

FINANCIAL SERVICES

REVENUE AND FINANCING POLICY

Date of adoption: xx

Resolution number: xx

Date by which review
must be completed: Not applicable

Relevant legislation: Local Government Act 2002
s76AA

Statutory/Policy: Statutory

Included in the LTP: Yes

Revenue and Finance Policy

INTRODUCTION

The Local Government Act 2002 (“LGA2002”) requires Council to adopt a Revenue and Financing Policy (S102) that must:

- state Council’s policies in respect of funding both operating expenses and capital expenditure from the sources available to it (S103(1)); and
- show that Council has determined its overall funding needs by identifying the most appropriate source(s) of funds to be used for each activity (S101(3)).

In accordance with the Local Government Act 2002 S101(3) Council considers the following when determining which funding source is appropriate for each activity (see Appendix 1):

- The community outcomes to which the activity primarily contributes; and
- The distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; and
- The period in or over which those benefits are expected to occur; and
- The extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity; and
- The costs and benefits, including consequences for transparency.

Council has also considered the principles set out in the preamble to Te Ture Whenua Māori Act 1993 in the development and review of this policy. These principles include recognition that land is tuku iho of special significance to Māori people, the promotion of the retention of Māori land, protection of wahi tapu and facilitating the use and development of the land for the benefit of the owners. Council achieves this primarily through its Rates Remission for Māori Freehold Land Policy, Rates Postponement Policy and Rates Remission Policy.

Council also consider the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental and cultural well-being of the community. This includes consideration of matters such as affordability and predictability of rates.

These considerations will sometimes have conflicting outcomes. When Council applies these principles to identify the appropriate funding for its activities it considers the overall impact on the Community.

PART A

General Principles for revenue and funding management

- Council will manage its finances in a way that promotes the current and future interests of the community
- Consistent with S100(1) LGA2002, Council will aim to generate sufficient operating income each year to cover its operating expenses
- Council will use a mix of revenue sources to cover its operating expenses
- Council will apply the most appropriate mix of revenue sources for each of its different activities
- When determining the level of income required to cover its operating expenses Council will seek to avoid including:
 - grants with no associated operating expenditure; and
 - proceeds from disposal of assets; and
 - reserves; and
 - increases in the fair value of fixed assets (that essentially result from applying Accounting Standards at the end of each financial year); and
 - borrowings.
- Council recognises that unforeseen operating expenses may arise
- Council will seek to attract appropriate sources of external revenue to help reduce the burden on its ratepayers and residents
- Council will ensure its level of operating expenditure is managed appropriately to help constrain the levels of operating revenue required to achieve these general principles
- Council may choose to not fully fund operating expenditure in a particular year if the deficit can be funded from operating surpluses in the preceding year or subsequent years. An operating deficit will only be budgeted when beneficial to avoid significant fluctuations in rates, fees and/or charges. Such operating deficits will typically be funded from cash reserves or borrowings.
- Council will adopt a long term view when applying these general principles.

FUNDING OF OPERATING EXPENDITURE

Council will ordinarily use the following sources of income to finance its operating expenses:

General Rates (including the Uniform Annual General Charge)

Considered appropriate where it is not practicable, equitable or cost effective to identify the individual or group of beneficiaries (or causers of costs) of the service. May be used to apply to a particular service to reduce the level of fees and charges that are required to be raised for that service.

Targeted Rates

Considered appropriate in a range of circumstances including where the service is of benefit to a specific group of ratepayers and where it is practicable and considered equitable.

Levies, fees and charges

Considered appropriate where the users of a service can be identified and charged according to their use of the service and where it is practicable and considered equitable. The level of fees and charges is set to recover the costs (either partially or fully) of providing that service.

Subsidies and Grants

Such funding is often received for a specific purpose and Council has no discretion regarding the use of such income. Generally, these funds reduce the need for Council to raise income through General rates, targeted rates or Levies, fees and charges.

Development Contributions

Considered appropriate to fund costs associated with development.

Borrowing

Considered appropriate to fund new capital projects that deliver benefits over a number of years. Sometimes required to fund operating expenses, typically where Council has an operating deficit.

Petrol Tax

Considered appropriate to help fund costs associated with Roothing and Footpaths Group.

Other (Finance income, sundry)

Considered appropriate to fund costs associated with the provision of the service to which it relates, replacement of assets and/or to decrease levels of required debt.

General Rates and Targeted Rates : Further Information

When setting the General Rates, Targeted Rates and Levies, fees and charges, Council balances a range of considerations including:

- The impact on the current and future social, economic, environmental and cultural well-being of the Community; and
- The most appropriate mix of funding for each of its activities (refer to Part B below)

The General Rate is used to fund activities that are predominantly provided for the benefit for the community as a whole and individual charging for these services is viewed as being impracticable, inequitable and/or not cost effective.

Council uses the Capital Value of properties to set the General Rate. Council may introduce rating differentials where it considers it reasonable and equitable: for example to alleviate the impact of large increases in the Capital Value of any rating category/categories relative to other rating categories. Such increases can arise where a particular rating category incurs a high increase in its capital values relative to other categories.

Council applies a Uniform Annual General Charge (UAGC) as part of the General Rate. The level of UAGC is determined by Council based on what it considers fair, equitable and necessary to provide a fair distribution of rates. Council may adjust the UAGC to alleviate the impact of large increases in any rating category/categories. Such increases can arise where a particular rating category incurs a high increase in its capital values relative to other categories.

Targeted Rates are used to fund operations, maintenance and renewal costs related to the provision of specific activities. Council may also use a Targeted Rate for a service to show clearly the costs of a service, even if the service and rate are district wide.

Targeted Rates that are set in circumstances where the service is available to only parts of the community will be charged on a basis of service provision and will not be based on the value of the property. These rates are in the nature of a proxy for a user charge.

Generally, Council will seek to avoid:

- Large increases in any rating category. Such increases can often arise where a particular rating category incurs a high increase in its capital values relative to other categories; and
- Large 'across the board' annual rate increases. Council will aim to apply a pattern of steady, constant rate increase as opposed to a series of alternating high increases and minor increases.

Council may identify instances where some land uses receive more benefit from, or place more demands on, council services and/or may have a differing ability to pay rates. In such situations, where considered equitable, practicable and/or where this contributes to the predictability of rates, Council may elect to use rating differentials.

FUNDING OF CAPITAL EXPENDITURE

General

Revenue that is collected to cover Council's depreciation charge (which forms part of Council's operating expenditure) is used to finance the replacement of capital assets.

In addition to the sources of income for operating expenditure listed above Council may use the following to fund capital expenses:

- Borrowings
- Reserves
- Proceeds from the disposal of assets

Borrowings

Council borrowings are managed as per Council's Liability Management Policy that forms part of Council's Treasury Management Policy.

Borrowings are generally used to fund capital projects that include an element of service enhancement.

Borrowing for capital expenditure enables the Council to ensure there is intergenerational equity in terms of who funds capital expenditure – the repayments are spread over the reasonably expected average life of the asset where practicable. This means today's ratepayers are not asked to fund tomorrow's assets.

PART B.

Summary of Funding Used in Activities

Council has determined the most appropriate source(s) of funds from each of the sources listed in Part A to be used for each activity and the method of apportioning rates and other charges. The following table shows which mechanisms may be used to fund expenditure for Council's activities by group.


























Where the overall level of fees and charges falls below budget alternative income sources may be required to fund that service. Conversely, where the overall level of fees and charges falls exceeds budget Council may have additional revenue to ease the financial pressure in other areas.





























Council will seek to mitigate the costs to ratepayers for each of these activities by obtaining income from external sources (e.g grants) where suitable opportunities arise.

Typically, the capital cost of expanding the range of these services may be met from grants, subsidies, donations and/or borrowings.

The timing and quantum of these grants (especially for Roding) is variable and could result in differences in the following analysis.

Several opportunities for future funding are expected to arise during the period covered by this policy. As the nature and quantum of such opportunities is unknown they have not been included on the following analysis.


Activity	General Rate	Targeted Rate	User fees/ charges	Subsidies and grants	Petrol Tax	Other
Community Leadership						
Council and Community Boards						
Roading						
Roading						
Water Supply						
Urban water						
Rural Water Schemes						
Sewerage and the treatment and disposal of sewage						
Wastewater						
Stormwater						
Stormwater						
Community and leisure						
Libraries						
Halls						
Swim Centres						
Community Housing						
Domains						
Real Estate						
Public Toilets						

Activity	General Rate	Targeted Rate	User fees/ charges	Subsidies and grants	Petrol Tax	Other
Cemeteries						
Forestry						
Rubbish and recycling						
Solid waste						
Environmental and Regulatory Services						
District Planning						
Resource Consents						
Building Services						
Dog Control						
Public Health						
Community Well-being						
Civil Defence						
District Promotions						
Information Centres						
Community Awards	  *					

* Relative size depends upon quantum of Subsidies/Grants available

 **Primary:** >40% of the overall source of funding

 **Secondary:** >5% but less than 40% of the overall source of funding for the activity

 **Minor:** <5% of the overall source of funding for the activity

APPENDIX 1 – FUNDING SOURCE ANALYSIS

Activity	Community Outcomes	Distribution of Benefit	Period of Benefit	Activity Need Driven by Defined Group	Need for Distinct Funding	Comments
Council	Social, Economic, Environmental, Cultural	General	Current and Ongoing	Low	Low	All ratepayers receive the same level of benefit. General Rate as primary funding deemed appropriate
Community Boards	Social, Economic, Environmental, Cultural	Specific	Current and Ongoing	High	High	Benefit is only received by, a section of the ratepayers. Targeted Rate as primary funding deemed appropriate
Roading	Social, Economic, Environmental	General	Current and Ongoing	Partial	Medium	All ratepayers have access to same roading/footpath network for a range of needs. Targeted Rates for Forestry sector and Subsidised Roothing deemed appropriate. Grant funding for Subsidised Roothing is significant.
Urban Water	Social	General	Current and Ongoing	Low	Medium	Water Connections: All ratepayers receive the same level of benefit - deemed appropriate to charge as a fixed rate. Water Usage charged on a usage basis – both via a Targeted Rate
Rural Water Schemes	Social	Specific	Current and Ongoing	High	High	Benefit is only received by, a section of the ratepayers. Targeted Rate as primary funding deemed appropriate
Wastewater	Social, Environmental	General	Current and Ongoing	Low	Medium	Wastewater Connections: All ratepayers receive the same level of benefit - deemed appropriate to charge as a fixed rate. Wastewater Usage charged on a usage basis – both via a Targeted Rate
Stormwater	Social, Environmental	Mixed	Current and Ongoing	Mixed	Medium	Stormwater management (general): All ratepayers receive the same level of benefit - deemed appropriate to charge as a fixed rate Stormwater management - Urban specific activity: charged on a location basis. Both via a Targeted Rate
Libraries	Social	General	Current	Low	Low	All ratepayers receive the same level of benefit. General Rate as primary funding deemed appropriate (with grant opportunities identified and pursued as applicable)

Activity	Community Outcomes	Distribution of Benefit	Period of Benefit	Activity Need Driven by Defined Group	Need for Distinct Funding	Comments
Halls	Social	General	Current	Low	Low	All ratepayers receive the same level of benefit. General Rate as primary funding deemed appropriate (with grant opportunities identified and pursued as applicable)
Swim Centres	Social	General	Current	Medium	Low	Provision of activity is externally administered. User pays fees to Administrator; Administrator pays (small) rent to Council. Activity primarily funded by General Rate as all ratepayers have access to the facilities.
Community Housing	Social	Specific	Current	High	High	Funded by user pays (rent).
Domains	Social, Environmental	General	Current	Low	Low	All ratepayers receive the same level of benefit. General Rate as primary funding deemed appropriate (with grant opportunities identified and pursued as applicable)
Real Estate	Environmental, Economic	Mixed	Current, Ongoing	Mixed	Medium	Mix of General Rate and User Fees (rents) as primary funding sources deemed appropriate.
Public Toilets	Social, Environmental	General	Current and Ongoing	Low	Low	All ratepayers receive the same level of benefit. General Rate as primary funding deemed appropriate (with grant opportunities identified and pursued as applicable)
Cemeteries	Social, Environmental	General	Current and Ongoing	High	Low	Primarily funded by user pays (fees).
Forestry	Environmental, Economic	General	Ongoing	Low	Low	General Rate as primary funding deemed appropriate as no 'ratepayer sector' benefits more than others.
Solid Waste	Environmental	Mixed	Current, Ongoing	Mixed	Mixed	To the extent a service is available to all ratepayers, each ratepayer is charged the same (via targeted rate). To the extent a ratepayer elects to use a service (eg waste transfer station) – a fee is deemed appropriate.
District Planning	Social, Economic, Environmental	General	Current and Ongoing	Low	Low	All ratepayers receive the same level of benefit. General Rate as primary funding deemed appropriate.
Resource Consents	Social	Specific	Current and Ongoing	High	High	Primary beneficiary is the applicant. User pays as the primary source of funding is deemed appropriate.
Building Consents	Social	Specific	Current and Ongoing	High	High	Primary beneficiary is the applicant. User pays as the primary source of funding is deemed appropriate.

Activity	Community Outcomes	Distribution of Benefit	Period of Benefit	Activity Need Driven by Defined Group	Need for Distinct Funding	Comments
Dog Control	Social, Economic	Specific	Current	High	Mixed	<p>Service is provided to a neighbouring Council for monthly charge.</p> <p>Some functions are provided in response to ratepayer application (dog registration) – user fees deemed appropriate.</p> <p>Other costs are met from general rate as all ratepayers benefit the same.</p>
Public Health	Social, Economic	Specific	Current	High	High	Primary beneficiary is the applicant. User pays as the primary source of funding is deemed appropriate.
Civil Defence	Social, Economic, Environmental	General	Current and Ongoing	Low	Low	All ratepayers receive the same level of benefit. General Rate as primary funding deemed appropriate
District Promotions	Social, Economic	General	Current	Low	Low	All ratepayers receive the same level of benefit. General Rate as primary funding deemed appropriate
Information Centres	Social, Economic	General	Current	Low	Low	All ratepayers receive the same level of benefit. General Rate as primary funding deemed appropriate
Community Awards	Social, Environmental, Cultural	General	Current	Low	Low	Grants are pursued wherever practical. The beneficiaries of the associated grant expenditure depends on the nature of each specific grant. Minor allocation of General Rate enables these grants to be pursued/actioned.