

2. POLICY STATEMENT ON THE FUNDING OF CAPITAL EXPENDITURE

Capital expenditure represents expenditure on property, plant and equipment. Property, plant and equipment are tangible assets that are held by the Council for use in the provision of its goods and services (for example: bridges, libraries, the Wellington Regional Aquatic Centre), for rental to others or for administrative purposes, and may include items held for the maintenance or repair of such assets.

Capital expenditure is funded from depreciation, development contributions, capital subsidies, and restricted funds or through new or extended borrowings as outlined below:

- If the capital expenditure relates to the replacement (renewal) of an existing asset, that expenditure will be funded by depreciation. Funding for depreciation comes from rates. Any surplus depreciation, after paying for the replacement of Council assets, will be used to repay borrowings.
 - If the capital expenditure relates to the construction or purchase of a new asset or to the upgrade or increase in service potential of an existing asset, that expenditure will usually be funded from new or extended borrowings. Borrowing is the most cost-effective and equitable way to do this as it spreads the cost of the asset over all the generations who will benefit from it, making it affordable to ratepayers today.
 - On projects where on the basis of financial prudence, the Council considers it appropriate to do so, it may impose a targeted rate to repay borrowings on an asset at a faster rate than over the full life of the asset.
 - The Council will use capital subsidies from third parties to fund investment in new or upgraded assets (e.g. funding received from LTNZ).
 - The funding of capital expenditure from the sale of surplus assets is decided on a case-by-case basis. Funds received from the sale of surplus assets that are not applied to the funding of capital expenditure shall be used to repay borrowings.
 - The funding of capital expenditure from restricted or special funds is decided on a case-by-case basis and is subject to the specified purposes and conditions governing the use of those restricted funds.
- If an approved capital expenditure project is not completed by the end of the financial period, the unspent funds may be carried forward to the next financial period to enable the project to be completed.
 - The Council has agreed that Development Contributions are to be used as the primary funding tool for capital expenditure resulting from growth for water, wastewater, stormwater, roads and reserves. The Council has indicated that Development Contributions may also be used to fund growth related expenditure for Community Infrastructure, but that further work is required on the funding options and choices for such activities. The Council will continue to use RMA based Financial Contributions in some circumstances. Funds collected under either the Development Contributions Policy or the Financial Contributions Policy in the District Plan will result in a corresponding decrease in the amount to be funded from new borrowings.

| OPERATING EXPENDITURE FUNDING MECHANISM | APPROXIMATE PROPORTION OF FUNDING FOR 2006/07 |
|-----------------------------------------|-----------------------------------------------|
| Rates funded depreciation | 43% |
| LNTZ transport subsidies | 8% |
| Development contributions | 1% |
| Borrowings | 49% |