

Financial Overview

This section gives a brief outline of the Council's budgeted income and expenditure for the 2009-2019 period.

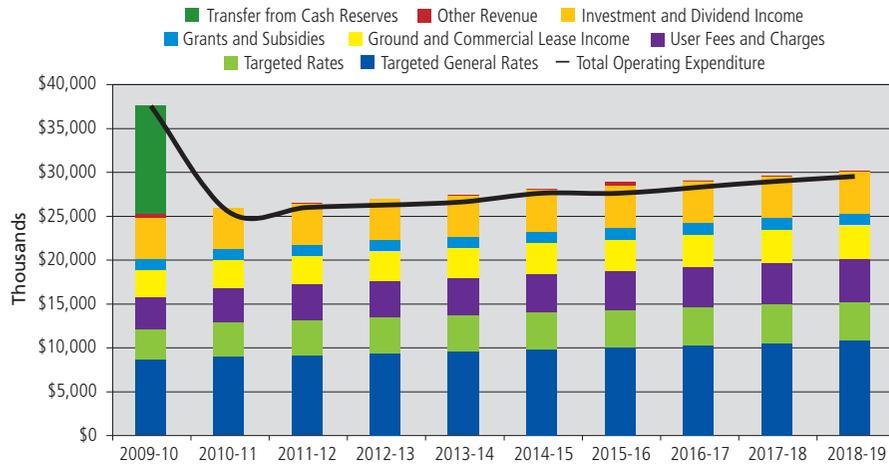
For the Council's forecast financial statements and funding, financial and governance policies, please refer to Volume Two which is available on the Council's website and from Council offices.



Financial Overview

(All figures are GST exclusive, unless stated otherwise)

Forecast 10 year operating expenditure and funding sources



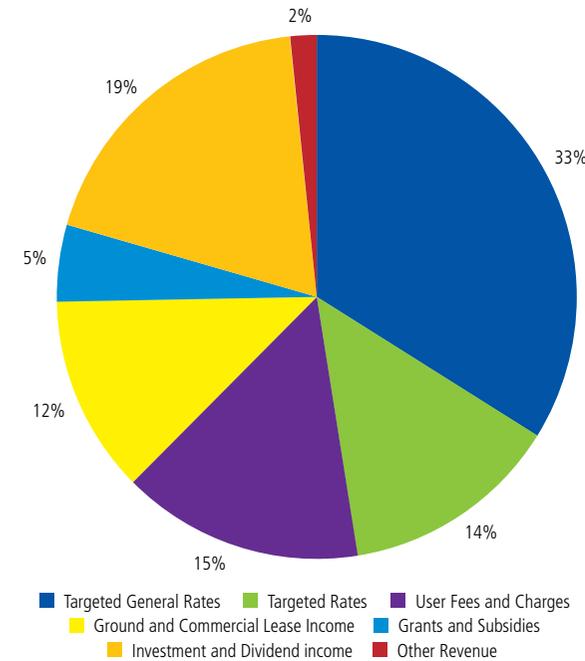
Operating expenditure pays for the Council's day-to-day operations and services. The graph shows operating expenditure to be funded and associated funding sources (refer to the Funding Impact Statement for further detail).

Funding of Operating Expenditure

Operating expenses are funded through rates, fees and charges, grants and subsidies and other income.

Rates revenue is calculated to recover the balance of gross expenditure after allowance has been made for the other sources of revenue.

Forecast 2009-2010 operating expenditure funding sources



* Excludes cash reserves utilised to fund the \$13M grant towards the establishment of the Regional Events Centre.

Rates

Targeted general rates are made up of two rates; targeted council services rate and targeted land management rate. Targeted general rates are paid on all rateable properties in Northland.

Targeted rates include various river management rates, a Northland regional recreational facilities rate, a targeted regional infrastructure rate, a new transport services rate and a new targeted rescue helicopter services rate. In the 2010-2011 financial year, the Council is considering levying a rate of about \$400,000 in total to fund the Regional Growth Programme.

Total rate revenue on existing rates is forecast to increase by 1.8% from the 2008-2009 financial year. When the new rates to pay for the helicopter rescue services (\$625,412) and bus transport in the Whāngārei District (\$408,690) are introduced in 2009-2010, total rate revenue (excluding targeted river rates) is forecast to increase by 12.1%. The revenue generated from the Targeted Rescue Helicopter Services Rate will be remitted to the Northland Emergency Services Trust by way of a grant and will not be used to fund Council activities. The Targeted Transport Rate represents funding previously collected on behalf of the Northland Regional Council by the Whāngārei District Council and does not represent a funding increase.

This information is summarised in the table below:

Proposed Rate Movement from 2008-2009 to 2009-2010

	Current 2008-2009 \$	Proposed 2009-2010 \$	Movement \$	Movement %
Including GST				
Targeted Land Management Rate	4,216,187	4,406,108	189,921	4.50
Targeted Council Services Rate	4,532,536	5,211,318	678,782	15.00
Targeted Regional Infrastructure Rate	610,059	637,454	27,395	4.50
Targeted Regional Recreational Facilities Rate	1,965,603	1,269,174	-696,429	-35.40
Total Existing Rates	11,324,385	11,524,054	199,669	1.76
Proposed New Rates				
Targeted Rescue Helicopter Services		703,589	703,589	100.00
Targeted Transport Rate (Whangarei District)		459,776	459,776	100.00
Total Proposed New rates		1,163,365	1,163,365	
Total Proposed Rates 2009-2010	11,324,385	12,687,419	1,363,034	12.04

Rates collected for river management schemes are excluded from the above calculations. Council is proposing to increase the river management scheme rates by 4.5% in 2009-2010 and by inflation thereafter.

The projected rate revenue increase for the 2010-2011 financial year is 7.1%. This increase will provide an additional (\$800,755) rate revenue; the introduction of the proposed targeted regional growth programme rate (\$401,681) is included in this increase. The projected rate increase for the 2010-2011 financial year is 3.3% which is forecasted inflation, with the exception of the targeted regional recreational services rate, which is not increased and the targeted council services rate, which is increased by 5.2%. The projected rate increase for the 2011-2012 financial year is 2.4% which is in line with projected inflation.

This information is summarised in the table below:

Proposed Rate Movement from 2009-2010 to 2010-2011

	Current 2009-2010 \$	Proposed 2010-2011 \$	Movement \$	Movement %
Including GST				
Targeted Land Management Rate	4,406,108	4,551,509	145,401	3.30
Targeted Council Services Rate	5,211,318	5,483,190	271,872	5.20
Targeted Regional Infrastructure Rate	637,454	658,490	21,036	3.30
Targeted Regional Recreational Facilities Rate	1,269,174	1,280,235	11,061	0.90
Targeted Rescue Helicopter Services	703,589	726,807	–	–
Targeted Transport Rate (Whangarei District)	459,776	464,190	–	–
Total Existing Rates	12,687,419	13,164,421	449,370	3.54
Proposed New Rates				
Targeted Growth Programme Rate		451,891	451,891	100.00
Total Proposed New Rates		451,891	451,891	–
Total Proposed Rates 2010-2011	12,687,419	13,616,312	901,261	7.10

Projected rate increases beyond the 2010-2011 financial year are in line with inflation, with the exception of the 2014-2015 financial year. In 2014-2015, the targeted council services rate has been increased by 2% over the rate of inflation.

Projected inflation adjustments over the ten year period of the plan are based on the Business and Economic Research Limited (BERL) economic forecasts.

The funding impact statement provides details on the total rates different groups of ratepayers will incur under this Plan (refer to Volume Two of this Long Term Council Community Plan).

User Fees and Charges

For 2009-2010 Council is proposing to levy new charges for the review of water allocation. Council has reviewed charging levels and where appropriate has increased some charges to cover increased costs. There are no other significant changes to user fees and charges. User fees and charges are outlined in Volume Two of this Long Term Council Community Plan.

Grants and Subsidies

Council receives Government subsidies for some activities including transport planning and oil spill planning, state of the environment and biosecurity activities.

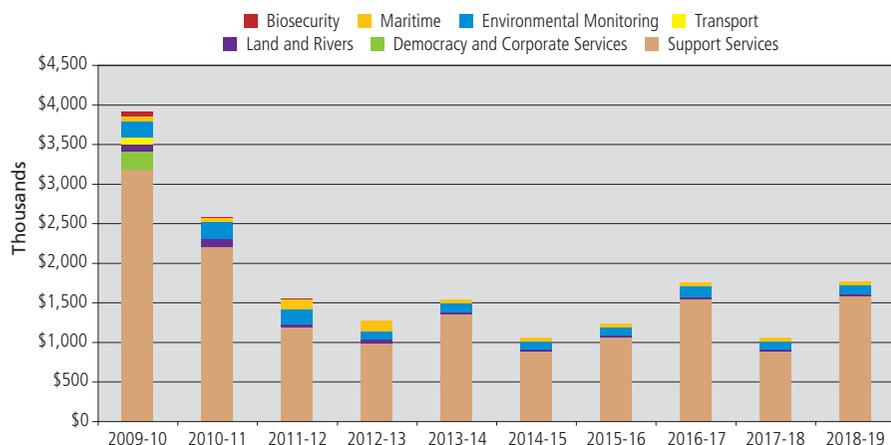
Financial Overview

Investment Revenue

Council holds a mix of investment assets including; cash, property, and equity. In the 2009-2010 financial year Council projects investment income to be \$8,215,463.

Capital Expenditure (10 Year Forecast)

Forecast 10 year capital expenditure programme



The forecast capital expenditure for Council operations and assets totals \$3,909,903 consisting of new capital expenditure for 2009-2010 of \$1,622,078 and capital expenditure to be carried forward from previous financial years of \$2,287,825.

Capital expenditure includes the cyclical replacement of plant and equipment; \$2,832,302 for information technology; \$55,000 for furniture and office equipment; \$219,237 commercial building maintenance and repairs; \$300,000 vehicle replacement; \$413,364 operational plant and equipment; \$90,000 for stock truck effluent sites.

The Northland Regional Council does not undertake significant works related to community infrastructure such as roading and water supply. In 2005, the Council assumed responsibility for the restoration, maintenance and ongoing management of the Awanui River Flood Management Scheme. Council is currently working on the development of an asset management plan for this asset. Council expects that on completion of the river modelling programme, some communities will choose to develop river management infrastructure. Council is not able to project capital expenditure relating to river management infrastructure until the river modelling is complete and consultation with affected communities has been undertaken.

Significant information technology expenditure is planned over the coming three years. Our Council is an information dependent organisation that relies on technology to ensure the efficient and effective delivery of Council services and activities. Of the \$2,832,302 budgeted to be spent on Information Technology in the 2009-2010 financial year, \$2,287,825 relates to projected expenditure carried forward from previous financial years.

The Council needs to replace its core regulatory software (as the vendor no longer offers support/upgrades for its existing equipment) and this will be paid for using funds set aside in the previous Community Plan.

The core regulatory system will be replaced by a solution dubbed IRIS (Integrated Regional Information System) to be built for a collaborative group of six regional councils by Datacom. More details on the IRIS project can be found page 219 of this Plan.

The Council also plans to implement a new document management system ahead of the IRIS project.

The Council is also to construct two sites in Northland where stock truck effluent can be emptied; one in the Far North and one in the Kaipara District. Council has set aside \$90,000 for the total cost of purchasing two sites and constructing settlement ponds.

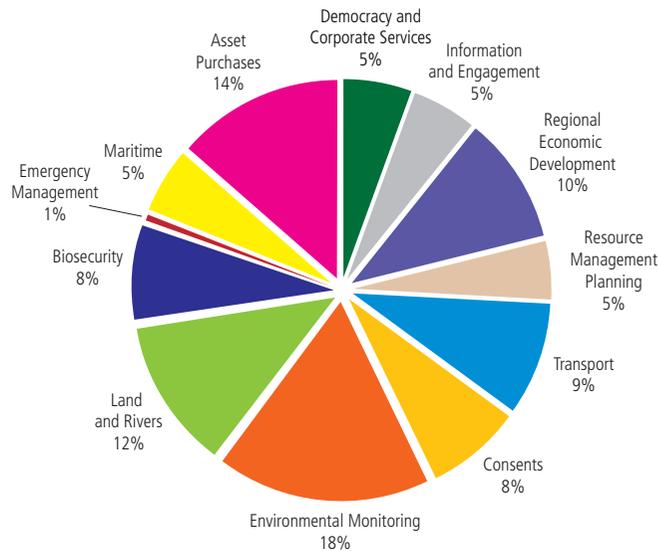
Other capital projects are principally related to the Council’s core environmental monitoring activities. For example, the Council has a network of electronic and telemetry rainfall, river level and air quality monitoring devices located across the region. These systems are frequently electronic and integrated to other electronic recording and quality management systems. The Council also has responsibility for biosecurity, animal and pest control and harbour navigation safety which require investment in vehicles and watercraft and other related plant and equipment.

Capital expenditure is funded from depreciation, borrowings and reserves.

Expenditure and Funding Sources 2009-2010

For the 2009-2010 year, each dollar of the Council’s gross expenditure will be applied to activities as follows; rates contribute the balance after fees and other income:

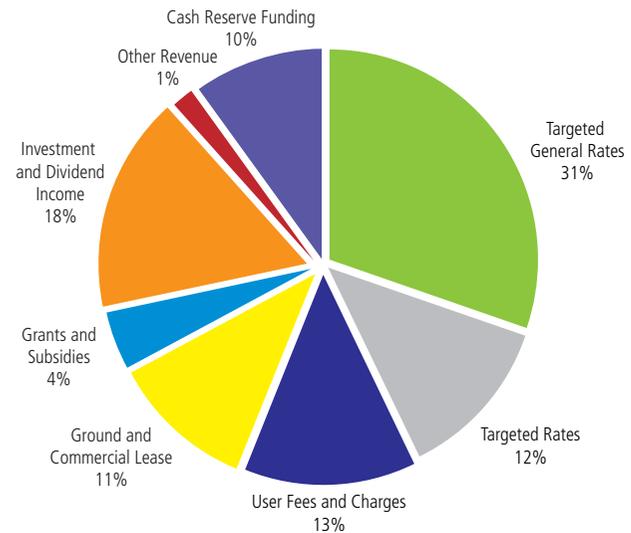
Forecast 2009-2010 Gross Expenditure



* Excludes the \$13m cost of the Regional Events Centre

- Democracy and Corporate Services (5 cents).
- Regional Information and Engagement (5 cents).
- Regional Economic and Development (10 cents).
- Resource Management Planning (5 cents).
- Transport (9 cents).
- Consents and Environmental Advice (8 cents).
- Environmental and Consent Compliance Monitoring, Hazardous Substances (18 cents).
- Land and Rivers, including river control and flood protection (12 cents).
- Biosecurity including plant and pest control (8 cents).
- Emergency Management (1 cent).
- Harbour Safety, navigation, and oil spill contingency planning and management activities (5 cents).
- Asset Purchases (14 cents).
- The cost of all activities includes a component of Support Services costs (Finance, Information Services, Human Resources and Records Management and Administration).

Forecast Total Sources of Funding for 2009-2010



Excludes funding of Regional Events Centre

Financial Strategy

There are a number of strategies and policies that address and manage various facets of the financial operations of the Northland Regional Council. The objective of these various strategies and policies is to manage the public's investment assets and the Council's revenue, expenditure, assets, liabilities and general financial dealings, prudently and in a manner that promotes the current and future interests of the community.

The purpose of this section is to outline these various policies and strategies in one location. More detail can be gained by referring to the full policies and strategies contained within this 2009-2019 Northland Community Plan.

Balanced budget

In accordance with section 100 of the Local Government Act, the Council will set its projected operating revenue at a level sufficient to meet the current year's projected operating expenditure, except where the Council resolves that it is financially prudent not to do so. The Council may set projected operating revenues at a different level from projected operating expenditure; the key reasons for doing so are as follows:

- The Council may choose to not fund depreciation on some Council assets. The Council believes that funding depreciation on new assets (rather than replacement assets) such as the development of new River Management Schemes, results in the ratepayers having to fund both the infrastructure and the replacement of the infrastructure, which goes against the principle of intergenerational equity.
- To smooth the rating burden, the Council also may elect to fund certain operational expenditure from reserves, including prior year surpluses.
- Where the Council funds capital expenditure from public debt or internal borrowing, the Council will operate a surplus of revenue over expenditure until such time as the loan is repaid.

Funding principles

Levels of service and operating programmes are established in a variety of policies, plans and strategies that the Council has prepared and adopted pursuant to various pieces of legislation.

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

The funding of the operating expenditure budgets and operating programmes is based upon a number of principles. The application of these principles is outlined in detail in the Revenue and Financing Policy section and outlined briefly here:

- The first is the principle of public good. Public goods are goods or services that provide benefits to the whole community. Benefits to the whole community accrue when individual users cannot be easily identified or cannot be easily excluded from entry. These activities should be funded from general funds.
- Second is the principle of beneficiary/exacerbator pays. This is where an individual or group of individuals directly benefits from the service provided by the Council, or causes the Council to provide a service or incur expenditure. That party then pays for that service.
- The third is where the Council is providing services that are part of national programmes or the Government provides subsidies to the Council to supply certain services, in which case the Council will claim for those Government grants/subsidies.
- Fourth is where the Council provides services to a specific area or group within the regional community but there is no mechanism to directly charge those beneficiaries or exacerbators. The Council will then use targeted rates to match the costs and benefits of those services. Targeted rates may also be set by the Council when it considers the rating valuation system used in setting the targeted rate provides a more acceptable alignment to the expenditure to be funded, in comparison to the general rate, or where the Council considers separate, targeted rating provides greater transparency and accountability to the ratepayer.

The balance of the Council's funding requirements will be funded from general rates and investment revenue, referred to as general funds.

General funding

General rates are reduced by investment returns. The Council receives investment returns from its treasury, equity, forest and land investments. By using these investment returns to reduce rates, the Council is effectively providing these returns back to the regional community. The Council considers the retention and growth of the investment is important, as investment revenue is allocated to general funds and will be available to reduce the rating burden on ratepayers in Northland, both today and in the generations to come.

Many of the services provided by the Council are used, or are available to be used, equally by all members of the regional community. Those services which relate to democracy and corporate, regional information and engagement and environmental and resource management planning, and other activities which tend to have little or no correlation with property ownership, are funded from the targeted council services rate (formerly known as the targeted fixed environmental rate). This rate is a targeted fixed rate differentiated by location and based on the capital value, determined by the estimate of projected valuation, of the constituent districts of the Northland region.

Those services which have a direct impact on and are in relation to land, including land and river management planning, biosecurity activities including plant and pest control and emergency management, are funded from a rate set on property land values.

The funding impact statement, included in Volume Two of this Community Plan, provides details of the projected funding sources over the ten year period of this plan.

The region's three District Councils collect regional rates. The rates remission and rates postponement policies for the Northland Regional Council are the same as those adopted by the respective District Councils. These policies are set in the rating policies set out in Volume Two of this Long Term Council Community Plan.

Council reserves

The Council operates a number of reserves. Some of the reserves were established to set aside funds for specific purposes. Where funds are collected for a specific purpose they can only be spent for the purpose for which they were collected.

The Council has previously elected to set aside a share of proceeds from the net forestry income in a forest income equalisation reserve. The reserve was established to smooth the rating burden and to provide funds for general operating activities after the completion of the forest harvest rotation. The forest harvest rotation was projected to be completed in the 2007-2008 financial year, however the final harvest was deferred due to poor projected returns, and is now due to be completed in the 2009-2010 financial year. In view of the current volatility of the economic climate, where the Council considers it financially prudent to do so, it may utilise the funds from the forestry equalisation reserve to supplement falling investment revenue so as to reduce rate increases during these difficult financial times.

The Council has established a Hātea Channel Dredging Reserve. A rate will be levied over the Whāngārei District to set aside funds so that in the event further dredging is required, funding is immediately available. The funds may be applied to the following: ongoing maintenance dredging; disposal of dredged spoil material; and the provision of an annual hydrographic survey of the river. The Council considers the reserve should be retained at approximately \$200,000 over the long term.

The Council also operates a reserve titled the Land Management Reserve. This reserve consists of surpluses relating to the targeted land management rate. This reserve may be used to fund operating deficits in activity areas that are funded from the targeted land management rate. The reserve may also be used to fund land-based, emergency works including matching Government and other third party contributions to provide financial assistance for emergency and repair work for significant events. To ensure funds are available in times of emergency, the Council considers a reasonable level of reserves of \$1.5 million should be retained over the long term, however this will fluctuate over the short term.

Financial Strategy

Investment assets

In recognition of the importance of the public's investment assets and the importance of ensuring investment assets are retained for the benefit of future generations, the Council established an investment fund reserve to set aside funds received from the sale of investment assets and capital dividend distributions. This will ensure these funds are available for further reinvestment. In terms of assets and investments, the Council's strategy is to maintain, in real terms, the value of the Council's assets and investments.

Regional Event Centre grant

In 2005-2006, the Council agreed to contribute a grant towards the establishment of the Regional Events Centre. The grant is to be funded by way of borrowing internally and repaying the internal loan over an approximate 15 year period. The Council has introduced a targeted rate on all ratepayers (the Targeted Regional Recreational Facilities Rate) to fund the repayment of this internal loan. The Council will incur a deficit in the year the grant is paid and will incur a surplus of revenue over expenditure until such time as the internal loan is repaid and the Targeted Regional Recreational Facilities Rate is no longer in place. Rates collected for the Regional Events Centre project to date have been set in a specific reserve and will be released to the loan repayment on disbursement of the grant.

Use of public debt

The Council may use public debt or internal borrowing to construct infrastructure assets or to finance investment where the benefits of the expenditure spread over a number of years. The use of public debt or internal borrowing matches the costs of the expenditure with the benefits. At this stage the Council does not have, nor does it plan to have, any public debt. The utilisation of public debt will be in accordance with Council's Treasury Management Policy. This policy is contained within Volume Two of this 2009-2019 Long Term Council Community Plan. All significant assets will be developed and managed in accordance with their asset management plans.