

Part Four – Funding and Financial Policies

REVENUE AND FINANCING POLICY

The Revenue and Financing Policy must be prepared under Section 102 of the Local Government Act 2002. It must be included as part of a Long-Term Council Community Plan and Annual Plan and adopted in accordance with the special consultative procedures.

The Objective of the policy is to determine the appropriate funding sources to fund activities, and to provide certainty over the levels of funding. Funding sources for operating expenses and capital expenditure are to comply with applicable legislation and generally accepted accounting practice.

Definitions:

Capital Expenditure comprises works that upgrade and enhance a significant component of the asset, restoring it beyond its original design capacity or estimated life.

Exacerbator Pays Principle requires those individuals that contribute to the need for an activity to contribute to the funding of that activity as provided in s 101(3) (a) (iv) of the Local Government Act 2002.

Funding Needs means given a level of expenditure, the amount required to fund these items.

Funding Sources means the sources of revenue available to Council to fund operating expenses and capital expenditure. Typically funding sources would include the following: -

- General Rates
- Targeted Rates
- Grants and Subsidies
- Fees and Charges
- Interest and dividends from investments
- Borrowings
- Proceeds from Asset Sales
- Financial contributions under the Resource Management Act 1991
- Development Contributions

- Any other source

Intergenerational Equity means the principle that the costs of any expenditure should be recovered at the time that the benefits of the expenditure accrue.

Operating expenses comprises the day-to day planned and unplanned routine expenses.

Private good means where the benefits of a service accrue to an identifiable individual or group of individuals.

Public good means the spending that benefits the community in general and for which no individual beneficiaries can be clearly identified.

Renewal Expenditure comprises works that upgrade and enhance a significant component of the asset, restoring it to its original size, capacity and condition.

The Revenue and Financing Policy must state Council policy on funding both the operational and capital expenses of each activity of Council from the Funding Sources listed above, and show that Council has complied with section 101(3) of the Local Government Act 2002.

Section 101(3) requires that the funding needs of the local authority must be met from those sources that the local authority determines to be appropriate, following consideration of –

(a) *in relation to each activity funded –*

- *the community outcomes to which each activity primarily contributes*
- *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 actions or inactions of particular individuals or a group contribute to the need to undertake the activity*
- *the costs and benefits including consequences for transparency and accountability, of funding the activity distinctly from other activities the overall impact of any allocation of liability for revenue needs on the current and*

Part Four – Funding and Financial Policies

future social, economic, environmental, and cultural well-being of the community

- (b) *the overall impact of any allocation of liability for revenue on the current and future social, economic, environmental and cultural well-being of the community.*

Funding of Operating Expenditure

All operating expenses will be fully funded each year in accordance with the adopted Annual Plan and Budget with the exception of depreciation on some assets that are not intended for replacement at the end of their useful life, and for 2006-07 when Council will use surplus funds of \$225,518 to reduce the rates requirement (refer page 244). Operating expenses will be funded from sources as listed as Attachment A.

Interest on sinking funds will not be used to fund operating expenditure.

Funding of Capital Expenditure

Capital expenditure will be funded from the sources as listed in Attachment B.

Assessment of Appropriate Funding Sources

When assessing the appropriate funding sources Council will consider the matters in section 101(3) of the Local Government Act 2002, as listed above.

The consideration and assessment of the funding needs for each activity is shown in Attachment C.

Council recognise that considerations (b), (c), (d) and (e) of s103(2) are primary drivers when considering the method of funding for an activity.

Impacts on Wellbeing

In undertaking an assessment of appropriate funding sources for each activity Council recognizes that the revenue and financing decisions are not made in isolation, and funding decisions can have an impact on the social, economic, environmental and cultural well being of the community.

When considering the present and future impacts of its decisions on the four well-beings the following types of questions will be addressed: -

- Is the policy likely to have an effect on participation of people in community activities?
- What are the changes in funding and can they be phased in over a longer period?
- What are the current economic conditions and those projected over the ten-year period?
- What incentives will the policy have for development in the district?
- How is the burden of funding distributed across different sectors of the community?
- Does the policy provide incentives for people to avoid environmentally unsustainable activities?
- What incentives are provided for preservation of natural heritage, and participation in sporting and cultural activities?

Community Outcomes to which the Activity Contributes

Council is to consider community outcomes in the funding process and to consider why it is engaging in particular activity. To the extent that it is practical and lawful, Council will fund these activities in a way that is consistent with and complimentary with those outcomes identified in Attachment C.

Distribution of Benefits within the Community

Consideration is to be given to who benefits from a particular activity while recognizing that there are no uniform answers to the level of public good produced by activities. Allocation for distribution of benefit within the community is shown in Attachment C.

Period of Benefit

Council will apply the intergenerational equity principle to ensure a spread of benefits across time. Council will not expect current ratepayers to fund the benefits future ratepayers will receive, and will therefore spread the cost across the current and future ratepayers. In most cases borrowing and rating future ratepayers to repay the loan will achieve this.

Part Four – Funding and Financial Policies

Extent to which Individuals or Groups Contribute to the Need for an Activity

Council will consider the exacerbator pays principle where Council has determined it is appropriate to levy exacerbators with financial contributions. The allocation of the extent to which individuals contribute to the need for an activity is shown in Attachment C.

Costs and Benefits of Separate Funding

Activities are to be assessed in terms of whether there are low costs or low benefits or some other combination to separately funding an activity. The allocation of the extent to which individuals contribute to the need for an activity is shown in Attachment C.

Rationale for Selection of Funding mechanisms Applied

Council has identified the rationale for selection of the appropriate funding mechanism as required under Schedule 10 clause 2(2)(d) of the Local Government Act 2002. This requires a statement of the estimated revenue levels, the other sources of funds, and the rationale for their selection in terms of section 101(3), refer page 197.

User fees are set to fund those services that Council determines have a benefit to an individual person or where individuals create the need for the service. Fees are set at a level that Council considers appropriate for the particular service after considering the cost and benefit of separate funding.

Fees may be set to cover a proportion of the cost of the service or at a level that Council considers is in line with market rates for similar services. The table on page 197 show the factors and conclusions reached in relation to the distribution of benefits and the efficiency of having a user fee.

Targeted rates are used when Council can identify a specific group of properties within the district that benefit from a specific service.

General rates are used where the benefits from a service are available for the whole community.

Subsidy: Subsidy will be used where it is available. Council uses subsidy to the extent available to undertake its required work programme it does not set its

work programme according to the maximum subsidy available as this will impact on the rates required.

Funding capital:

Council sets its revenue from rates to cover the ongoing cost of delivering the services provided for the community. In doing so a charge for depreciation is included in the financial statements. Except where council has determined that it will not replace the asset depreciation, although not a cash cost, is included in the calculation of rates requirement. Those funds are then used to fund renewal of asset in that year or transferred into a reserve. That reserve is subsequently used to fund the renewal of those assets. Loans may be used to build new assets or they may be used as a smoothing mechanism to even out “lumpy” asset replacement requirements. In some cases rates are set at a level to fund some capital work. Where this has been done it is to smooth the effects of the future funding requirements to reduce the costs of loan servicing to the community.

Part Four – Funding and Financial Policies

ATTACHMENT B CAPITAL EXPENDITURE

	GENERAL RATES	UAGC	TARGETED RATES	FEES & CHARGES	INTEREST DIVIDEND	BORROWING	GRANTS SUBSIDIES	ASSET SALES	DEPRECIATION RESERVES	DISTRICT DEVELOPMENT FUND	OTHER RESERVES
COMMUNITY REPRESENTATION											
MAORI LIAISON											
ECONOMIC DEVELOPMENT											
COMMUNITY SUPPORT											
LIBRARY									√	√	
COMMUNITY HALLS											
PARKS & RESERVES			√							√	√
CEMETERIES						√				√	
PENSIONER HOUSING								√	√		
BUILDING INSPECTION								√	√		
DISTRICT PLANNING								√	√		
ENVIRONMENTAL HEALTH								√	√		
LIQUOR LICENSING								√	√		
EMERGENCY MANAGEMENT								√	√	√	
DOG CONTROL								√	√		
LIVESTOCK CONTROL								√			√
BYLAW ENFORCEMENT											
AIRPORT									√	√	
ROADING SUBSIDISED			√				√		√	√	
ROADING NON SUB.									√		
PARKING											
STORMWATER & DRAINAGE						√					
WATER RETICULATION						√			√		√
WATER PRODUCTION									√		
WASTE MANAGEMENT						√	√		√		
SEWERAGE						√	√		√		
CORPORATE PROPERTY									√	√	
STAFF HOUSING										√	
COMMERCIAL PROPERTY											√
FORESTRY											
SAFER COMMUNITIES										√	
SUPPORT SERVICES								√		√	

Part Four – Funding and Financial Policies

ATTACHMENT C S101(3) CONSIDERATIONS

	COMMUNITY OUTCOME	EXTENT INDIVIDUALS CONTRIBUTE TO NEED FOR ACTIVITY	DISTRIBUTION OF BENEFITS	PERIOD OF BENEFIT	COST & BENEFIT OF OF SEPARATE FUNDING
	ECONOMIC EC	LOW L	WHOLE COMMUNITY W	SHORT TERM S	LOW COST / LOW BENEFIT
	ENVIRONMENTAL EN	MEDIUM M	PART OF COMMUNITY P	MEDIUM TERM M	LOW COST / HIGH BENEFIT
	SOCIAL / CULTURAL SC	HIGH H	INDIVIDUALS I	ONGOING O	HIGH COST / LOW BENEFIT
	STRATEGIC ENABLER SE				HIGH COST / HIGH BENEFIT
COMMUNITY REPRESENTATION	SE	L	W	O	HL
MAORI LIAISON	SC	H	W	O	LH
ECONOMIC DEVELOPMENT	EC	M	W,I	O	LH
COMMUNITY SUPPORT	SC	H	W,I	O	HL
LIBRARY	SC	H	W,I	O	LH
COMMUNITY HALLS	SC	M	W,I	O	LH
PARKS & RESERVES	SC	H	W,I	O	HL
CEMETERIES	SC	H	W,I	O	LH
PENSIONER HOUSING	SC	H	I	O	HL
BUILDING CONTROL	SE	L	W	O	LH
RESOURCE PLANNING	SE	H	W,I	O	HL
ENVIRONMENTAL HEALTH	EN	M	W,I	O	HL
LIQUOR CONTROL	EN	H	W,I	O	LH
EMERGENCY MANAGEMENT	EN	H	W	O	HL
DOG CONTROL	EN	H	W,I	O	LH
LIVESTOCK CONTROL	EN	H	W,I	O	LH
BYLAW ENFORCEMENT	EN	H	W,I	O	LH
AIRPORT	EN	H	W,I	O	LH
ROADING LTNZ SUBSIDISED	EC	H	W,I	O	HL
ROADING DISTRICT FUNDED	EC	H	W,I	O	HL
PARKING	EC	H	W,I	O	LH
STORMWATER & DRAINAGE	EN	L	W,I	O	HL
WATER RETICULATION	EN	H	W,I	O	LH
WATER PRODUCTION	EN	H	W,I	O	LH
WASTE MANAGEMENT	EN	H	W,I	O	LH
SEWERAGE	EN	H	W,I	O	LH
CORPORATE PROPERTY	SE	L	W	O	LH
PROPERTY MANAGEMENT	SE	L	I	O	LH
INVESTMENT PROPERTIES	EC	M	W	S	LH
FORESTRY	EC	L	W	M	LH