Revenue and Finance Policy
Kaupapa Here Moni Whiwhi me te Ahumoni

Overview

The Council has reviewed each individual activity with a view to determining an equitable funding policy. In doing so, Council considered the nature of the service and the benefits and beneficiaries for each service. Items considered during that deliberation were:

- Community outcomes that an activity contributes to
- The distribution of benefits between the community as a whole, identifiable parts of the community and individuals
- The period during which the benefits are expected to occur
- The extent to which actions, or inactions, of individuals or groups contribute to the need to undertake the activity
- Costs and benefits of funding the activity distinctly from other activities.

The list of activities and the funding mechanisms used for each service are included in the table below, along with some explanation of the terminology used.

The funding of operating expenditure and capital expenditure are in accordance with the sources listed in section 103 (2) of the Local Government Act 2002.

Funding of operating expenses

The Council sets its long-term revenue to fund its on-going operation and asset maintenance programme as outlined within this plan. The sources used depend on the Council's analysis of individual services and are outlined in the table below.

The table outlines the funding mechanism used for individual activities. These mechanisms fall under three headings: General rates (including uniform annual general charges), targeted rates and fees, and subsidies. In addition to these sources, the Council receives revenue from investments. The details of the investment activity is included separately within this plan. Within this plan, the net revenue from investments is projected to be used to reduce the requirement for general rates.

Group	Activity	Funding Source		
		General Rates	Targeted Rates	Fees
Water Supply	Water Reticulation	Residual	Majority	Fees
	Water Treatment and Supply	Residual	Majority	
Wastewater	Wastewater Reticulation	Residual	Majority	Fees
	Wastewater Treatment and Disposal	Residual	Majority	Fees
Stormwater	Stormwater	Residual	Majority	
Roading	Passenger Transport	Residual		Subsidies
	Road Safety	Residual		Subsidies
	Corridor Maintenance	Residual		Subsidies
	Network Development and Maintenance	Residual		Subsidies
	Bridges	Residual		Subsidies
	Footpaths	Full		

Group	Activity	Funding Source		
		General Rates	Targeted Rates	Fees
Council Leadership	Governance (Council and Chief Executive)	Full		
	Maaori Partnerships and Liaison	Full		
	Council	Full		
	Elections	Full		
	Committees and Community Boards	Residual	Partial	
	Council Support	Full		
Organisational Support	Communications	Full		
	Business Improvement	Full		
	Human Resources	Full		
	Health and Safety	Full		
	Finance and Treasury	Full		
	Rates	Full		
	Information Management	Residual		Fees
	Legal Counsel	Full		
	Corporate Property and Plant	Full		
	Management, Infrastructure Planning, Infrastructure Design and Operations	Residual		Fees
Sustainable Environment	Animal Control	Residual		
	Building Quality	Residual		Fees
	Consents	Residual		Fees
	Environmental Health and Liquor licensing	Residual		License Fees
	Monitoring and Enforcement	Residual		Enforcement fees
	Regulatory Support	Residual		Fees
	Emergency Management (civil defence and rural fire)	Full		
	Waste Minimisation and Refuse	Residual	Majority	Fees
Sustainable Communities	Economic Development	Residual	Partial	
	Strategic and District Planning (includes Structure Planning, Resource Manage-ment Act policy etc.)	Full		
	Customer Delivery	Full		
	Leisure Facilities (Aquatic Centres, Libraries and Parks & Reserves)	Residual	Partial	Availability
	Community Facilities (Cemeteries, Property, Toilets, Pensioner housing, halls etc.)	Residual	Partial	Market
	Grants and Donations	Full		

Explanation of notations made in the table

1. **Full** means all, or almost all, of the cost of the activity is funded from that particular source. If the comment is made in the rates column it does not preclude making minor charges for the service but indicates the charges are a negligible part of the total funding.
2. **Availability** means the cost of having the service available is met from that funding source. For these services council believes that charges can be a major barrier to access for some members of the community. Revenue in these services reflects revenue from programmes, hire of the facility and added value services.
3. **Subsidy** means a portion of the activity is funded from a government subsidy. In some instances, the subsidy makes a relatively minor contribution, but in others, such as roading, the subsidy is a substantial contributor to the cost of the activity. Those subsidies are identified within the individual plan of the activity.
4. **Petrol tax** is a local government share of the petrol tax levied by central government. It is used to contribute to the costs of road maintenance.
5. **Majority** means most of the service is funded from this source. When used in the fees and charges column, it reflects the view that services should be recovered from users, but that legislation imposes some constraints, which may mean full recovery is not possible.
6. **Market** means the council attempts to set its charges at a level that is affordable for the users and competitive with similar services either within the district or outside the district. It is used where market rates are not sufficient to meet the full costs of the service. The balance is funded from rates.
7. **Residual** indicates a portion of funds comes from this source. It reflects in some circumstances there are constraints on council charges or the alternative revenue source may include enforcement revenue, which is imposed to achieve compliance and may not always cover the costs of enforcement.
8. **Licence and enforcement fees** can be charged for some services. Licence fees may be set by the council or by regulation and may not always cover the full costs of the service. Enforcement fees are charged to achieve compliance and do not necessarily meet the full costs of the enforcement activity.
9. **Partial** reflects the service will be partially funded from targeted rates.

Bases for selection of mechanisms to fund operating expenses

1. **User charges** are used for services where there is a benefit to an individual. If it is possible to efficiently impose a charge, the council does so, to either recover the full cost of the service, the marginal cost added by users, or a rate that the market will pay.

   The market rate becomes an issue to limit the potential for charging. It applies in circumstances where the council believes a charge set too high will reduce use and therefore, diminish the value of the facility to the community, and impose a greater cost on ratepayers. In selecting market rate, the council has made a judgement that the community values the existence of the facility and would rather fund it from rates than for it to close.

2. **General rates** are used to fund those services where the council believes there is a public benefit even though it may not be to the whole community. It typically funds public goods for which there is no practical method for charging individual users as the benefit is wider than just specific users. An analysis of benefits indicates there is no difference in incidence between multiple targeted rates and a differentiated general rate.

   General rates fund a range of services which are used by individual ratepayers to varying extents. The council uses the general rate rather than several targeted rates to achieve a simpler rating structure. That simpler structure makes it easier for ratepayers to understand how they are being rated, and it is also simpler and cheaper to administer. Rates are regarded as a tax that fund the collective community benefit, rather than being any form of proxy for use of a service.

   The general rate is applied on a uniform basis on the capital value of all rateable property across the district in accordance with the generally accepted principles of taxation.

3. **Uniform annual general charges** are used to fund people-related, rather than property-related services, including libraries, parks and reserves, public cemeteries, public swimming pools, public toilets, community centres, community liaison, grants and donations, safer communities, animal control, civil defence and safety, building control, environmental consents planning, area offices and democracy/local government, environmental health and resource management planning.

4. **Targeted rates** are also used to fund community benefits and wider public goods. A targeted rate means a rate to be used exclusively to pay for that operating expense. It is used in circumstances where the council believes the benefits from the services are such that the principles of a general rate approach (noted above) are not sufficient and they should be targeted to a particular beneficiary's group or groups.

   It is also used where the council considers the level of charge is outside the council's control and the extent of the impost should be clear to the community.

5. **Grants and subsidies** are used where they are available. This includes petrol tax.

6. **Borrowing** is not generally used to fund operating expenses, but is used as a tool to smooth out major lumps in the capital replacement and acquisitions programme.

   The council may choose to borrow for an operating expense to give a grant to a community organisation that is building a community facility.

7. **Income from dividends, interest and net rental income** is used to offset the cost of provision of other services. Income from interest and dividends is included as revenue in the Finance & Treasury activity. This revenue is applied to the council's general purposes. Income from rental property is applied to the activity, which is the primary user of a facility.

8. **Licence fees** are charged where they are available as a mechanism. They are set as for user charges but may have constraints on the level of the fee. These constraints are established under various legislation.

9. **Enforcement fees** are charged when possible. The purpose of the fee is to promote compliance rather than to raise revenue. At times, enforcement fees will recover the full cost and at other times it will not depending on the level of compliance and the extent to which the charges are limited by statute or the courts.

Predictability of rates and rate increases

The council is aware the public needs to be able to predict their rates to have confidence in the rates system. While it is not possible to provide absolute predictability within the three-year planning cycle, it is possible to provide greater stability and predictability in the years where properties are not re-valued.

The council considers the benefit splits (amounts recovered from ratepayers for services through the general and targeted rates) within the Revenue & Financing Policy is robust.

However, the council is always conscious of the impact of applying different increases to individual rates. This can mean rates rises for individual ratepayers vary significantly to the average expected rates rise. In this case, the council may determine in any given year, which is not a revaluation year, that it will apply increases to individual rates to achieve a more even distribution of rates rises. This is done in the interests of predictability and affordability for the ratepayer, which is an underlying goal of both the LPT and the Revenue & Financing Policy.

Funding of capital

1. **Rates** in all forms will be used to fund an ongoing replacement programme and may be used to fund a portion of capital acquisition work. This will be balanced against the affordability for the current ratepayers and the extent to which a capital replacement or acquisitions programme is even over the period of the plan. Over the period of the plan the council will get to the point where asset renewals are being met from operating revenue, and a contribution is being made to levels of service and growth capital.

2. **Borrowing** can be applied to all capital works subject to the preceding statement on the use of rates. The council views debt as a smoothing mechanism and a means of achieving equity between time periods. However, the council does not have an unlimited capacity to borrow, and the community does not have unlimited capacity to service those loans into the future. Therefore, the council adopts a prudent approach to debt and its capital programme to ensure that the burden of debt and the interest cost does not place an impossible burden on the community. In doing so, the council is conscious of its peak debt and its ongoing funding stream for debt servicing and work programme.

3. **Grants and subsidies** are used where they are available.

4. **User charges** are used for connection services where there is a benefit to an individual. If it is possible to efficiently impose a charge, the council does so, on the basis of either recovering the full cost of the infrastructure, the marginal cost added by users, or a rate that the market will pay.

5. **Proceeds from asset sales** may be used to fund capital works or repay debt. The preferred option will be for debt repayment with any new works funded from new debt draw down. This method is favoured due to its transparency and the neutral effect it has on rating. There is no major planned asset sales programme over the period of this plan, but assets that are no longer required for strategic or operational purposes, may be sold.

6. **Development and Financial contributions**. The district's community is growing. Growth drives a significant portion of the capital work needed to maintain levels of service to a growing community. As the cost of growth is driven by development, the council considers it fair for a development to contribute to the costs being imposed. Otherwise, existing ratepayers would subsidise new ratepayers and this is inconsistent with council's principles. An exception might occur if development contributions would impose an excessive burden on developers and new ratepayers, and this conflicted with council's overall development objectives for the district. In this case, the principle of affordability may mean that some degree of subsidisation is appropriate.

   The Council has a Development Contributions Policy to obtain contributions to fund the infrastructure required due to district growth. The infrastructure includes roading, water, wastewater, stormwater, and community infrastructure (i.e., parks & reserves, libraries, etc.). Further details about development and financial contributions, and the projects they are used to fund, can be found in council's Development Contributions Policy.

7. **Other Local Government Funding and Financing Tools.** From time to time, new funding tools are provided to give local government flexibility in managing infrastructure and other costs that are not intended to be grant/subsidy funded such as Infrastructure Funding and Financing Levies. While these mechanisms have not yet been used, they are available to Council and could be used in accordance with legislation