

20. Funding and Financial Policies

Introduction

The section 102 funding and financial policies underpin the right debate. The following must be included in the LTCCP:

- revenue and financing policy
- liability management policy
- investment policy
- policy on partnerships between the local authority and the private sector
- policy on remission and postponement of rates on Maori freehold land, and
- policy on development contributions or financial contributions.

Policies on rates remission and postponement on general land are optional and need only be included in the LTCCP if your council decides it wants to remit or postpone rates.

Why are the funding and financial policies so important?

Most of the funding and financial policies explain how and why the local authority has arrived at the choice of funding tools described in the forecast financial statements. Non-compliant or badly designed policies place these funding decisions at risk.

How do funding and financial policies relate to the legislation?

Section 102 provides that these policies must be adopted via the special consultative procedure (which can be the same procedure as adopting an LTCCP). Once adopted, these policies can only be amended via the LTCCP amendment process (including an audit opinion). Some balancing may be needed between providing sufficient detail to meet requirements, and providing a level of detail that requires frequent amendment. Specific content requirements for each of the policies are set out in sections 103-110. Schedule 10, clause 6 requires that all current funding and financial policies must be included in the LTCCP, in full (no summaries).

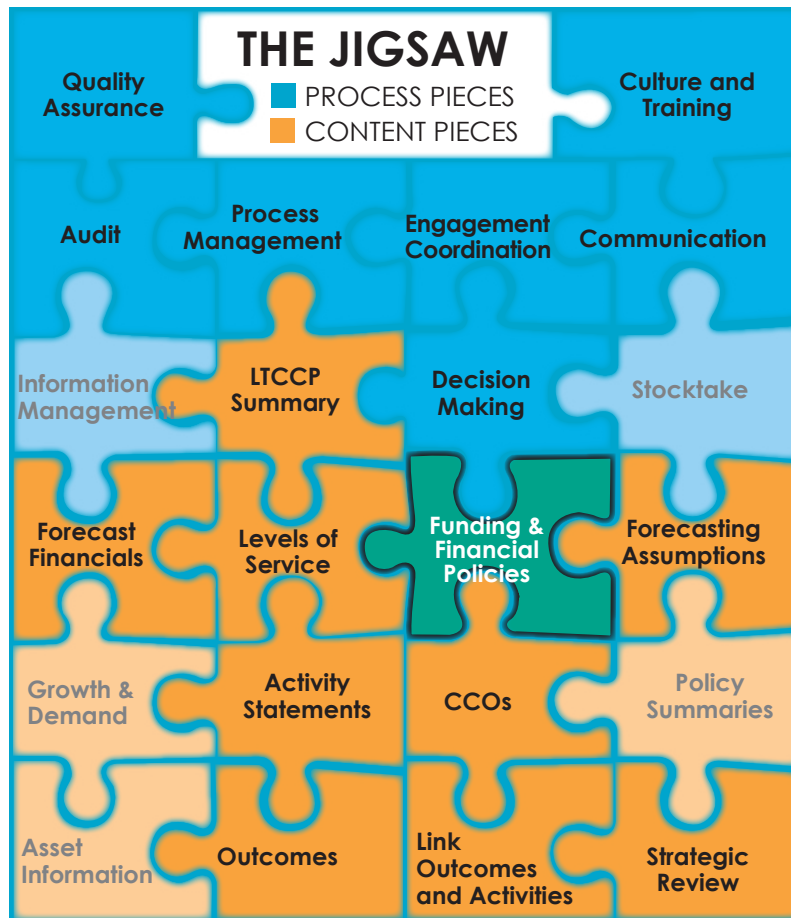
Who should be involved in preparing funding and financial policies?

Finance people should prepare the funding and financial policies working closely with activity/asset managers with regard to the application of section 101(3) matters. Financial staff should also be responsible for checking that the financials are consistent with the policies. It may be advisable to have communications staff review the format and presentation of policies to ensure that they are understandable and consistent.

Where should funding and financial policies appear in the LTCCP?

These documents are bulky and could therefore be either placed in a separate document (there are risks that this volume could be separated from others and the 'value' aspect lost) or placed at the rear of a single volume document.

What other processes are linked with the funding and financial policies?



What were the weaknesses apparent with funding and financial policies in 2006?

Some local authorities did not include the full range of policies (the usual ones that were missing were the policy for remission and postponement of rates on Maori freehold land and/or the policy on development contributions or financial contributions).

Linkages between the revenue and financing policy and disclosure under schedule 10 were incomplete or missing. This was especially true with regards to capital expenditure and with the provision of a rationale for the selection of funding sources.

Demonstration of linkages between section 101(3) and the revenue and financing policy were sometimes done at a global level or sometimes took the form of a statement to the effect that the council 'had considered the requirements of section 101(3)'.

Some investment and/or liability management policies contained very detailed descriptions of management procedures – obscuring other key information and opening up a range of 'back office' operations to public consultation.

There was evidence that some local authorities had not checked their compliance with their policies in the final stages of preparing the statement of proposal. For example, some had financials that breached debt limits they had set in the liability management policy.

What good practice information is available?

Local Government New Zealand et al (2003), *The Local Government Knowhow Guide to Decision-Making* (especially Chapter 8: Financial Management).

Office of Auditor-General, (2007), *Matters Arising from the 2006-16 Long-Term Council Community Plans*.

SOLGM, (2007), *The 2009 and Beyond Guide to Financial Management Under the LTCCP* (to be released in November).