

Balancing of the Operating Budget

Legislative Context

In accordance with Section 100(1) of the Local Government Act (LGA) 2002, Council *must ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses.*

However, Section 100(2) of the LGA allows Council to resolve that it is financially prudent to set projected operating revenues at levels less than what would be required to meet projected operating costs, having regard to the following:

- (a) The estimated expenses of achieving and maintaining the predicted levels of service provision set out in this LTP, including the estimated expenses of maintaining the service capacity and integrity of assets throughout their useful life;*
- (b) The projected revenue available to fund those expenses;*
- (c) The equitable allocation of responsibility for funding the provision of and maintenance of assets throughout their useful life; and*
- (d) The funding and financial policies adopted under Section 102 of the LGA.*

Balancing the budget for this LTP period

For the period of this Long Term Plan (LTP), Council will be working towards achieving a surplus by Year 4 (2021/22). Council considers that in the long term, operating revenues should be set at levels to cover all operating costs, as this is a necessary condition for prudent financial management.

However, Council considers (and has resolved) that for the purposes of this LTP, pursuant to section 100(2) of the LGA, it is financially prudent to set projected operating revenues at levels:

- In some cases less than what would be required to meet projected operating costs, where such costs are being met from reserves and where the full funding of depreciation may be phased in without compromising the service capacity or integrity of assets throughout their useful life; and
- In some cases more than what would be required to meet projected operating costs where operating revenues are also required to set aside incomes tagged for special purposes, to meet the costs of capital expenditure, to build up reserves for future loan repayments, and to contribute to asset replacement funds.

The specific circumstances in which projected operating costs have not been funded by operating revenues have been in the first three years using the Balanced Budget benchmark under the Local Government (Financial Reporting and Prudence) Regulations 2014:

- Where it is planned to fund particular operating costs from existing reserves rather than from rates or other revenue; and
- Where it has been decided to phase in the funding of increased levels of depreciation on infrastructural assets.

There is no compromise to the replacement, restoration, or renewal of assets during the whole period of this LTP.

In all cases, the reason for not balancing the operating budget has been to keep projected rate increases within reasonable bounds to ensure that the increases are affordable for our Community.

The implication of Council's decision is that it will fund some renewals of assets using debt instead of rates. This will increase debt and subsequently interest costs on that debt as discussed in the Financial Strategy.