Revenue and Financing Policy

Purpose and scope

1. This policy outlines the choices Council has made in deciding the appropriate sources of funding for operating and capital expenditure from those sources listed in the Local Government Act 2002 (LGA). The policy also shows how the Council complied with section 101(3) of the LGA which sets out a number of factors we must consider when making these decisions. A comprehensive analysis of this is included in the Funding Needs Analysis.

2. Deciding the best way to fund activities is complex. Applying the legislation is complex and involves many statutes, regulations and multiple statutory policies. The outcome of balancing all those matters requires judgement having considered many factors including but not limited to:

   - Legal
   - Social
   - Competition
   - Affordability
   - Impact of change
   - Efficiency
   - Equity
   - Cost
   - Intergenerational equity
   - Transparency
   - Accountability
   - Business
   - Strategic Alignment
   - Benefit

Principles

3. The following guiding principles will be applied when considering our use of funding sources:

   a. Everyday costs for services to the district are met from everyday revenues.

   b. Sufficient funds are available to renew assets at the end of their economic life.

   c. Where future ratepayers use services created today, they will pay their share through prudent use of debt.

   d. Financial resilience is retained by having funds, debt capacity and insurance sufficient to fund any unplanned event.

   e. Service levels are clearly defined and delivered in an efficient and effective, customer focussed manner, providing value for money.

   f. Increasing costs are managed to keep rates affordable, fair and equitable with increases set to provide certainty to ratepayers.

   g. Costs may be recovered when there is an identified private benefit and it is efficient to collect.

   h. Revenue sources other than rates will be sought to contribute towards significant projects and expenditure.

   i. A prudent approach is taken to risk and return on investments.

   j. Quality consistent facilities and services to our communities across the district despite that community's ability to pay.

4. Balancing these principles can be challenging at times. Council must use its judgement in assessing many options in the development of budgets or acquisition of assets and the choice of funding sources to enact these.

Policy

Recognition of obligations to Māori

5. The amendment of the Local Government Act 2002 in the Local Government (Rating of Whenua Māori) Amendment Act 2021 requires that the Revenue and Financing Policy must support the principles set out in the Preamble to Te Ture Whenua Māori Act 1993.

6. This policy supports the matters in the Preamble by giving effect to Council's statutory obligations under the Local Government Act 2002 and the Local Government (Rating) Act 2022 including the matters in the rates remissions policies, LGA Schedule 11 and LGRA Schedule 1.

Funding sources for operating costs

7. Operating costs are the everyday spending on the services Council provides. This includes contributions to the wear and tear on assets used (depreciation), interest charged on borrowing for capital projects and overheads.

8. The funding of each activity must be considered individually. Some activities may be best funded by user charges, such as building consents, others with targeted rates, such as water, and others from the general rate, such as roading.

9. The funding sources used for operating costs are described in the following sections.

User Charges

10. User charges are applied to services where it is identified there is a benefit to an individual or group, or directly attributable cost. User charges are a broad group of fees charged directly to an individual or entity including but not limited to:

- Service charges
- Hire
- Rent, lease, licences for land and buildings
- Permits
- Regulatory charges
- Fines and penalties
- Connection fees
- Disposal fees
- Deposits
- Private works
- Planning and consent fees
- Statutory charges
- Retail sales
- Ramp fees

11. The price of the service is based on a number of factors, including but not limited to:

a. The cost of providing the service.
b. The estimate of the users' private benefit from using the service.
c. The impact of cost to encourage/discourage behaviours.
d. The impact of cost on demand for the service.
e. Market pricing, including comparability with other councils.
f. The impact of rates subsidies if competing with local businesses.
g. Cost and efficiency of collection mechanisms.
h. The impact of affordability on users.
i. Statutory limits.

j. Other matters as determined by the Council.

12. The ability to charge user charges is limited by various statutes and regulations. As a general rule, fees for statutory functions should be set at no more than the cost of providing the service. In some cases, legislation sets the fees at a level that is below cost and in other cases, where provided by legislation (such as the Waste Minimisation Act 2008) fees may be set at greater than the cost of providing the service. It is appropriate to incorporate overhead costs when determining the cost of providing a service.

13. Where goods or services are sold commercially, and taking into consideration legislative limitations, the Council's preference is to charge a market price. This includes retail sales, leases, rents and licences for land and buildings.

14. Fees and charges may be set at any time and are reviewed annually. A list of current fees and charges is maintained on our website.

15. Revenue from user charges is allocated to the activity which generates the revenue.

Grants, sponsorship, subsidies and other income

16. Grants, sponsorship and subsidies are used where they are available. Many of these types of income are regular and predictable and can be budgeted for (for example Waka Kotahi NZTA roading subsidy). Some other types are unexpected or unpredictable and may not be able to be prudently budgeted (such as Provincial Growth Fund funding, reparation payments, civil defence and other reimbursements, legal settlements and insurance claims). These are applied as they arise to the corresponding activity or project.

Investment income and proceeds from the sale of assets

17. The Council's approach to investments is documented in the Treasury Management Policy. These investments generate income such as dividends, interest, and rents.

18. Income from all asset disposals are receipted to the activity that owns the asset. Generally, these proceeds are considered to be capital in nature. However, low value items may be used to fund operating costs. Council may resolve to utilise higher value proceeds for operating purposes if it is satisfied that it is prudent and in the community's interest.

Development contributions, financial contributions and lump sum contributions

19. Generally, there is little revenue from these funding sources to fund operating costs.

20. Council will consider using lump sum contribution arrangements as a suitable funding option for future projects.

21. Financial contributions, if required as part of a resource consent, are collected and placed in a reserve fund. The use of financial contributions could include some operating costs but it is unlikely.

Reserve funds

22. Reserve funds are used for the purposes that they were created. Cash-backed reserve funds may be used to meet operating costs if the expenditure is consistent with the purpose of the fund.

Borrowing

23. The Council's approach to borrowing is documented in the Treasury Management Policy. The Council generally plans to fund all cash operating costs from sources other than borrowing but may in specific circumstances, where it determines it is prudent to do so, fund some operating costs from borrowing.

Rates

24. Having exhausted all other funding sources, Council funds its remaining operating expenses from rates. For many activities this is the main funding source.

25. The Council may establish general or targeted rates to fund operating costs.

Summary of sources of funding for operation costs by activity

26. The above funding sources were considered when determining the funding required from all sources (including general rates or targeted rates) for each activity in the Funding Needs Analysis, as required by section 101(3)(a).

27. Table 1 shows the degree (expressed as a range) to which each funding source is used to fund operating costs following the s101(3)(a) assessment.

28. This s101(3)(a) assessment has been modified by the s101(3)(b) assessment. Actual contributions for each funding source to an activity may vary because of this step 2 assessment.

29. The ranges in Table 1 are expressed as a percentage of the revenue budgeted to fund each activity and are indicative only. They may change over time because of changes in expenditure requirements. Actual funding sources may differ from the budgeted funding sources.

30. For operational expenditure, the portion of funding from each source is expressed as a range – low, medium or high. These ranges equate to the following percentages:

Low:	0-33%
Medium:	34-66%
High:	67-100%

Table 1: Summary of funding sources by activity s.101(3)(a) only

Activity	General rates	Targeted Rates	Fees and Charges	Subsidies and grants	Other	Borrowing
Governance	**H**	**L**		**L**	**L**	
Corporate	**H**		**L**		**L**	
Community Facilities		**H**	**L**			
Libraries		**H**	**L**			
Parks & Open Spaces		**H**	**L**	**L**		
Emergency Management	**H**					
Coastal and Hazard Management	**M**	**L**				**M**
Community Health & Safety	**M**		**M**		**L**	
Resource Consents	**M**		**M**			
Building Control	**L**	**L**	**H**			
District and Strategic Planning	**H**					**L**
Community Development	**L**			**H**		
Economic Development	**M**	**M**				
Roading	**L~~M~~**	**M~~L~~**	**L**	**L**	**L**	
Footpaths,cycleways & streetlights		**H**	**L**	**L**		
Stormwater and land drainage	**L**	**H**				
Wastewater		**H**	**L**			**L**

Water Supply		**H**	**L**			
Rubbish & recycling	**L**	**M**	**M**			
Waste Minimisation				**H**		

*Corporate includes overhead areas which are charged out to activities.

Funding sources for capital costs

31. Capital costs are those costs associated with the purchase and improvement of assets, and the repayment of debt. The funding sources for capital costs are described in the sections that follow.

User charges

32. User charges are not often used for capital costs as individual user contributions would generally be too large to be affordable. Borrowing and charging users annually for financing costs (interest and principal) via rates is often a more affordable method of collecting user contributions for capital costs.

33. The Council may charge for capital works that are for private benefit (such as, a network extension to a single dwelling) or where capital works are undertaken outside of Asset Management Plans at the request of individuals (for example, a rural seal extension for dust suppression).

Grants, subsidies, and other income

34. The Council relies on significant subsidies for capital works relating to our transport activity. Grants and subsidies may be available for other activities from time to time.

35. Other income can be from many and varied sources and is unlikely to be predictable enough to budget for in advance. Other income used to fund capital costs could include bequests, insurance claims, and legal settlements.

36. Grants, subsidies and other income are used wherever they are available.

Development contributions

37. Development Contributions (DCs) fund capital costs necessary to service growth in accordance with the Developments Contributions Policy.

Financial contributions

38. Financial may be collected as part of acquiring a resource consent. Contributions may be received in cash or as revenue by the vesting of assets.

Proceeds from the sale of assets

39. From time-to-time, assets are disposed of. Usually these are low value items and the revenue is received by the activity that owns the assets. In the case of short-life assets these proceeds would normally contribute to the cost of their replacement.

40. The Council holds some higher value assets for investment purposes which, although not budgeted for, could be sold. Unrestricted proceeds from the sale of these assets would be used to repay debt or supplement the corresponding asset replacement reserves, unless otherwise resolved. Restricted revenues would be placed in the appropriate reserve fund and used for the purpose required by the document that imposes the restriction.

Reserve funds

41. Reserve funds for capital projects are held and the funds are used when a project meets the specific criteria for accessing the reserve. This includes renewal funding derived from rates for operating costs such as depreciation and other accounting provisions.

Borrowing

42. The Council borrows to fund its asset programme. The amount of borrowing available is restricted by the debt limits set in the Financial Strategy.

43. Borrowed funds, both the principal and interest (an operational cost), are generally repaid by future rates.

44. Borrowing spreads the cost of the project over a longer period of time, smoothing changes in rates and ensuring that future ratepayers who will enjoy the benefit of long-lived assets contribute to their costs.

Lump sum contributions

45. When undertaking a major project, there is an option to seek lump sum contributions to the capital cost of the project from those who are identified in the projects "capital project funding plan". Lump sum contributions are provided for in the Local Government (Rating) Act 2002 and have restrictions placed on how they are used. Where a lump sum payment option is proposed ratepayers may choose to pay the lump sum or not. If not, the rating unit will be liable to pay any targeted rate set to recover the loan costs.

Rates

46. Rates are mostly used to fund everyday expenses including depreciation and interest costs related to borrowing.

47. A portion of rates funds the capital (principal) repayments of debt.

48. Council may establish targeted rates to fund specific capital projects where there is a benefit of separate funding.

49. Council holds reserve funds for capital expenditure. Some of which has been sourced from rates.

Summary of sources of funding for capital costs by activity

50. Funding of capital costs will be determined via the same principles as the operating costs funding policy unless the Council resolves otherwise. Such a resolution will follow the funding guidelines and in doing so will be consistent with this policy and not require an amendment to the policy. Existing projects (projects resolved prior to the adoption of this policy) will be funded according to the Annual Plan, Long-Term Plan or other resolution made at the time the Council approved the project. It is not practicable to determine a funding policy for all unknown future projects. The main difference is that it is the purpose of the expenditure will have more bearing on the funding available. Capital projects are often large in nature and will provide benefits over many years, and the funding approach must reflect this.

51. The Council uses the following guidelines when considering the funding of capital projects:

    a. A Funding Needs Analysis will be completed where the project is not included in the capital works programme or is additional to planned services, or where its inclusion impacts on Council's overall funding capacity.
    b. All projects are first funded from grants, subsidy or other external income where available.
    c. Renewal projects that maintain the same service level are then funded from reserve funds set aside for that purpose.
    d. General purpose funds or unrestricted reserve funds held for other complementary purposes are considered.
    e. Lump sum rating options are considered.
    f. Projects that have exhausted previous funding sources or are for new or increased service levels or for growth in infrastructure are then funded from debt.

52. A single project may have a mix of each of these funding options.

53. It is not practical to create separate funding policies for each and every capital project. The Council will only do this when a project is particularly large, affects a particular group or does not

fit with an existing funding policy or activity.

54. Whenever funding a capital project, the Council will consider the available sources of funds, the Revenue and Financing Policy, and section 101(3) in applying the above guidelines to a capital project. Generally, the Council will resolve the funding policy at the time the project is proposed in an Annual or Long-Term Plan.

Overall funding consideration

55. The Council is required by section 101(3)(b) of the LGA to 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 section allows that as a final measure, we may modify the overall mix of funding that would otherwise apply after the initial s101(3)(a) analysis for both operating and capital expenditure.

56. The following adjustments have been made:

    a. The allocation of the rates liability between sectors of the rating base may be altered by using differentials on the general rate and certain targeted rates. The allocations in this Long-Term Plan were determined by the Council after consultation with the community in 2024. The Council may modify the differential factors during the term of the Long-Term Plan to reflect a change in rating valuations, or benefit, or to achieve better community outcomes or wellbeing.

    b. Rates affordability (people's ability to pay rates) is an issue in parts of the region. Adjustments to limit the impact of fixed rates on lower value homes can be made where Council feels appropriate so that rates are more affordable for lower value homes.

    c. Fees and charges may be waived or discounted where it is considered appropriate to do so. Some matters we may consider in deciding whether it is appropriate to waive fees are for social reasons (e.g., the promotion of events and facilities) or commercial reasons (e.g., due to poor service or to minimise risk).

    d. Rates may be remitted where it considered appropriate to do so and as allowed for in the Rates Remissions and Postponements Policies (including Māori Freehold Land). These policies address the social matters as well as adjusting rates for benefits that differ for some rates assessments (such as additional or no provision of some services).

    e. The Council may use accounting provisions and reserve funds to spread the costs of activities over multiple years to smooth the cost to users and ratepayers.

Rates

57. Our final consideration of funding by rates comes:

    a. After considering how other funding sources will be used to fund operating and capital costs.
    b. After rates have been applied to activities in the Funding Needs Analysis; and/or
    c. After being adjusted for the overall funding considerations.

58. The following section outlines the Revenue and Financing Policy requirements that are used to set rates. To have a full understanding of rates they should be read with regards to the analysis above and in conjunction with the Funding Impact Statement and Rates Resolution.

General rates

59. The general rate is allocated to all rateable properties based on the capital~~land~~ value of the property. A Uniform Annual General Charge (UAGC) is allocated to all rateable properties per separately used or inhabited part of a rating unit (SUIP).

60. The Council has determined in its Funding Needs Analysis which activities should be funded from

general rates (see Table 1).

61. The Council has chosen to differentiate the General Rate into four rating categories, applying seven rating differentials:

    a. Farming and horticulture
    b. Rural other
    c. Industrial and commercial
    d. Commercial Forestry
    e. Residential
    f. Off-shore islands (used)
    g. Off-shore islands (unused)

62. The Council primarily uses valuation data (specified in the Rating Valuations Rules) to determine the allocation of rating units to rating categories. The full definitions may change during the term of this Long-term Plan.

63. In setting the differential categories, and the differential factors, the Council considered the requirements of the LGA and other considerations, including:

    a. The activities funded by the general rate and the s101(3) considerations for the activities.
    b. The impact of any change, or rate of change to the differential.
    c. The views of those impacted by the differentials.
    d. Other reasonable options, and the advantages and disadvantages of those options.
    e. The overall impact of the differential on all ratepayers.

64. The UAGC is part of the general rates and is a fixed amount each year. The Council can set the UAGC based on an allocation of the cost of specific activities or at an amount the Council considers is appropriate. In past years, the Council has preferred to base the UAGC on the allocation basis. From 2024 the Council will set the UAGC at a level it considers appropriate without reference to particular services and within the limits set by legislation.

65. The Council recognises the regressive nature of fixed rates. Rates affordability is a matter the Council considers when setting the UAGC. Council's remissions policies provide for some adjustment to UAGCs for properties where appropriate. During the term of this Long-term Plan the Council may adjust the UAGC as part of its rate setting process in order to improve community wellbeing for current and/or future communities.

66. If the cost allocation from activities is amended, or an adjustment is made to the UAGC to improve community wellbeing, the amount removed from the UAGC will remain part of general rates.

Targeted rates

67. Targeted rates are finalised when adopting the Funding Impact Statement in the Long-Term Plan or an Annual Plan. The Council may introduce new targeted rates when setting rates in any year as documented in the respective year's Funding Impact Statement and Rates Resolution. The Council's requirement to consult is determined by s95A of the LGA.

68. The Council has chosen to have a large number of targeted rates. Information on targeted rates is listed in the Rates Resolutions and Funding Impact Statement for each year.

69. The Council will provide transparency of how much a ratepayer's rates is contributing to activities by using better communication tools than the rates invoice.

References

- The Funding Needs Analysis, section 101(3), provides the background and analysis to explain the funding decisions we have made. It is guided by the funding principles and choices of funding sources documented in the Revenue and Financing Policy.
- The Treasury Management Policy place restrictions on the use of the proceeds from asset sales.
- The Funding Impact Statement is included in each Long-term Plan and Annual Plan as required by clauses 15 or 20 of schedule 10. This statement shows the results of the detailed rates calculation for each year.

Together the above documents form the necessary components to lawfully charge under the LGA for our revenue requirements. We must also comply with other legislation regarding the setting of some fees and charges and the Local Government (Rating) Act 2002 for the setting of rates.