

HOW THE MONEY WORKS

COUNCIL FINANCES AND HOW THEY WORK





Nelson City Council is constantly planning and working to meet the needs of the community, now and in the future. Council must then work out how to fund that plan from available income each year.

The financial aspect of planning can sometimes seem confusing to anyone without a background in the area. This brochure aims to make this clearer so it is easier for everyone to play an active role in the planning process.

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THE THREE YEAR PLANNING CYCLE

One of the regulations for all Councils in New Zealand is that they must have a 10 year plan of what they are going to do and how they expect to pay for it. This document is called a Long Term Council Community Plan (LTCCP). However, community expectations and Government policies change and therefore the LTCCP gets updated regularly to keep pace with the needs of the community.

The LTCCP is actually updated every three years after Council has talked with the community to find out what the priorities are. But because things can change and unexpected expenses or projects may come up Council also reviews the LTCCP each year with the Annual Plan.

While the Annual Plan can cover some new ground, it often doesn't differ much from the goals outlined in the LTCCP.

YOU ARE HERE!



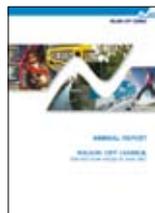
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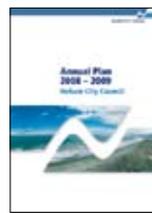
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**07-08
Annual Plan**



**08-09
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**09-19
LTCCP**



THE CONSULTATION PROCESS

Both the LTCCP and the Annual Plan offer opportunities for the community to become involved. Here's how it works:

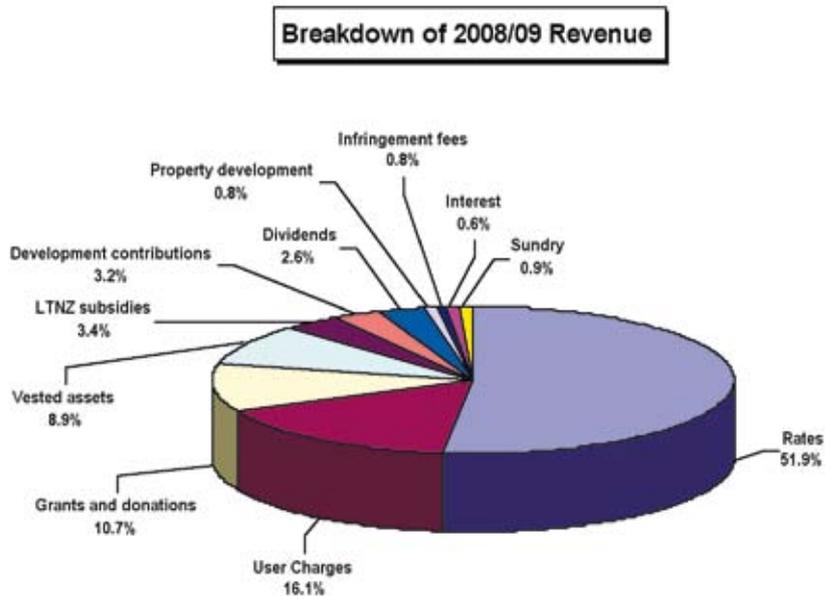
- Step 1 After plenty of research and talks with groups in the community, Council staff prepare a draft plan.
- Step 2 Councillors review and discuss the draft plan, making changes as required based on their understanding of the community needs.
- Step 3 The draft plan is released for everyone to consider and offer their feedback on. This feedback can take various forms but is most often written.
- Step 4 Councillors are presented with all the feedback from the community to consider. They hold public hearings so that anyone who wants to has a chance to speak to Council in person.
- Step 5 Council considers all the feedback, written and verbal and adjusts the plan as required before adopting the finished version and putting it in to action.

Both the LTCCP and the Annual Plan process are the most effective and regular ways for the community to give feedback to Council on the overall direction they are taking, so it is very important that people take part.

At the end of each year, a report is done that compares the actual results achieved to the Annual Plan. This is called the Annual Report and is one indicator of whether Council is meeting its goals.

WHERE THE MONEY COMES FROM

Nelson City Council is budgeting for an annual income of \$87 million in the 2008/09 financial year with \$46 million of this generated from rates.



LEVELS OF SERVICE

All the tasks Council performs are broken down into “activities”. Council is constantly assessing the levels of service delivered in each of the activity areas in terms of quality, quantity, reliability, timelines, cost or responsiveness. When it comes to levels of service, Council works hard to balance community needs and expectations with the cost of providing it.

Levels of service are extensively reviewed every three years as part of the LTCCP process but they are also assessed on an ongoing basis and can be adjusted as part of the Annual Plan process.

This review is very important. It helps Council to assess how it is performing, whether it is meeting the needs of the community and whether it is providing services that are value for money. The levels of service reviews are primarily driven by the community through verbal feedback and resident surveys. These surveys provide Council with an idea of what the community’s values and concerns are. They are the basis for setting targets for the future for levels of service and identifying any gaps in the services provided.

The tricky thing with levels of service is that not everyone in the community will agree on everything. While many will agree that high quality drinking water and an efficiently sewerage system are vital, there are many of levels of service which are much more subjective.

If Resident A spends 15 minutes a day stuck in traffic they are likely to place better traffic management or more roads as a top priority even if it costs several million dollars. If Resident B walks to work each day, they are likely to want more footpaths and over bridges, also at a significant cost.

At the same time both Residents A and B are keen to keep their rates at an affordable level. This means that Council has to set its priorities for levels of service on what it feels is best for the majority of people in the community, while understanding that any decision will not please everyone but it will have a financial impact.

CAPITAL EXPENDITURE

Capital expenditure is the money Council spends on major projects and upgrades or buying major assets. Some examples of capital expenditure projects in Nelson include the Tantragee Water Treatment Plant, the Nelson North Wastewater Treatment Plant, the Normanby Bridge replacement and the Trafalgar Park grandstands.

[How do we pay for these?](#)

Council uses money from its depreciation fund (see below) and borrows the rest of the money it needs to meet the cost of these projects. In order to spread the cost of several generations of users, Council has a policy of repaying all capital expenditure loans over a 40 year period.





OPERATING COSTS

Operating costs are the day to day running expenses of the city. These include maintenance of assets, staff costs, depreciation (see below) and interest costs.

How do we pay for these?

Council is legally obliged to either break even or run at a surplus each year. Therefore, the total operating costs must be met entirely by the income generated by rates and other sources (as indicated in the graph above). Because of this, it is the operating costs that have the most significant effect on rates.

CAPITAL EXPENDITURE VS OPERATING COSTS – THE EFFECT ON RATES

Because Council mainly borrows what it needs to finance big capital expenditure projects, the effect on rates is very spread out. But a significant rise in operating costs needs to be met from income within the same year (except under some very special circumstances). For example:

A \$1million increase in operating costs = \$1 million of rates increases or from user charges.

A \$1 million capital expenditure project = \$40,000 of rates increases in the first year to meet the costs of half a years interest, rising to \$105,000 in the second year for a full years interest as well as loan repayments.

DEPRECIATION

Depreciation and its cousin “Loss of Service Potential” are ways of accounting for the fact that over time our assets are worth less through wearing out, being used up or simply becoming obsolete. Any Council asset, from water pipes to a sewerage pumping station, will need to be upgraded or replaced altogether at the end of its life. Depreciation is used to help meet the cost of this.

Depreciation is usually worked out on the replacement value of an asset and how long it is expected to last. For example, if you have a storm water culvert that you expect to last 50 years, and will cost \$100,000 to replace, the depreciation on it each year would be \$2000 (one fiftieth of the replacement cost).

Of course, in real life inflation must be taken into account as well, so this is factored in and every three years the amount of depreciation is adjusted accordingly.

Depreciation has an effect on rates because Council has to meet this cost from its income as it can't borrow to cover depreciation costs.

A benefit of depreciation is that it ensures the cost of assets is spread over a number of years so more than one generation of rate payers help meet the cost. For example, ratepayers contribute to the cost of the Water Treatment Plant while using it, not just when it is built. This prevents one generation of ratepayers bearing a huge one-off cost while the next generation of ratepayers get a free ride.





The money set aside in Council finances for depreciation isn't just put in a bank account for 40 years to wait for a particular asset to be replaced. Instead, the depreciation fund is used to help finance new capital expenditure projects thereby reducing the amount Council has to borrow, which makes more economic sense. This is common practice for Councils in New Zealand.

Otherwise, it would be like having money in a savings account that pays you 8% interest while at the same time paying off your mortgage, which is costing you 9% interest each year. The best plan, financially speaking, is to use your savings to reduce your mortgage. Council does the equivalent of this with its depreciation fund.

WE'RE STARTING SMALL

Various independent surveys have shown that the rates in Nelson City are within the lowest 25% in New Zealand. That means in 75% of New Zealand towns rate payers are paying more per person than we are here.

This is great news for the locals. We are living in a beautiful place and Council is aiming to meet the needs of the community while keeping it affordable. However, because we're starting from lower

amounts, when we work out rates increases as a percentage, they might sound higher than they do in other places but may well work out to be far lower in actual dollar terms. For example:

If you are paying \$1,000 in rates and that is increasing by \$100, that is a 10% rates increase.

By comparison, if you live in a higher rated area where you are paying \$2,000, the same \$100 increase works out as just a 5% rates increase. Therefore, you are still better off in Nelson paying \$1,100 rather than paying \$2,100 elsewhere even if the increase as a percentage sounds much higher.

GET INVOLVED

Hopefully you now understand some of Council's financial processes a little better. Council encourages all residents to get involved in the LTCCP and Annual Plan processes and this information is aimed at making some aspects of those processes easier to understand. If you would like more information or need clarification on any point, please call Nelson City Council on 546 0200.





NELSON CITY COUNCIL

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