REVENUE AND FINANCING POLICY

Extracted from the 2018/2028 Long Term Plan

Date of adoption by Council	
Resolution Number	
Date by which review must be completed	
Relevant Legislation	Section 102(4) of the Local Government Act 2002
Statutory or Operational Policy	Statutory
Included in the LTP	Yes

Introduction

Section 102(4) of the Local Government Act 2002 requires the Council to adopt a Revenue and Financing Policy, and clause 10 of Schedule 10 of that Act requires this adopted policy to be included in Council's Long-Term Plan.

The purpose of the revenue and financing policy is twofold.

- to state the Council's policies in respect of funding both operating expenses and capital expenditure from the sources available to it;
- to show how the Council has complied with the requirements (of section 101(3) of the Act) to give consideration to six specific issues in developing the policy.

Part A sets out the policy principles and considerations; Part B shows how these have been applied to Council's nine groups of activities.

Part A: Principles

1 Process

In developing its revenue and financing policy, Council is required to consider – in relation to each activity to be funded – the following five matters:

- 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;

- The period in or over which those benefits are expected to occur;
- 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 and accountability, of funding the activity distinctly from other activities; and

The Council is also required to consider the overall impact of any allocation of liability for revenue needs on the well-being of the community.

Council developed a series of worksheets to analyse these matters for each activity as part of the preparation for the 2018-28 Long-Term Plan. All of these were reviewed in detail in workshop. In most cases, these discussions retained the funding mechanisms and the rationale for them as adopted for the 2015-25 Long Term Plan. This is the foundation for the detail in Part B of the policy.

While the scope of Council's activities has changed very little over the past decade, there has been a shift away from targeting rates to particular communities in favour of a district-wide approach. This was implemented as part of the 2012/22 Long-Term Plan. Council believes that taking a District-wide approach to rating across all activities is the fairest mechanism. "District-wide" means that an urban property valued at (say) $200,000 in Taihape, Marton or Bulls will pay the same rates for the same services. Such properties will pay different rates than a property in the rural area valued at $200,000, because the services provided are different. The different rates for water and wastewater between town and rural properties are an example of this. This, coupled with a stronger focus on groups of activities, meant Council decided – as far as practicable – to aggregate its approach to defining funding sources on a whole-of-group approach.[1] Council has continued this district-wide approach in reviewing this policy for the 2018-28 Long-Term Plan.

2 Valuation System

Council uses a Capital Value system to apportion rates.

The General Rate (other than the Uniform Annual General Charge) and the Roading Rate are set using capital value as a base except for Defence land.

Capital value based rating is seen as the best mechanism for the following reasons:

- Capital values recognise the economic activity to which the rating unit is put. Setting rates on capital value ensures that those rating units using Council services pay their share:

    - Shops in the CBD, motels and multi-unit housing for instance, have a high capital value in relation to land value, but also use Council's infrastructure (especially roading) to a greater degree than a residential property that has the equivalent land value.

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[1] The only Community Services rate (a rate levied on a particular community) remaining funds the two Community Boards (in Taihape and Ratana).

- Capital improvements (such as building a new house or undertaking a conversion to dairying) typically lead to increased use of Council's infrastructure and services.

- In areas of growth, capital value increases generated by the growth can absorb much of the rate increase associated with the increased use of infrastructure caused by the growth. Land values are less likely to achieve this.
- Capital values are a known figure. Capital values are generated from sales of assets while land values (especially in urban areas) are calculated from small quantities of vacant land sales and are therefore less reliable.
- Capital values are less volatile than land sales. If Council used land value based rates, the incidence of rates changing due to valuation effects alone would have been far more significant than under capital value.

3 Sources of Funding

Council funds operating expenditure from the following sources:

General rates	Used when there is a general benefit for the District as a whole. The General Rate, based on capital value (except for Defence land which is based on land value[2]), is typically used when there is a high public benefit in the services provided, when Council considers the community as a whole should meet the costs of the service, and when Council is unable to achieve its user-charge targets and must fund expenditure. Examples are the District Plan and Economic development. The general rate is not set on a differential basis.
Uniform Annual General Charge	Used where a benefit from a Council service is received equally.[3] Examples are the cost of undertaking the planning and reporting required by legislation and remuneration to Elected Members. The fixed Uniform Annual General Charge is a fixed amount per 'separately used or inhabited part' of a rating unit.
Targeted rates	Used to 'target' specific activities so that their cost is evident to the community. The ways of setting targeted rates are set out in section 16 of the Local Government (Rating) Act 2002. This includes setting the rate as a fixed charge on every rating unit or each separately used or inhabited part of every rating unit in the district (or specified part of the district) when Council believes that the benefit is received equally. This is the case for solid waste. Another approach is for targeted rates to be set based on

[2] Section 22(2), Local Government (Rating) Act 2002 requires this.

[3] Section 21 of the Local Government (Rating) Act 2002 limits the UAGC together with any other rate set as a uniform fixed amount per rating unit or separately used or inhabited part of every rating unit (other than water and wastewater rates) to a maximum of 30% of Council's total income from all rating mechanisms.

	capital value when Council believes that there is variable benefit. This is the case for roading.
Fees and charges	Used when Council considers that the high level of benefit received by specific individuals justifies seeking user charges (which cover all or part of the service provided), that such individuals (or groups) can be identified, and that it is economic to collect the charges. Examples are the provision of building and resource consents and disposal of waste at the waste transfer stations.[4] Council recognises that fees may deter what the community would perceive as desirable activities, such as registering dogs or registering food handling premises; however, the benefit from such activities is shared between the community as a whole and the person undertaking the registration.
Interest and dividends from investments	Applied to the benefit of the whole Council – proceeds are used to offset the general rate requirement, except where the interest is credited to a special fund or reserve fund.
Borrowing (both external and internal)	May be internal or external – the cost to be borne by the activity requiring the loan.
Proceeds from asset sales	Used to fund renewals expenditure within the sold asset's activity. However, forestry asset sales are treated as investment proceeds (used to offset future forestry expenditure, and then the General Rates). However, proceeds from forestry on reserves must be applied to reserves (but not necessarily to future forestry on them).
Donations, grants and subsidies towards operating expenses	Received mainly from central government and typically related to specific activities. Examples are roading and community development projects. The John Beresford Dudding Trust typically makes an annual grant to the district libraries.
Other operating revenue	Recognises that Council may apply other sources of funds on a case-by-case basis, taking the most equitable course.

Council may choose not to fund in full operating expenditure in any particular year for a particular activity, if the deficit can be funded from actual operating surpluses in the immediately-preceding year or projected in subsequent years within that activity.

Council may also choose to fund from the above sources more than is necessary to meet the operating expenditure in any particular year, having regard for an actual operating deficit in the immediately-preceding year or projected in subsequent years or to repay debt. Council

[4] In some instances, fees (and the amount) are prescribed by legislation. An example is manager's certificates issued under the Sale and Supply of Alcohol Act 20112.

will have regard to forecast future debt levels when ascertaining whether it is prudent to budget for an operating surplus for debt repayment.

Council has determined the proportion of operating expenditure to be funded from each of the sources listed above and the method of apportioning rates and other charges. This is contained in Part B.

Council funds its capital expenditure (procurement and/or building of assets and infrastructure) from the following sources:

Rates	Rates are not normally used to fund capital expenditure directly other than for roading. Rates are used to fund interest on loans taken for capital projects and also to create depreciation reserves to fund future renewals of existing assets or infrastructure. The rationale is that current ratepayers/users of the assets should pay for the replacement of the asset that they are using. This is the intergenerational equity concept. Future generations should not have the added burden of the cost of replacing an asset that they have not used. Future generations may not be able to afford the replacement in any case this means that in the case of roading, where the lifecycle of the assets in many cases is far shorter than other assets such as water supply schemes, the depreciation alone is insufficient to cover the current renewal costs. However, when NZTA funding is taken into account, the funding is normally sufficient. Where it is not, the Roading rate is used to fund these shortfalls. The depreciation calculation is used as a proxy to calculate the funding needed for depreciation reserves. Revaluing assets so that the calculation is as accurate as possible is done every three years (or less if appropriate) to minimise the costs associated with obtaining the revaluations. This mechanism also lessens the risk of large rate increases in the year subsequent of a valuation update.
Depreciation reserves	Depreciation reserves that have been funded in previous years from rates (or other funding) are used only to fund replacements and renewals of operational assets and infrastructural assets. They are also used to repay the capital on borrowing. This fits with the concept of intergenerational equity. In the situation where a depreciation reserve would go into deficit, then this should be recovered from rates or borrowing, as should capital renewals, until the depreciation reserve is no longer in deficit. Where depreciation reserves are sufficient, loans may be repaid earlier.

Roading reserves	The roading reserve is established to provide funding for emergency works as a result of bad weather or other natural disasters.
Community and leisure assets reserves	Previously, instead of funding the full calculated depreciation requirement on specific leisure facilities, depreciation was set at 100% for libraries[5], 50% for parks, halls and public toilets, and 0% for swimming pools, community housing and the rural water supply schemes. Additionally Council has agreed to a $75,000 per annum swimming pool reserve[6]. From 2018/19, Council will progressively increase depreciation for swimming pools, community housing and the rural water schemes to 95% (by 2028/29). The annual contribution to the swimming pool reserve will cease.
Subsidies and grants	Subsidies and grants are primarily received from the government for various central government initiatives, or to fund specific activities such as roading renewals and developments, water and/or wastewater developments. Roading subsidies for renewals only cover the subsidised portion of the current renewals. The government does not fund its portion of the roading renewal programme in advance through depreciation funding as the Council does. Council only funds its "local share" of the depreciation funding. The risk to Council is that the rate of subsidy may decrease or cease to exist when the asset is renewed. This is seen as a low risk for roading as the lifecycle of the assets is lower (20 years or less). As these subsidies and/or grants relate to specific activities, the subsidy or grant is treated as an income stream of the activity to which they relate even though the funds so derived are used to replace or create (primarily) infrastructural assets. As such funding streams are classified as income but the funds are used to fund capital, an operational surplus is automatically created in the surplus or deficit as the expenditure is recognised in the "balance sheet" surplus or deficit. This phenomenon is peculiar to central and local government and causes confusion to those who view such "surpluses" as "profit" and subsequently think that councils are over-rating them.
Loans	Loans are used to fund development. This fits within the concept of intergenerational equity whereby the future ratepayers or

[5] From 2013/14
[6] From 2013/14

users who benefit from the new asset pay for the loan interest charges and loan repayments. Depreciation reserves are used to reduce the amount of the loan principal, but (as noted above) interest payments are normally funded by rates. However, when the life of the asset exceeds 30 years, Council may forego depreciation in favour of reducing the loan principal. Council's policy has been to renew borrowing at least every three years and repay the total sum borrowed within 30 years, but this may be modified by the terms available from the Local Government Funding Agency.

In exceptional cases, Council may (by resolution) use a loan to fund operating expenses. The most likely reason for Council to decide on this would be to avoid a spike in rates from a one-off cost.

Part B of the policy shows how new capital expenditure will be funded (noting whether this will vary from the funding mechanism for operational expenditure). It notes where Council will undertake specific consultation before settling the method of funding. Council has confirmed the principle that non-replacement capital expenditure for infrastructure and/or community facilities may be funded from the properties connected to or communities that directly benefit via a capital contribution or a targeted rate on a case by case basis. Council does not currently envisage changes to these funding mechanisms during the term of this Long-Term Plan.

Council recognises that revenue from fees and charges will change from year to year – because of the extent of public participation, the market place, and central government policy and programmes. Thus the funding split between public and private mechanism (where both are involved) may vary between years. Similarly, levels of government grants and subsidies may change, which would necessitate an altered funding split (e.g. rural fire or roading).

Part B: Application of Policy Principles and Considerations

Activity	Funding split public: private	Public mechanism	Private mechanism	Rationale for funding mechanisms	Variation for new capital expenditure	Variation projected after 2020/21
Community Leadership						
Council Strategic planning and reporting Iwi liaison Community Committees,	100:0	General rate	Not applicable	There are benefits to the whole District of having effective strategy and governance	Not applicable	Not envisaged
Elections	100:0 to 95:5	Uniform Annual General Charge	When a contribution is made by the regional council and the district health board for including their candidates on the voting paper.	Benefit is equal to all individuals	Not applicable	Not envisaged
Community Boards	100:0	Targeted Community Services rate set as a fixed charge per rating unit	Not applicable	Benefits shared among all residents within the Board area	Not applicable	Not envisaged

Activity	Funding split public: private	Public mechanism	Private mechanism	Rationale for funding mechanisms	Variation for new capital expenditure	Variation projected after 2020/21
Roading and Footpaths						
Roading (i.e. Pavements, Bridges, Traffic services, Stormwater drainage and Vegetation management)	50:50 to 40:60[7]	Targeted rate (District-wide) based on capital value	Central government grants and subsidies, fuel taxes, fines, infringement fees	District-wide benefit, property-related, but the whole community benefits, in terms of accessibility to and supply of goods and services Government subsidy is a significant contribution. Roading is a significant activity warranting a separately disclosed rate	Not applicable	Not envisaged
Footpaths and street lighting	100:0 to 95:5	Targeted rate (District-wide) based on capital value	Fines and infringement fees	These activities contribute to safer and more attractive towns. The whole community benefits from this.		Not envisaged
Water Supply						
Potable water (town reticulation schemes)	20:80 to 25:75	Targeted rate: 20-25% from all separately used or inhabited parts of every rating unit in the district (whether connected or unconnected),	Targeted rate and user charges. 65-70% consumption charge on each separately used or inhabited part of every rating unit which is connected, except	The provision of potable water is an essential service to residents and businesses in urban areas. A balance is needed between the benefits to those connected to the scheme,	To be determined by Council on a case-by-case basis, following consultation with affected communities	Not envisaged

[7] Excluding extraordinary projects such as replacement of a major bridge.

Activity	Funding split public: private	Public mechanism	Private mechanism	Rationale for funding mechanisms	Variation for new capital expenditure	Variation projected after 2020/21
			Hunterville (metered supply). 5-15% of cost recovered from extraordinary users[8] and bulk supplies	to the wider community who use the facilities and businesses dependent on potable water and who have access to such supplies during shortages or emergencies and affordability.		
Non-potable water (rural supply schemes) Erewhon Omatane Hunterville	0:100 to 5:95	Internal charges (overheads) to be met through the General Rate	User charges by volume (set in consultation with each scheme and recovered as rates)		To be determined by Council on a case-by-case basis, following consultation with affected communities	Not envisaged
Non-potable water (rural supply schemes) Putorino	0:100 to 5:95	Internal charges (overheads) to be met through the General Rate	User charges by capital value (set in consultation with each scheme and recovered as rates)			Not envisaged

[8] Metered for full quantity of water taken, after the first 250 m3, charged on basis of rates set in Council's fees and charges or as separately agreed.

Activity	Funding split public: private	Public mechanism	Private mechanism	Rationale for funding mechanisms	Variation for new capital expenditure	Variation projected after 2020/21
Sewerage and the Treatment and Disposal of Sewage						
Wastewater	20:80 to 25:75	Targeted rate: 20-25% from all separately used or inhabited parts of every rating unit in the district (whether connected or unconnected),	Targeted rate and user charges: 65-70% disposal charge on each separately used or inhabited part of every rating unit which is connected. 5-15% of cost recovered from charges levied under the Trade Waste Bylaw and septage disposal (on basis of rate set in Council's Fees and Charges or as separately agreed)	The district as a whole has a vested interest in ensuring the safe disposal of wastewater to minimise the otherwise harmful effects to the environment of improper disposal. A balance is needed between this district-wide benefit, the benefits of convenience to those connected to the scheme and affordability.	To be determined by Council on a case-by-case basis, following consultation with affected communities	Not envisaged
Stormwater Drainage						
Stormwater	20:80 to 30:70	Targeted rate: 25% from all separately used or inhabited parts of every rating unit in the district (whether urban or rural)	Targeted rate 75% from all rating units	A balance is needed between the benefits to those properties connected to a stormwater scheme, the district-wide benefit through minimisation of damage to the roading network and affordability.	To be determined by Council on a case-by-case basis, following consultation with affected communities	Not envisaged

Activity	Funding split public: private	Public mechanism	Private mechanism	Rationale for funding mechanisms	Variation for new capital expenditure	Variation projected after 2020/21
Community and Leisure Assets						
Libraries	100:0 to 90:10	Uniform Annual General Charge	User pays for value-added services for individuals or groups	District-wide benefit, related to individuals.	To be determined by Council on a case-by-case basis, following consultation with affected communities	Not envisaged
Swimming pools Public toilets Cemeteries Parks Includes litter bins	100:0 to 90:10 100:0 80:20 to 70:30 100:0 to 90:0	20% General rate and 80% Uniform Annual General Charge on all separately used or inhabited part of every rating unit in the district	User pays for value-added services for individuals or groups	District-wide benefit, related mostly to individuals, but some wider benefits.	To be determined by Council on a case-by-case basis, following consultation with affected communities	Not envisaged

Activity	Funding split public: private	Public mechanism	Private mechanism	Rationale for funding mechanisms	Variation for new capital expenditure	Variation projected after 2020/21
Halls Housing Property	100:0 90:0 10:90 to 20:80 30:70 to 50:50	20% General rate and 80% Uniform Annual General Charge on all separately used or inhabited part of every rating unit in the district	User pays for long-term exclusive use of facilities	District-wide benefit in having these services, but some shared benefit.,	To be determined by Council on a case-by-case basis, following consultation with affected communities	Not envisaged
Rubbish and Recycling						
Waste management	30:70 to 40:60	Part of the Solid waste targeted rate set as fixed charge on every separately used or inhabited part of every rating unit in the district	User charges at waste transfer stations	Users of the facilities benefit – but so does every resident in the District as a whole in terms of health and tidiness of the environment	To be determined by Council on a case-by-case basis, following consultation with affected communities	Not envisaged
Waste minimisation	0:100 to 20:80	Part of the Solid waste targeted rate set as fixed charge on every separately used or inhabited part of every rating unit in the district	Grant from waste levy and other government grants	The district as a whole benefits through extended life of landfill assets and increased recycling facilities for farmers (e.g. silage wrapping and fertiliser bags).	To be determined by Council on a case-by-case basis, following consultation with affected communities	Not envisaged

Activity	Funding split public: private	Public mechanism	Private mechanism	Rationale for funding mechanisms	Variation for new capital expenditure	Variation projected after 2020/21
Environmental and Regulatory services						
Animal control	45:55 to 65:35	General rate	User fees	Benefits from this activity shared equally amongst all.	Not applicable	Not envisaged
Building control Planning control Other regulatory functions (including registered and licensed premises control)	50:50 to 30:70 30:70 to 20:8065: 40:60 to 50:50	General rate	User charges, fines and infringement fees	There are benefits to the District at large in having a well-regulated environment, in which buildings are safe, changes to land use do not intrude unduly on the environment, etc. However, there is also an individual benefit for those people participating in such activities. The funding split recognises that there will be circumstances where the exacerbator cannot be traced to pay.	Not applicable	Not envisaged
District Plan	100:0	General rate		Benefits potentially across the whole District primarily related to property.	Not applicable	Not envisaged

Activity	Funding split public: private	Public mechanism	Private mechanism	Rationale for funding mechanisms	Variation for new capital expenditure	Variation projected after 2020/21
Community Well-being						
Information Centres Economic development Community partnerships	95:5 to 85:15	General rate	Government subsidies and User pays for specific services (e.g. travel commissions at information centres)	District-wide benefit, but not equally; impossibly complex to identify specific benefits to individuals, businesses or organisations as this will change.	Not applicable	Not envisaged
Emergency management	100:0 to 90:10	General rate	Government subsidy	The whole community benefits – work on preparedness and responding to actual emergency events occurs regardless of where the event has occurred or who needs assistance. While primarily focussed on safeguarding human life, attention is also paid to safeguarding property.	To be determined by Council on a case-by-case basis, following consultation with affected communities	Not envisaged