16 Property purchases are supported by registered valuations and where appropriate a full business case analysis. Council will not purchase properties on a speculative basis.

#### 4.17 Financial investments

- 4.18 Council's primary objectives when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in section 12. Credit ratings are monitored and any changes are reported to Council.
- 4.19 Council may invest in approved financial instruments as set out in the Treasury Management Policy. These investments are aligned with Council's objective of investing in high credit quality and highly liquid assets.
- 4.20 Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due. Council prudently manages liquid financial investments as follows:
  - Any liquid investments must be restricted to a term that meets future cash flow and capital expenditure projections.
  - Council may choose to hold specific reserves in cash and direct what happens to that investment income. In effect the income from financial investments will be an interest income stream into general funds. Interest is paid to reserves from general funds.
  - Financial investments do not include shares.

#### 4.21 Reserve funds

- 4.22 Liquid assets are required to be held against reserve funds.

#### 4.23 Trust funds

- 4.24 Where Council hold funds as a trustee, or manages funds for a Trust then such funds must be invested on the terms provided within the Trust. If the Trust's investment policy is not specified then this policy should apply.

- 4.25 Loan Advances
- 4.26 Council may provide advances to CCOs, CCTOs, charitable trusts and community organisations for strategic and commercial purposes. New loan advances are by Council resolution only. Council does not lend money, or provide any other financial accommodation, to a CCO or CCTO on terms and conditions that are more favourable than those that would apply if Council were borrowing the money or obtaining the financial accommodation.
- 4.27 Advances to charitable trusts, and community organisations do not have to be on a fully commercial basis. Where advances are made to charitable trusts and community organisations at below Council's cost of borrowing, the additional cost is treated as an annual grant to the organisation.
- 4.28 Council reviews performance of its loan advances on a regular basis to ensure strategic and economic objectives are being achieved.
5. Investment management and reporting procedures
- 5.1 Council's investments are managed on a regular basis, with sufficient minimum immediate cash reserves and a cash buffer maintained. To best manage funding gaps, Council's financial investment maturities are matched with Council's forecast cash flow requirements.
- 5.2 The performance of Council investments is regularly reviewed to ensure Council's strategic objectives are being met. Both performance and policy compliance are reviewed through regular reporting.
- 5.3 Details on the performance of investments are reported to Council, or the appropriate Council Committee, on a regular basis.
- 5.4 Monitoring of equity and property investments involves reviewing quarterly reports, annual reports, strategic plans, and statements of corporate intent. Members of these entities may be invited to attend and present to the appropriate Council Committee.
- 5.5 Monitoring of cash and other investments form part of the regular financial reporting to Council and appropriate Council Committees.

## LIABILITY MANAGEMENT POLICY

6. Introduction
- 6.1 Council's liabilities comprise of borrowings (external/internal) and various other liabilities. Council maintains external borrowings in order to:
- Raise specific debt associated with projects and capital expenditures.
  - Fund the balance sheet as a whole, including working capital requirements.
  - Fund assets whose useful lives extend over several generations of ratepayers.
- 6.2 Borrowing provides a basis to achieve inter-generational equity by aligning long-term assets with long-term funding sources, and ensure that the costs are met by those ratepayers benefiting from the investment.

## 7. Borrowing Limits

- 7.1 Council has set borrowing limits as part of adopting the 10-Year Plan. Council is also required to meet borrowing limits set by the Local Government Funding Agency (LGFA). Debt will be managed within both sets of limits.

Item	Borrowing Limits	
	HCC	LGFA
Total Overall Debt / Total Revenue	<250%	-
Net Debt / Total Revenue	-	<250%
Net Interest on External Debt / Total Revenue	<20%	<20%
Net Interest on External Debt / Annual Rate Income	-	<25%
Total Overall Debt as a multiple of cash flow	<15	-
Liquidity ratio	>110%	>110%

- **Total Revenue for HCC** is defined as total revenue less vested assets, capital subsidies, gains and development contributions.
- **Total Revenue for LGFA** is defined as total revenue less vested assets, gains and development contributions.
- **Total Overall Debt** is defined as total external debt less cash and cash equivalents, plus reserves required to be held in cash.
- **Net Debt** is defined as total external debt less liquid financial assets and investments.
- **Liquidity** is defined as external term debt plus committed bank facilities and liquid investments, divided by current external debt.
- **Net Interest on External Debt** is defined as the amount equal to all interest and financing costs (on external debt) less interest income for the relevant period.
- **Annual Rate Income** is total rates including targeted water rates.

- 7.2 Financial covenants are measured on Council only, not the consolidated group.

- 7.3 Disaster recovery requirements are to be met through the liquidity ratio and available debt capacity.

## 8. Borrowing mechanisms

- 8.1 Council is able to externally borrow through a variety of market mechanisms including issuing stock/bonds, commercial paper (CP) and debentures, direct bank borrowing, Local Government Funding Agency (LGFA), accessing the short and long-term wholesale/retail debt capital markets directly or indirectly, or internal borrowing of reserve funds. In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the following is taken into account:

- Available terms from banks, LGFA, debt capital markets and loan stock issuance.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and margins relative to term for loan stock issuance, LGFA, debt capital markets and bank borrowing.

- The market's outlook on future interest rate movements as well as its own.
  - Legal documentation and financial covenants considerations.
  - For internally funded projects, to ensure that finance terms for those projects are at least as equitable with those terms from external borrowing.
  - Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.
- 8.2 Council's ability to readily attract cost effective borrowing is largely driven by its ability to rate, maintain a strong financial standing and manage its relationships with its investors, LGFA, and financial institutions/brokers.
9. Debt repayment
- 9.1 The funds from all asset sales, operating surpluses, grants and subsidies will be applied to specific projects or the reduction of debt and/or a reduction in borrowing requirements, unless the Council specifically directs that the funds will be put to another use.
- 9.2 Debt will be repaid as it falls due in accordance with the applicable borrowing arrangement. Subject to the appropriate approval and debt limits, a loan may be rolled over or re-negotiated as and when appropriate.
- 9.3 Council will manage debt on a net portfolio basis and will only externally borrow when it is commercially prudent to do so.
10. Interest rate risk
- 10.1 Risk recognition
- 10.2 Interest rate risk is the risk that funding costs (due to adverse movements in market wholesale interest rates) will materially exceed or fall short of projections included in the 10-Year Plan or Annual Plan so as to adversely impact revenue projections, cost control and capital investment decisions/returns/feasibilities.
- 10.3 The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing/hedging of interest costs. Certainty around interest costs is to be achieved through the active management of underlying interest rate exposures.
- 10.4 Interest rate risk control limits
- 10.5 Exposure to interest rate risk is managed and mitigated through the risk control limits below. Council's net external debt should be within the following fixed/floating interest rate risk control limit.
- 10.6 Net external debt is defined as total external debt less liquid financial assets and investments. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to ensure compliance with the Policy minimums and maximums.

Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)		
Debt Period Ending	Minimum Fixed	Maximum Fixed
Current	50%	95%
Year 1	45%	95%
Year 2	40%	90%
Year 3	35%	85%
Year 4	30%	80%
Year 5	25%	75%
Year 6	15%	70%
Year 7	5%	65%
Year 8	0%	60%
Year 9	0%	55%
Year 10	0%	50%
Year 11	0%	45%
Year 12	0%	40%
Year 13	0%	35%
Year 14	0%	30%
Year 15	0%	25%

10.7 A fixed rate maturity profile that is outside the above limits, but self corrects in less than 90 days is not in breach of this Policy. However, maintaining a maturity profile outside of the above limits beyond 90 days requires specific approval by Council.

- **Fixed Rate** is defined as an interest rate repricing date beyond 3 months.
- **Floating Rate** is defined as an interest rate repricing within 3 months.
- The percentages are calculated on the rolling projected net debt level calculated by management (signed off by the Chief Financial Officer).
- Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.
- Any interest rate swaps with a maturity beyond 12 years must be approved by the Chief Executive through a specific approval.
- Hedging outside the above risk parameters must be approved by Council.

## II. Liquidity risk/funding risk

### 11.1 Risk recognition

11.2 Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, short-term financial investments, loans and bank facilities. Liquidity risk management focuses on the ability to access committed funding at that future

time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

11.3 The management of Council's funding risks is important as several risk factors can arise to cause an adverse movement in borrowing margins, term availability and general flexibility including:

- Local Government risk is priced to a higher fee and margin level.
- Council's own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons.
- A large individual lender to Council experiences its own financial/exposure difficulties resulting in Council not being able to manage their debt portfolio as optimally as desired.
- New Zealand investment community experiences a substantial "over supply" of Council investment assets.
- Financial market shocks from domestic or global events.

11.4 A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time so that if any of the above events occur, the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to market conditions.

11.5 Liquidity/funding risk control limits

- External term loans and committed debt facilities together with available liquid investments must be maintained at an amount of 110% over existing external debt.
- Council has the ability to pre-fund up to 18 months forecast debt requirements including re-financings.
- The CFO has the discretionary authority to re-finance existing external debt on more favourable terms. Such action is to be reported to the Chief Executive and the appropriate Council Committee at the earliest opportunity.

11.6 The maturity profile of the total committed funding in respect to all external debt / loans and committed debt facilities, is to be controlled by the following system:

Period	Minimum %	Maximum %
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	10%	40%

11.7 A maturity schedule outside these limits will require specific Council approval.

12. Counterparty credit risk

12.1 Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the Council is a party. The credit risk to the Council in a default event will be weighted differently depending on the type of instrument entered into.

12.2 Credit risk will be regularly reviewed by the appropriate Council Committee. Treasury related transactions would only be entered into with organisations specifically approved by the Council.

12.3 Counterparties and limits can only be approved on the basis of long-term Standard & Poor's (S&P) credit ratings (or equivalent Fitch or Moody's rating) being A and above and/or short term rating of A-1 or above.

12.4 Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

12.5 The following matrix guide will determine limits:

Counterparty/Issuer	Minimum S&P long term / short term credit rating	Total maximum per counterparty (\$m)
NZ Government	N/A	Unlimited
Local Government Funding Agency (LGFA)	N/A	Unlimited
NZ Registered Bank	AA- / A-1	75.0
NZ Registered Bank	A / A-1	30.0

#### REFERENCES

- Section 102 of the Local Government Act 2002

## INVESTMENT AND LIABILITY MANAGEMENT POLICY

This policy is required under Section 102 (1) of the Local Government Act to provide certainty about sources and levels of funding.

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### CONTENTS

1. Policy Objectives and Scope
2. Strategic Alignment
3. Principles of Policy
4. Policy Guidelines
5. Monitoring and Implementation
6. References

### REVISION HISTORY

Revision #	Author/Spinner	Approval Date	Council/Committee/Approved	ALM/SLM Reference	Related Objectives/Qualities
1	CFO	29/6/2012 Review by 30 June 2015	Council	D-363226	Treasury Management Policy

**POLICY OBJECTIVES PURPOSE AND SCOPE**

The ~~It is a requirement of the~~ Local Government Act 2002 ~~requires for Council to adopt an~~ Financial Strategy with a clear linkage to the Revenue and Financing Policy, the Liability Management Policy and the Investment Policy ~~investment policy and a liability management policy.~~ The ~~purpose of the~~ Investment and Liability Management Policy ~~is to provide the framework under which council operates investment and borrowing activities, provides the operational detail around the management of investments and debt and provide support and detail to the Financial Strategy and the Revenue and Financing Policy, both included in the Long Term Plan, Volume 2. This policy supports council's financial strategy and Revenue and Financing Policy, and is linked to the Treasury Management Policy which outlines staff responsibilities in the provides more detail for the day-to-day management of the Treasury Function.~~

~~This policy is linked to the Treasury Management Policy which outlines staff responsibilities in the management of the Treasury Function.~~

**1. STRATEGIC ALIGNMENT**

This policy assists in the delivery of Council's outcomes and goals as follows:

RESOURCES AND CAPABILITIES	OUTCOMING CDB LINKAGES	RESOLVING LINKAGES
<ul style="list-style-type: none"> <li>Hamilton has a strong, productive economy and we build on our economic strengths.</li> <li>We have a thriving CBD.</li> <li>It's easy to do business here.</li> <li>Our city grows and prospers in a sustainable way.</li> </ul>	<ul style="list-style-type: none"> <li>The city is led by effective, open and responsive governance.</li> <li>Council's finances are sustainable for the long term.</li> <li>We operate efficiently and provide exceptional service.</li> <li>The city takes a leadership role regionally and nationally.</li> </ul>	<ul style="list-style-type: none"> <li>Hamilton embraces the Waikato River and it is the focal point of our city.</li> <li>We value, preserve and protect Hamilton's natural, green environment.</li> <li>Our city is attractive, well-designed and compact with outstanding architecture and distinctive public spaces.</li> <li>Our city is a fun place to live with a vibrant Arts scene.</li> <li>Hamilton is a safe city.</li> <li>It's easy to get around.</li> <li>We celebrate our people and many cultures.</li> </ul>

■ = primary contribution

**2. PRINCIPLES OF POLICY**

Council's general policy objectives relating to its investment and liability management are to:

- Minimise the overall costs and risks associated with its borrowing activities and the general management of its other liabilities.
- Manage its borrowings and cash assets on a "net borrower" basis in order to reduce the overall net cost.
- Maximise the return on its investment portfolio and other financial assets whilst balancing risk and return considerations.
- Minimise exposure to adverse interest rate movements.
- Borrow and invest funds and transact risk management instruments within an environment of control and compliance under the Treasury Management Policy.
- Regularly review and consider the performance of Council's financial assets and investments. Where appropriate, Council will dispose of under performing assets or those assets and investments that are not essential to the delivery of services and activities set out in the Long Term Plan (LTP).
- Monitor, evaluate and report on treasury performance.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- Comply with financial ratios and limits stated within this policy.

The Treasury Management Policy provides further detail on the day to day management, operating procedures and internal controls for both the Investment Policy and Liability Management Policy.

#### 4. POLICY GUIDELINES INVESTMENT POLICY

##### 1. INVESTMENTS Objectives

Council generally operates as a "net borrower" and generally does not separately maintain significant cash investments, with the exception of restricted reserves and council created reserves. Cash investments will be held to support the level of restricted reserves through the early years of the 2012-22 10 Year Plan with a progressive move to also support council created reserves over time through any surplus cash generated in each financial year. To achieve the aim of minimising the overall cost of funds, at times it may be prudent to pre fund, and invest any surplus in short term cash investments. Cash investments are also used to maintain and manage liquidity risk.

The financial strategy provides information around investments held and rationale for holding them. This Policy outlines the procedures for balancing the risks and returns for holding investments.

1.1. In its financial investment activity, Council's primary objective when investing is the protection of its investment capital and that a prudent approach to risk/return is always applied within the confines of this policy. Accordingly, only approved creditworthy counterparties are acceptable. The Council will act effectively and appropriately to:

- Protect the Council's investments.
- Ensure the investments benefit the Council's ratepayers.
- Maintain a prudent level of liquidity and flexibility to meet both planned and unforeseen cash requirements.

##### 2. Policy

2.1 The Council's general policy on investments is that:

- The Council may hold financial, property, forestry, and equity investments if there are strategic, commercial, economic, or other valid reasons (e.g. where it is the most appropriate way to administer a Council function).
- The Council will keep under review its approach to all major investments and the credit rating of approved financial institutions.
- The Council will review its policies on holding investments at least once every three years.

### 3.3. Acquisition and Disposal of Investments

3.1 With the exception of the day-to-day investment of cash financial investments, all decisions to new investments are acquired or dispose of investments will be by Council resolution if an opportunity arises and approval is given by Council, based on advice and recommendations from Council officers. Before approving any new investments, Council gives due consideration to the contribution the investment will make in fulfilling Council's strategic objectives, and the financial risks of owning the investment.

Council officers will manage cash investments in accordance with the Treasury Management Policy.

3.2 The authority to acquire financial investments is delegated to the Chief Financial Officer.

3.3 Proceeds from the sale of assets or investments will in the first instance be used to repay outstanding borrowings to reduce the overall debt, unless otherwise specifically authorised by Council. The exception to this is in relation to the sale of endowment properties where any surplus cash is held in the Municipal Endowment Fund to be used to reinvest in property on behalf of the fund. If the assets are subject to legislative restrictions, the proceeds are used in accordance with the provisions of the appropriate legislation.

### 4. Investment Mix

Council may maintain investments in the following assets from time to time:

- Investments in Companies – Equity investments arise from Council owning or controlling an equity holding in another entity. The financial strategy provides detail of entities in which Council has an equity interest. Some of these investments are held to achieve efficiency and community outcomes and not to receive a financial return on investment.

#### 4.1 Equity Investments

4.2 Equity investments, including investments held in CCO/CCTO and other shareholdings.

4.3 Council maintains equity investments and other minor shareholdings. Council's equity investments fulfil various strategic, economic development and financial objectives as outlined in the 10-Year Plan. Equity investments may be held where Council considers there to be strategic community value.

4.4 Council seeks to achieve an acceptable rate of return on all its equity investments consistent with the nature of the investment and their stated philosophy on investments.

4.5 Any purchase or disposition of equity investments requires Council approval. Council may also acquire shares that are gifted or are a result of restructuring.

4.6 Dividends received from CCO's/CCTO's and unlisted companies not controlled by Council are used firstly to repay debt in relation to that investment, and then used to reduce other Council debt unless otherwise directed by Council.

4.7 Any dividends received, and/or profit or loss arising from the sale of these investments must be recorded in accordance with appropriate accounting standards. Unless otherwise directed by Council, the proceeds from the disposition of equity investments will be used firstly to repay any debt relating to the investment and then utilised to reduce other council debt. Council recognises that there are risks associated with holding equity investments and to minimise these risks Council, through the relevant Council committee, monitors the performance of its equity investments on a twice yearly basis to ensure that the stated objectives are being achieved. Council seeks professional advice regarding its equity investments when it considers this appropriate.

4.8 New Zealand Local Government Funding Agency Limited Investment

4.9 Despite anything earlier in this Policy, the Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment.

4.10 The Council's objective in making any such investment will be to:

- Obtain a return on the investment.
- Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for the Council.
- Because of these dual objectives, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments. In connection with the investment, Council subscribes for uncalled capital in the LGFA and is a Guarantor.

4.11 Property Investments – Investment properties include ground leases and land and buildings and are held with the objective of maximising the return on investment. Council regularly reviews its continued ownership of investment properties by assessing the benefits in comparison to other arrangements that could deliver similar benefits. This assessment is based on both the strategic benefit of the investment/ownership to the City and in terms of the most financially viable method of achieving the delivery of Council services. Property Investments

4.12 Council owns property investments for strategic and commercial purposes.

4.13 Council reviews ownership through assessing the benefits, including financial returns, in comparison to other arrangements that could deliver similar results.

4.14 Surpluses generated from property investments are treated as income in the related Council activity.

4.15 Property disposals are managed to ensure compliance with statutory requirements and where appropriate consultation with the community.

4.16 Property purchases are supported by registered valuations and where appropriate a full business case analysis. Council will not purchase properties on a speculative basis.

4.17 Financial investments

4.18 Council's primary objectives when investing is the protection of its investment capital.

Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in section 12. Credit ratings are monitored and any changes are reported to Council.

4.19 Council may invest in approved financial instruments as set out in the Treasury Management Policy. These investments are aligned with Council's objective of investing in high credit quality and highly liquid assets.

4.20 Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due. Council prudently manages liquid financial investments as follows:

- Any liquid investments must be restricted to a term that meets future cash flow and capital expenditure projections.
- Council may choose to hold specific reserves in cash and direct what happens to that investment income. In effect the income from financial investments will be an interest income stream into general funds. Interest is paid to reserves from general funds.
- Financial investments do not include shares.

4.21 Reserve funds

4.22 Liquid assets are required to be held against reserve funds.

4.23 Trust funds

4.24 Where Council hold funds as a trustee, or manages funds for a Trust then such funds must be invested on the terms provided within the Trust. If the Trust's investment policy is not specified then this policy should apply.

4.25 Loan Advances

4.26 Council may provide advances to CCOs, CCTOs, charitable trusts and community organisations for strategic and commercial purposes. New loan advances are by Council resolution only. Council does not lend money, or provide any other financial accommodation, to a CCO or CCTO on terms and conditions that are more favourable than those that would apply if Council were borrowing the money or obtaining the financial accommodation.

4.27 Advances to charitable trusts, and community organisations do not have to be on a fully commercial basis. Where advances are made to charitable trusts and community organisations at below Council's cost of borrowing, the additional cost is treated as an annual grant to the organisation.

4.28 Council reviews performance of its loan advances on a regular basis to ensure strategic and economic objectives are being achieved.

- ~~Cash Investments – Funds may be invested with approved registered banking institutions. These will generally be relatively short term to meet future cash flow projections. The maturity profile and management of the interest rate risks of cash investments will be closely linked to the ratios and limits stated in the Liability Management Policy for the management of debt.~~

- **Property Investments**—Investment properties include ground leases and land and buildings and are held with the objective of maximising the return on investment. Council regularly reviews its continued ownership of investment properties by assessing the benefits in comparison to other arrangements that could deliver similar benefits. This assessment is based on both the strategic benefit of the investment/ownership to the City and in terms of the most financially viable method of achieving the delivery of Council services.
- **Investments in Companies**—Equity investments arise from Council owning or controlling an equity holding in another entity. The financial strategy provides detail of entities in which Council has an equity interest. Some of these investments are held to achieve efficiency and community outcomes and not to receive a financial return on investment.

#### **Other Investments**

Investments include loans to external organisations (with appropriate security).

#### **Acquisition and Disposal of Investments**

With the exception of the day to day investment of cash, all decisions to acquire or dispose of investments will be by Council resolution. Council officers will manage cash investments in accordance with the Treasury Management Policy.

Proceeds from the sale of assets or investments will in the first instance be used to repay outstanding borrowings to reduce the overall debt, unless otherwise specifically authorised by Council. The exception to this is in relation to the sale of endowment properties where any surplus each is held in the Municipal Endowment Fund to be used to reinvest in property. If the assets are subject to legislative restrictions, the proceeds are used in accordance with the provisions of the appropriate legislation.

#### **5. Risk Management**

Council's principal exposure on its financial investments is credit risk. Credit risk is minimised by Council investing in approved institutions with satisfactory credit ratings. Limits are spread amongst a number of counterparties to avoid concentrations of credit exposure. The Treasury Management Policy lists the authorised counterparties with whom management is authorised to transact.

Assessment and management of specific risks associated with Council's equity and property investments will be performed on a regular basis. Any significant changes in the risk profile for these investments will be reported to the Finance and Monitoring Committee.

#### **Investment management and reporting procedures**

**5.1** Council's investments are managed on a regular basis, with sufficient minimum immediate cash reserves and a cash buffer maintained. To best manage funding gaps, Council's financial investment maturities are matched with Council's forecast cash flow requirements.

- 5.2 The performance of Council investments is regularly reviewed to ensure Council's strategic objectives are being met. Both performance and policy compliance are reviewed through regular reporting.
- 5.3 Details on the performance of investments are reported to Council, or the appropriate Council Committee, on a regular basis.
- 5.4 Monitoring of equity and property investments involves reviewing quarterly reports, annual reports, strategic plans, and statements of corporate intent. Members of these entities may be invited to attend and present to the appropriate Council Committee.
- 5.5 Monitoring of cash and other investments form part of the regular financial reporting to Council and appropriate Council Committees.

#### **LIABILITY MANAGEMENT POLICY**

##### 6. Introduction

- 6.1 Council's liabilities comprise of borrowings (external/internal) and various other liabilities. Council maintains external borrowings in order to:
- Raise specific debt associated with projects and capital expenditures.
  - Fund the balance sheet as a whole, including working capital requirements.
  - Fund assets whose useful lives extend over several generations of ratepayers.
- 6.2 Borrowing provides a basis to achieve inter-generational equity by aligning long-term assets with long-term funding sources, and ensure that the costs are met by those ratepayers benefiting from the investment.
6. The financial strategy outlines the plan to provide funding for essential assets whilst controlling and managing debt. Council primarily borrows to pay for the purchase or construction of new assets and the upgrading of existing assets with the expectation that the assets will provide enhanced benefits for many years. Borrowing at a prudent and sustainable level is considered to be an equitable way to fund these assets as it spreads the cost over future generations of ratepayers who will benefit from the use of the asset. Borrowings have a strategic benefit in making the cost of the asset investment affordable to today's ratepayers and are maintained at a prudent level in accordance with the overall borrowing policy. The specific limits are outlined below in the section headed Specific Borrowing Limits.

7.

8. The financial strategy sets the scene for the coming ten years to restrict debt to a sustainable level and improve the overall financial position of Council.

9.

10. Definition of Debt

11. External Debt – includes all monies borrowed from external parties (including leases)

12. Total Overall Debt – external debt less cash investments held plus council's restricted reserves (as these are held in cash for a specific purpose and may be utilised at any time during the 10 Year Plan)

13.

14. Internal Debt

15. Council utilises cash held to offset external debt. This is to minimise overall borrowing costs to Council. Cash held for reserves is not offset against external debt.

16.

7. Borrowing Limits

7.1 Council has set borrowing limits as part of adopting the 10-Year Plan. Council is also required to meet borrowing limits set by the Local Government Funding Agency (LGFA). Debt will be managed within both sets of limits.

Item	Borrowing Limits	
	HCC	LGFA
Total Overall Debt / Total Revenue	<250%	=
Net Debt / Total Revenue	=	<250%
Net Interest on External Debt / Total Revenue	<20%	<20%
Net Interest on External Debt / Annual Rate Income	=	<25%
Total Overall Debt as a multiple of cash flow	<15	=
Liquidity ratio	>110%	>110%

**Specific Borrowing Limits**

In managing its debt, Council adheres to the financial principles contained in the Treasury Management Policy. To determine a prudent level of borrowing which meets the requirements of the financial strategy, total overall debt will be managed within the following limits:

Ratio	Limit
Debt to revenue *	<250%
Interest to revenue	<20%
Debt to cash flow	15
Liquidity **	>110%

\* Council has set a target of debt to revenue of <200% to be achieved by 2019.

\*\* The liquidity ratio is measured against external debt rather than total overall debt

- Total Revenue for HCC is defined as total revenue less vested assets, capital subsidies, gains and development contributions.
- Total Revenue for LGFA is defined as total revenue less vested assets, gains and development contributions.
- Total Overall Debt is defined as total external debt less cash and cash equivalents, plus reserves required to be held in cash.
- Net Debt is defined as total external debt less liquid financial assets and investments.
- Liquidity is defined as external term debt plus committed bank facilities and liquid investments, divided by current external debt.
- Net Interest on External Debt is defined as the amount equal to all interest and financing costs (on external debt) less interest income for the relevant period.
- Annual Rate Income is total rates including targeted water rates.

7.2 Financial covenants are measured on Council only, not the consolidated group.

7.3 Disaster recovery requirements are to be met through the liquidity ratio and available debt capacity.

#### 8 Borrowing mechanisms

8.1 Council is able to externally borrow through a variety of market mechanisms including issuing stock/bonds, commercial paper (CP) and debentures, direct bank borrowing, Local Government Funding Agency (LGFA), accessing the short and long-term wholesale/retail debt capital markets directly or indirectly, or internal borrowing of reserve funds. In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the following is taken into account:

- Available terms from banks, LGFA, debt capital markets and loan stock issuance.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and margins relative to term for loan stock issuance, LGFA, debt capital markets and bank borrowing.
- The market's outlook on future interest rate movements as well as its own.
- Legal documentation and financial covenants considerations.
- For internally funded projects, to ensure that finance terms for those projects are at least as equitable with those terms from external borrowing.
- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.

8.2 Council's ability to readily attract cost effective borrowing is largely driven by its ability to rate, maintain a strong financial standing and manage its relationships with its investors, LGFA, and financial institutions/brokers.

#### 9 Debt repayment

9.1 The funds from all asset sales, operating surpluses, grants and subsidies will be applied to specific projects or the reduction of debt and/or a reduction in borrowing requirements, unless the Council specifically directs that the funds will be put to another use.

9.2 Debt will be repaid as it falls due in accordance with the applicable borrowing arrangement. Subject to the appropriate approval and debt limits, a loan may be rolled over or re-negotiated as and when appropriate.

9.3 Council will manage debt on a net portfolio basis and will only externally borrow when it is commercially prudent to do so.

10 Interest rate risk

10.1 Risk recognition

10.2 Interest rate risk is the risk that funding costs (due to adverse movements in market wholesale interest rates) will materially exceed or fall short of projections included in the 10-Year Plan or Annual Plan so as to adversely impact revenue projections, cost control and capital investment decisions/returns/feasibilities.

10.3 The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing/hedging of interest costs. Certainty around interest costs is to be achieved through the active management of underlying interest rate exposures.

10.4 Interest rate risk control limits

7 Interest Rate Exposure

8 Borrowings issued at variable interest rates expose Council to a cash flow interest rate risk. Council manages this risk by using floating to fixed interest rate swaps which have the effect of converting borrowings from floating rates to fixed rates of interest. Council has set the following specific limits for its interest rate exposure:

9

10 Fixed/Floating interest rate:

11

12 Minimum Fixed Rate \_\_\_\_\_ Maximum Fixed Rate

13 50% \_\_\_\_\_ 95%

14

15 To spread the interest rate risk the level of fixed interest rate cover must be within the following maturity bands:

16

17 \_\_\_\_\_ Period \_\_\_\_\_ Minimum Cover \_\_\_\_\_ Maximum Cover

18

19 1-3 years \_\_\_\_\_ 15% \_\_\_\_\_ 60%

19.1 3-5 years \_\_\_\_\_ 15% \_\_\_\_\_ 60%

20 >5 years \_\_\_\_\_ 15% \_\_\_\_\_ 60%

21

22 Any fixed interest rate swaps for more than 15 years must be approved by Council.

10.5 Exposure to interest rate risk is managed and mitigated through the risk control limits below. Council's net external debt should be within the following fixed/floating interest rate risk control limit.

10.6 Net external debt is defined as total external debt less liquid financial assets and investments. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to ensure compliance with the Policy minimums and maximums.

<u>Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)</u>		
<u>Debt Period Ending</u>	<u>Minimum Fixed</u>	<u>Maximum Fixed</u>
<u>Current</u>	<u>50%</u>	<u>95%</u>
<u>Year 1</u>	<u>45%</u>	<u>95%</u>
<u>Year 2</u>	<u>40%</u>	<u>90%</u>
<u>Year 3</u>	<u>35%</u>	<u>85%</u>
<u>Year 4</u>	<u>30%</u>	<u>80%</u>
<u>Year 5</u>	<u>25%</u>	<u>75%</u>
<u>Year 6</u>	<u>15%</u>	<u>70%</u>
<u>Year 7</u>	<u>5%</u>	<u>65%</u>
<u>Year 8</u>	<u>0%</u>	<u>60%</u>
<u>Year 9</u>	<u>0%</u>	<u>55%</u>
<u>Year 10</u>	<u>0%</u>	<u>50%</u>
<u>Year 11</u>	<u>0%</u>	<u>45%</u>
<u>Year 12</u>	<u>0%</u>	<u>40%</u>
<u>Year 13</u>	<u>0%</u>	<u>35%</u>
<u>Year 14</u>	<u>0%</u>	<u>30%</u>
<u>Year 15</u>	<u>0%</u>	<u>25%</u>

10.7 A fixed rate maturity profile that is outside the above limits, but self corrects in less than 90 days is not in breach of this Policy. However, maintaining a maturity profile outside of the above limits beyond 90 days requires specific approval by Council.

- Fixed Rate is defined as an interest rate repricing date beyond 3 months.
- Floating Rate is defined as an interest rate repricing within 3 months.
- The percentages are calculated on the rolling projected net debt level calculated by management (signed off by the Chief Financial Officer).
- Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.
- Any interest rate swaps with a maturity beyond 12 years must be approved by the Chief Executive through a specific approval.
- Hedging outside the above risk parameters must be approved by Council.

11 Liquidity risk/funding risk

11.1 Risk recognition

11.2 Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, short-term financial investments, loans and bank facilities. Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

11.3 The management of Council's funding risks is important as several risk factors can arise to cause an adverse movement in borrowing margins, term availability and general flexibility including:

- Local Government risk is priced to a higher fee and margin level.
- Council's own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons.
- A large individual lender to Council experiences its own financial/exposure difficulties resulting in Council not being able to manage their debt portfolio as optimally as desired.
- New Zealand investment community experiences a substantial "over supply" of Council investment assets.
- Financial market shocks from domestic or global events.

11.4 A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time so that if any of the above events occur, the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to market conditions.

11.5 Liquidity/funding risk control limits

3. Liquidity

4. Council minimises its liquidity risk by avoiding concentration of debt maturity dates and by maintaining committed borrowing facilities and/or cash investments to cover 110% of existing external debt. Drawdown against these facilities will be as required to satisfy cash flow needs. Council avoids exposure to liquidity risk by managing the maturity of its borrowing programme within maturity limits

5.

6. Borrowing Maturity Profile Limits

7.

8. Period Minimum Maximum

9.

10. 0 – 3 years 15% 60%

11. 3 – 5 years 15% 60%

12. 5 years plus 10% 40%

- External term loans and committed debt facilities together with available liquid investments must be maintained at an amount of 110% over existing external debt.
- Council has the ability to pre-fund up to 18 months forecast debt requirements including re-financings.
- The CFO has the discretionary authority to re-finance existing external debt on more favourable terms. Such action is to be reported to the Chief Executive and the appropriate Council Committee at the earliest opportunity.

11.6 The maturity profile of the total committed funding in respect to all external debt / loans and committed debt facilities, is to be controlled by the following system:

<u>Period</u>	<u>Minimum %</u>	<u>Maximum %</u>
<u>0 to 3 years</u>	<u>15%</u>	<u>60%</u>
<u>3 to 5 years</u>	<u>15%</u>	<u>60%</u>
<u>5 years plus</u>	<u>10%</u>	<u>40%</u>

11.7 A maturity schedule outside these limits will require specific Council approval.

12 Counterparty credit risk

12.1 Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the Council is a party. The credit risk to the Council in a default event will be weighted differently depending on the type of instrument entered into.

12.2 Credit risk will be regularly reviewed by the appropriate Council Committee. Treasury related transactions would only be entered into with organisations specifically approved by the Council.

12.3 Counterparties and limits can only be approved on the basis of long-term Standard & Poor's (S&P) credit ratings (or equivalent Fitch or Moody's rating) being A and above and/or short term rating of A-1 or above.

12.4 Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

12.5 The following matrix guide will determine limits:

<u>Counterparty/Issuer</u>	<u>Minimum S&amp;P long term / short term credit rating</u>	<u>Total maximum per counterparty (\$m)</u>
<u>NZ Government</u>	<u>N/A</u>	<u>Unlimited</u>
<u>Local Government Funding Agency (LGFA)</u>	<u>N/A</u>	<u>Unlimited</u>
<u>NZ Registered Bank</u>	<u>AA- / A-1</u>	<u>75.0</u>
<u>NZ Registered Bank</u>	<u>A / A-1</u>	<u>30.0</u>

**Power to Borrow**

Council borrows as it considers appropriate and in accordance with the provisions of the Local Government Act and the Treasury Management Policy. When approving the 10 year plan and each annual plan Council is also approving the level of new borrowing. In approving new borrowings Council considers the impact of the proposed level of borrowing on its overall borrowing limits, as well as the economic life of the asset that is being funded and its overall consistency with the 10 year plan. Council delegates the authority to officers to raise the approved borrowing during the

financial year as and when the funding is required. Any additional borrowing beyond that approved in the 10 year plan or annual plan must be approved by resolution of Council.

**Interest Rate Exposure**

Borrowings issued at variable interest rates expose Council to a cash flow interest rate risk. Council manages this risk by using floating to fixed interest rate swaps which have the effect of converting borrowings from floating rates to fixed rates of interest. Council has set the following specific limits for its interest rate exposure:

**Fixed/Floating interest rates**

Minimum Fixed Rate	Maximum Fixed Rate
50%	95%

To spread the interest rate risk the level of fixed interest rate cover must be within the following maturity bands:

Period	Minimum Cover	Maximum Cover
1-3 years	15%	60%
3-5 years	15%	60%
>5 years	15%	60%

Any fixed interest rate swaps for more than 15 years must be approved by Council.

**Liquidity**

Council minimises its liquidity risk by avoiding concentration of debt maturity dates and by maintaining committed borrowing facilities and/or cash investments to cover 110% of existing external debt. Drawdown against these facilities will be as required to satisfy cash flow needs. Council avoids exposure to liquidity risk by managing the maturity of its borrowing programme within maturity limits

**Borrowing Maturity Profile Limits**

Period	Minimum	Maximum
0-3 years	15%	60%
3-5 years	15%	60%
5 years plus	10%	40%

**Commercial Paper**

With the changes in the treasury market over recent years, commercial paper (CP) has become a cheaper option than utilising committed facilities. CP should not be issued to fund core debt unless there are committed bank facilities or cash investments available to cover in case the CP market became illiquid.

**Pre-funding**

To maintain liquidity within policy limits, Council can either enter into committed facilities or maintain cash investments or a combination of both depending on which option reduces the cost of borrowing.

#### Credit Exposure

Council borrows from approved institutions with satisfactory credit ratings. Borrowings are managed to ensure the Council is not exposed to material concentrations of credit risk. Limits are spread amongst a number of counterparties to avoid concentrations of credit exposure. The Treasury Management Policy provides guidance on the spread and limits.

#### Debt Repayment

The financial strategy sets the scene for the coming ten years to restrict borrowing to a sustainable level, and outlines the plan for total overall debt. Council will repay debt from a combination of sale of surplus or underperforming assets, operating surpluses or from the renewal of borrowings.

#### Acquisition of New Investments

The financial strategy outlines the plan to provide funding for essential assets whilst controlling and managing debt. Asset purchases/development may be funded by debt, reserves, rates or operating surpluses, depending on the most appropriate method.

#### Specific Borrowing Limits

In managing its debt, Council adheres to the financial principles contained in the Treasury Management Policy. To determine a prudent level of borrowing which meets the requirements of the financial strategy, total overall debt will be managed within the following limits:

Ratio	Limit
Debt to revenue *	<250%
Interest to revenue	<20%
Debt to cash flow	15
Liquidity **	>110%

\* Council has set a target of debt to revenue of <200% to be achieved by 2019.

\*\* The liquidity ratio is measured against external debt rather than total overall debt

#### Security

Council debt is secured by way of a Debenture Trust Deed which provides a charge over Council's rates and rates revenue. This security relates to any borrowing and the performance of any obligation under any incidental arrangement. Debt may be undertaken on an unsecured basis, or secured by way of a charge over physical assets where considered appropriate by Council.

#### New Zealand Local Government Funding Agency Limited investment

Despite anything earlier in this Policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:-

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA, for example borrower notes;
- Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required;

- ~~Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.~~
- ~~Subscribe for shares and uncalled capital in the LGFA.~~

## **6— MONITORING AND IMPLEMENTATION**

Regular reporting on this policy will be through the regular Treasury Management Report presented at each Finance and Monitoring committee meeting.

### **Investments in CCOs/CO's**

Monitoring of equity and property investments is undertaken by the Finance and Monitoring Committee through reviewing quarterly reports, annual reports, strategic plans and statements of corporate intent.

### **Other Investments**

All other investments are reported to the Finance and Monitoring Committee on a regular basis. Details of reports provided are included in the Treasury Management Policy.

The policy will be reviewed every three years or at the request of Council or in response to triggers, legislative and statutory requirements.

## **REFERENCES**

- Section 102 of Local Government Act [2002](#)

## INVESTMENT AND LIABILITY MANAGEMENT POLICY

This policy is required under Section 102 (1) of the Local Government Act to provide certainty about sources and levels of funding.

### CONTENTS

1. Policy Objectives and Scope
2. Strategic Alignment
3. Principles of Policy
4. Policy Guidelines
5. Monitoring and Implementation
6. References

### REVISION HISTORY

<i>Revision #</i>	<i>Policy Sponsor</i>	<i>Approval Date</i>	<i>Council or Committee Decision</i>	<i># TRIM Reference</i>	<i>Related Operating Guidelines</i>
1	CFO	29/6/2012 Review by 30 June 2015	Council	D-363226	Treasury Management Policy

### 1. POLICY OBJECTIVES AND SCOPE

The Local Government Act requires Council to adopt a Financial Strategy with a clear linkage to the Revenue and Financing Policy, the Liability Management Policy and the Investment Policy. The Investment and Liability Management Policy provides the operational detail around the management of investments and debt and provide support and detail to the Financial Strategy and the Revenue and Financing Policy, both included in the Long Term Plan, Volume 2.

This policy is linked to the Treasury Management Policy which outlines staff responsibilities in the management of the Treasury Function.

### 2. STRATEGIC ALIGNMENT

This policy assists in the delivery of Councils outcomes and goals as follows:

PROSPEROUS AND INNOVATIVE	OUTSTANDING CITY LEADERSHIP	PEOPLE LOVE LIVING HERE
<ul style="list-style-type: none"> <li>▪ Hamilton has a strong, productive economy and we build on our economic strengths.</li> <li>▪ We have a thriving CBD.</li> <li>▪ It's easy to do business here.</li> <li>▪ Our city grows and prospers in a sustainable way.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The city is led by effective, open and responsive governance.</li> <li>▪ Council's finances are sustainable for the long term.</li> <li>▪ We operate efficiently and provide exceptional service.</li> <li>▪ The city takes a leadership role regionally and nationally.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Hamilton embraces the Waikato River and it is the focal point of our city.</li> <li>▪ We value, preserve and protect Hamilton's natural, green environment.</li> <li>▪ Our city is attractive, well-designed and compact with outstanding architecture and distinctive public spaces.</li> <li>▪ Our city is a fun place to live with a vibrant Arts scene.</li> <li>▪ Hamilton is a safe city.</li> <li>▪ It's easy to get around.</li> <li>▪ We celebrate our people and many cultures.</li> </ul>

▪ = primary contribution

### 3. PRINCIPLES OF POLICY

Council's general policy objectives relating to its investment and liability management are to:

- Minimise the overall costs and risks associated with its borrowing activities and the general management of its other liabilities.
- Manage its borrowings and cash assets on a "net borrower" basis in order to reduce the overall net cost.
- Maximise the return on its investment portfolio and other financial assets whilst balancing risk and return considerations.

- Minimise exposure to adverse interest rate movements.
- Borrow and invest funds and transact risk management instruments within an environment of control and compliance under the Treasury Management Policy.
- Regularly review and consider the performance of Council's financial assets and investments. Where appropriate, Council will dispose of under performing assets or those assets and investments that are not essential to the delivery of services and activities set out in the Long Term Plan (LTP).
- Monitor, evaluate and report on treasury performance.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- Comply with financial ratios and limits stated within this policy.

The Treasury Management Policy provides further detail on the day to day management, operating procedures and internal controls for both the Investment Policy and Liability Management Policy.

#### 4. POLICY GUIDELINES

##### 3.1 INVESTMENTS

Council generally operates as a "net borrower" and generally does not separately maintain significant cash investments, with the exception of restricted reserves and council created reserves. Cash investments will be held to support the level of restricted reserves through the early years of the 2012-22 10-Year Plan with a progressive move to also support council created reserves over time through any surplus cash generated in each financial year. To achieve the aim of minimising the overall cost of funds, at times it may be prudent to pre-fund, and invest any surplus in short term cash investments. Cash investments are also used to maintain and manage liquidity risk.

The financial strategy provides information around investments held and rationale for holding them. This Policy outlines the procedures for balancing the risks and returns for holding investments.

##### **Investment Mix**

Council may maintain investments in the following assets from time to time:

- **Cash Investments** - Funds may be invested with approved registered banking institutions. These will generally be relatively short term to meet future cash flow projections. The maturity profile and management of the interest rate risks of cash investments will be closely linked to the ratios and limits stated in the Liability Management Policy for the management of debt.
- **Property Investments** - Investment properties include ground leases and land and buildings and are held with the objective of maximising the return on investment. Council regularly reviews its continued ownership of investment properties by assessing the benefits in comparison to other arrangements that could deliver similar benefits. This assessment is based on both the strategic benefit of the investment/ownership to the City and in terms of the most financially viable method of achieving the delivery of Council services.
- **Investments in Companies** - Equity investments arise from Council owning or controlling an equity holding in another entity. The financial strategy provides detail of entities in which Council has an equity interest. Some of these investments are held to achieve efficiency and community outcomes and not to receive a financial return on investment.

**Other Investments**

Investments include loans to external organisations (with appropriate security).

**Acquisition and Disposal of Investments**

With the exception of the day to day investment of cash, all decisions to acquire or dispose of investments will be by Council resolution. Council officers will manage cash investments in accordance with the Treasury Management Policy.

Proceeds from the sale of assets or investments will in the first instance be used to repay outstanding borrowings to reduce the overall debt, unless otherwise specifically authorised by Council. The exception to this is in relation to the sale of endowment properties where any surplus cash is held in the Municipal Endowment Fund to be used to reinvest in property. If the assets are subject to legislative restrictions, the proceeds are used in accordance with the provisions of the appropriate legislation.

**Risk Management**

Council's principal exposure on its financial investments is credit risk. Credit risk is minimised by Council investing in approved institutions with satisfactory credit ratings. Limits are spread amongst a number of counterparties to avoid concentrations of credit exposure. The Treasury Management Policy lists the authorised counterparties with whom management is authorised to transact.

Assessment and management of specific risks associated with Council's equity and property investments will be performed on a regular basis. Any significant changes in the risk profile for these investments will be reported to the Finance and Monitoring Committee.

**3.2 LIABILITY MANAGEMENT**

The financial strategy outlines the plan to provide funding for essential assets whilst controlling and managing debt. Council primarily borrows to pay for the purchase or construction of new assets and the upgrading of existing assets with the expectation that the assets will provide enhanced benefits for many years. Borrowing at a prudent and sustainable level is considered to be an equitable way to fund these assets as it spreads the cost over future generations of ratepayers who will benefit from the use of the asset. Borrowings have a strategic benefit in making the cost of the asset investment affordable to today's ratepayers and are maintained at a prudent level in accordance with the overall borrowing policy. The specific limits are outlined below in the section headed Specific Borrowing Limits.

The financial strategy sets the scene for the coming ten years to restrict debt to a sustainable level and improve the overall financial position of Council.

**Definition of Debt**

External Debt – includes all monies borrowed from external parties (including leases)

Total Overall Debt – external debt less cash investments held plus council's restricted reserves (as these are held in cash for a specific purpose and may be utilised at any time during the 10 Year Plan)

**Internal Debt**

Council utilises cash held to offset external debt. This is to minimise overall borrowing costs to Council. Cash held for reserves is not offset against external debt.

**Power to Borrow**

Council borrows as it considers appropriate and in accordance with the provisions of the Local Government Act and the Treasury Management Policy. When approving the 10 year plan and each annual plan Council is also approving the level of new borrowing. In approving new borrowings Council considers the impact of the proposed level of borrowing on its overall borrowing limits, as well as the economic life of the asset that is being funded and its overall consistency with the 10 year plan. Council delegates the authority to officers to raise the approved borrowing during the financial year as and when the funding is required. Any additional borrowing beyond that approved in the 10 year plan or annual plan must be approved by resolution of Council.

**Interest Rate Exposure**

Borrowings issued at variable interest rates expose Council to a cash flow interest rate risk. Council manages this risk by using floating to fixed interest rate swaps which have the effect of converting borrowings from floating rates to fixed rates of interest. Council has set the following specific limits for its interest rate exposure:

Fixed/Floating interest rate:

Minimum Fixed Rate	Maximum Fixed Rate
50%	95%

To spread the interest rate risk the level of fixed interest rate cover must be within the following maturity bands:

Period	Minimum Cover	Maximum Cover
1-3 years	15%	60%
3-5 years	15%	60%
>5 years	15%	60%

Any fixed interest rate swaps for more than 15 years must be approved by Council.

**Liquidity**

Council minimises its liquidity risk by avoiding concentration of debt maturity dates and by maintaining committed borrowing facilities and/or cash investments to cover 110% of existing external debt. Drawdown against these facilities will be as required to satisfy cash flow needs. Council avoids exposure to liquidity risk by managing the maturity of its borrowing programme within maturity limits

**Borrowing Maturity Profile Limits**

Period	Minimum	Maximum
0 – 3 years	15%	60%
3 – 5 years	15%	60%
5 years plus	10%	40%

**Commercial Paper**

With the changes in the treasury market over recent years, commercial paper (CP) has become a cheaper option than utilising committed facilities. CP should not be issued to fund core debt unless there are committed bank facilities or cash investments available to cover in case the CP market became illiquid.

#### **Pre-funding**

To maintain liquidity within policy limits, Council can either enter into committed facilities or maintain cash investments or a combination of both depending on which option reduces the cost of borrowing.

#### **Credit Exposure**

Council borrows from approved institutions with satisfactory credit ratings. Borrowings are managed to ensure the Council is not exposed to material concentrations of credit risk. Limits are spread amongst a number of counterparties to avoid concentrations of credit exposure. The Treasury Management Policy provides guidance on the spread and limits.

#### **Debt Repayment**

The financial strategy sets the scene for the coming ten years to restrict borrowing to a sustainable level, and outlines the plan for total overall debt. Council will repay debt from a combination of sale of surplus or underperforming assets, operating surpluses or from the renewal of borrowings.

#### **Acquisition of New Investments**

The financial strategy outlines the plan to provide funding for essential assets whilst controlling and managing debt. Asset purchases/development may be funded by debt, reserves, rates or operating surpluses, depending on the most appropriate method.

#### **Specific Borrowing Limits**

In managing its debt, Council adheres to the financial principles contained in the Treasury Management Policy. To determine a prudent level of borrowing which meets the requirements of the financial strategy, total overall debt will be managed within the following limits:

<b>Ratio</b>	<b>Limit</b>
Debt to revenue *	<250%
Interest to revenue	<20%
Debt to cash flow	15
Liquidity **	>110%

\* Council has set a target of debt to revenue of <200% to be achieved by 2019.

\*\* The liquidity ratio is measured against external debt rather than total overall debt

#### **Security**

Council debt is secured by way of a Debenture Trust Deed which provides a charge over Council's rates and rates revenue. This security relates to any borrowing and the performance of any obligation under any incidental arrangement. Debt may be undertaken on an unsecured basis, or secured by way of a charge over physical assets where considered appropriate by Council.

#### **New Zealand Local Government Funding Agency Limited investment**

Despite anything earlier in this Policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:-

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA, for example borrower notes.
- Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required;
- Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.
- Subscribe for shares and uncalled capital in the LGFA.

#### 4. MONITORING AND IMPLEMENTATION

Regular reporting on this policy will be through the regular Treasury Management Report presented at each Finance and Monitoring committee meeting.

##### **Investments in CCOs/CO's**

Monitoring of equity and property investments is undertaken by the Finance and Monitoring Committee through reviewing quarterly reports, annual reports, strategic plans and statements of corporate intent.

##### **Other Investments**

All other investments are reported to the Finance and Monitoring Committee on a regular basis. Details of reports provided are included in the Treasury Management Policy.

The policy will be reviewed every three years or at the request of Council or in response to triggers, legislative and statutory requirements.

#### 5. REFERENCES

- Section 102 of Local Government Act