

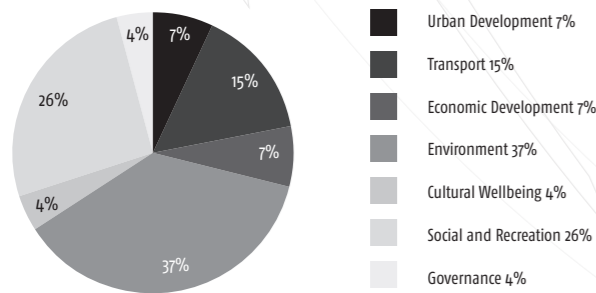
# RATES, CHARGES AND SPENDING

## OPERATIONAL SPENDING

We're forecasting total operational spending of \$329 million during 2008/09.

Operational spending provides for all of our day-to-day operations and services – things like waste disposal, water supply, operating the transport network, issuing building and resource consents, maintaining parks and gardens and so on.

### OPERATIONAL SPENDING



Of our operational spending, 37% relates to the Environment strategy area. This includes spending on water supply, wastewater and stormwater, and parks and reserves. Other significant areas of operational spending include transport, and social/recreation services.

## RATES

The average real rates will increase by 5.18%, after allowing for growth in the ratepayer base in 2008/09.

The Council funds operational spending from a combination of general rates, targeted rates, user charges, grants/subsidies, and other income (such as dividends).

The Council sets targeted rates to fund costs associated with the Council's water, sewerage and stormwater systems. Separate targeted rates are set for Marsden Village, Downtown, and Tawa driveways.

There are two categories of general rates: the base general rate, and the commercial sector general rate. The Council has a rates differential in place that decides the share of general rates paid by residents and businesses. We are gradually reducing this differential over time. In 2007/08, the commercial sector general rate was 4.2 times higher than the base rate for a property of the same value. We are reducing this differential so that the commercial sector will contribute 3.8 times more general rate than the residential ratepayer for a property of the same value in 2008/09. By 2011/12, we aim to reduce this differential to 2.8:1.

When we decide whether to fund a service from rates or other sources, we consider a wide range of factors including who benefits.

Decisions about how to fund a service are guided by our Revenue and Financing Policy. Under the policy, for each activity we consider the following criteria:

- who benefits – individuals, an identifiable part of the community, or the whole community
- whether the people or groups who benefit could be excluded from the service if they don't pay, and whether excluding them would be fair and equitable
- whether the benefits will extend to future generations as well as current ones
- the 'polluter pays' principle – that people and groups should pay for harm they directly cause
- overall impact on social, economic, cultural and environmental well-being.

We then agree the proportion of funding that each sector will contribute to pay for each activity. For instance, tourism promotion is funded through the downtown levy (the retailers, restaurants, bars, hotels and other businesses located in the downtown area who benefit from visitors' spending), while our city safety programme, which benefits everyone, is funded through the general rate.

The rates increase for 2008/09 is lower than we had previously forecast.

In our amended 2006–2016 long term plan, we had forecast a rates increase of 7.1% for 2008/09. The lower-than-previously-forecast figure reflects our efforts to manage the city's finances efficiently and prudently, together with growth in the ratepayer base of the city. While we have committed to some new projects, we've also sought operational efficiencies and rescheduled some of our work programme to keep the rates increase below previously forecast levels.

The actual rates changes affect each household or property differently, depending on changes in capital value.

The rateable capital value for the average residential property has increased by 13% to \$532,000 over the past year. The rates on this property for 2008/09 will be about \$1,836. Rates for your property will be higher or lower than this depending on the value of your property. It is important to note that an increase in the capital value of properties in the city does not mean that the Council automatically collects more rates. We set the overall level of rates to cover the operating expenditure of the Council less any external income (from sources other than rates) we receive. We then use, in most cases, the capital value of all properties to allocate the rates requirement.

The final rates increase for an individual property will depend on:

- the overall increase in the Council's rateable budget
- any changes in the rates differential or uniform rates applying to that property
- the growth in the number of rateable properties in the city (e.g. due to construction of new houses, apartments and business premises)
- the change in a particular property's capital value compared to the average change in capital value for other properties.

### Indicative residential property rates (without a water meter)

2008/09 Capital Values \$	2008/09 Rates \$
200,000	831
300,000	1,134
400,000	1,437
500,000	1,740
600,000	2,043
700,000	2,346
800,000	2,649
900,000	2,952

## Water rates

This year we are increasing the per cubic metre charge for ratepayers who have a water meter installed.

The last increase in the metered water charge was in 2004/05. This year we are increasing the charge for those ratepayers with a water meter installed from \$1.37 per cubic metre to \$1.58 per cubic metre to ensure that those with a water meter continue to pay their fair share of the costs of the water activity.

## REVENUE AND FINANCING POLICY

We have committed to make the following changes to our Revenue and Financing Policy:

- Building Control and Facilitation (i.e. building consents) – we are increasing the proportion of this activity to be funded through user charges from 60% to 65%
- Arts and Cultural Festivals – we are decreasing the proportion of this activity funded from non-rates revenue from 25% to 20%.

These changes will be formalised into the Revenue and Financing Policy when the long-term plan is revised next year.

## USER CHARGES

We're also changing fees and charges for some of our services.

We are raising fees in a number of areas this year. The majority of these increases are minor and reflect cost pressures. Increasing fees by a little each year ensures that ratepayers are not over-subsidising services the Council provides, and helps to avoid larger increases in future. Where fees will increase from 1 July include:

- Development control and facilitation (resource consent fees etc.)
- Sandwich boards
- Landfill charges (recycling levy)
- Sports fields
- Burials and cremations.

In response to submissions on our draft annual plan, we have decided not to increase marina fees during 2008/09.

A full list of changes to fees and charges is included in the appendices

Decisions about user charges and ratepayer funding of each service are made in accordance with our Revenue and Financing Policy, and depend on a range of factors including who benefits from the service (see above).

## Trade waste charges

This year we are introducing a trade waste charging regime, under which businesses that discharge trade waste into the sewer will pay charges that better reflect the cost of transporting, treating and disposing of this waste. This change will provide an incentive for these businesses to reduce the levels of trade waste they produce.

The Council will not collect any more money overall from the introduction of these charges. Instead, commercial ratepayers will pay a little less in sewerage rates.

## CAPITAL SPENDING

### We're continuing to invest in the city's infrastructure.

Capital spending pays for property, plant and equipment. This includes buying, building, developing and upgrading assets such as buildings, roads, bridges, water and stormwater pipes, and so on.

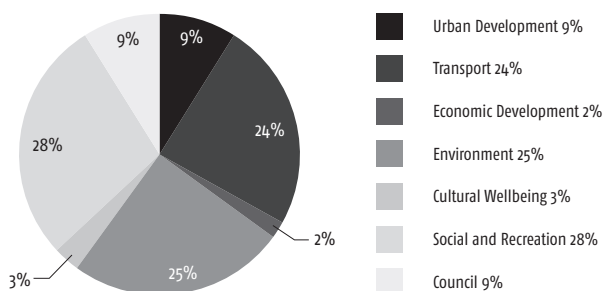
We fund capital expenditure from depreciation, borrowings, reserves and bequests, NZ Transport Agency and other subsidies, and development contributions. For asset renewals, the main funding source is depreciation. For new assets, the main funding source is borrowings.

We aim to manage our borrowing within the following targets:

- total Council borrowing is less than 10% of equity and less than 150% of income
- net interest is less than 15% of income and less than 20% of rates income
- liquidity is greater than 110%.

We're forecasting capital spending (excluding carried forward expenditure and loans to other organisations) of \$118 million for 2008/09. That's an increase of \$19 million from 2007/08, but compares favourably with our previous forecast for 2008/09 of \$145 million. This change reflects the reprioritisation of some capital works we'd budgeted for in our 2006-16 long-term plan.

#### CAPITAL SPENDING



#### VARIANCES FROM LONG TERM PLAN

Each year we review the underlying assumptions and costs that make up each activity. For each activity we consider the impact of a number of factors, including:

- changes in direct costs
- updated forecasting assumptions (including changes to the forecast timing of projects)
- the allocation of indirect and organisational costs/efficiencies
- the appropriateness of inflation and CPI adjustments
- changes affecting our opening position (eg updated borrowings forecasts).

This means that the proposed costs for each activity may differ from those we had originally forecast for 2008/09 in our 2006-16 long term plan. Changes to service levels are explained in the Our Activities in Detail section of this document.