TE KAUPAPA HERE MŌ TE PŪTEA WHIWHI - REVENUE AND FINANCING POLICY

POLICY OBJECTIVES

The purpose of the Council's Revenue and Financing Policy[50] is to provide predictability and certainty about sources and levels of funding for all its activities. The Policy explains the rationale for and the process of the selection of various funding methods to fund the operating and capital expenditures of the Council activities. It is an important instrument of Council's financial management because how the activities are funded can have a significant impact on the financial viability of Council services, as well as on the overall impact of any allocation of liability for revenue needs on the community.

During 2017/18 Council reviewed its revenue and financing policy and consulted on a range of proposed changes. In response to that consultation Council resolved to maintain status quo, and continuously evaluate its approach to funding and rating. Therefore, other than minor editorial changes to improve clarity, this policy is unchanged from the 2015/25 version.

REVENUE AND FINANCING POLICY CONSIDERATIONS

The Policy requirements are included in Sections 101, 102 and 103 of the Local Government Act 2002 (the Act). The Council when reviewing the most appropriate funding sources for its activities considered the following:

- The community outcomes to which the activity primarily contributes (why the service is provided).
- The distribution of benefits between the community as a whole, any identifiable part of the community, and individuals (user/beneficiary pays principle).
- The period in or over which those benefits are expected to accrue (intergenerational equity principle).
- The extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity (exacerbator pays principle).
- The costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities.

COUNCIL OUTCOMES

A full description of the outcomes is part of the Long Term Plan. The individual activity analysis lists the community outcomes that the activity primarily contributes to and link to the reasons why the activity is undertaken.

DISTRIBUTION OF BENEFITS

In general, benefits flow to an individual or group where it is possible to identify the user and to withhold the service to the user if the user does not pay.

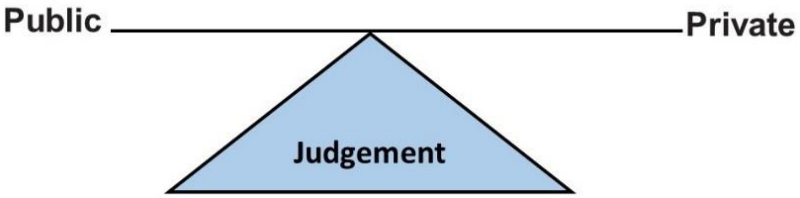
PRIVATE BENEFITS: the costs of these benefits should generally be funded on a user-pays basis.

PUBLIC BENEFITS: are costs which flow to the community as a whole and it is not possible to identify the individuals or groups that benefit. All the community benefits from the activity or there is little effect on the cost of additional people

50 Section 103 sets out the required contents of the Revenue and Financing Policy required by s102(2)(a).

benefiting. The costs of these benefits are generally funded through rates as it is not possible, practicable, or it is undesirable to charge users directly.

At this stage, the Council is required to consider who benefits from the activities performed by the Council. This is expressed as the Public/Private split. Economic theory suggests there are two main characteristics that need to be considered when looking at a particular good or service, which are public and private goods. At one end of the continuum there are so-called 'public goods'. At the other end of the continuum are 'private goods' which are both rival and excludable. Most daily consumables are private goods.



RIVALRY IN CONSUMPTION: Good is a rival in consumption if one person's consumption of the good or service prevents others from doing so, e.g. a chocolate bar is a good with a large degree of rivalry in consumption, i.e. if Bill eats it, Jane cannot.

EXCLUDABILITY: good or service is excludable if a person can be prevented from consuming the good or service, e.g. if Bill does not buy a movie ticket, then the usher can exclude him by preventing him from entering the theatre.

These are goods which are both non-rival and non-excludable, i.e. everyone can consume them and no one can be prevented from consuming them if they wish. An example of a public good is national defence, where the whole community is protected from an invasion by the armed forces, whether it wishes to be or not, and this protection cannot be removed from anyone in New Zealand.Very few goods and services are entirely public goods or private goods. Most goods and services are 'mixed goods' and fall somewhere between the two ends of the continuum.

The characteristics of a good or service determine what type of funding mechanism might be used to fund a particular service. Council has already made judgements about what it considers are public goods when deciding whether or not to undertake a particular activity.

For example, a good towards the public end of the continuum may not be a good candidate for user charges as people cannot be prevented from consuming it, or because everyone consumes it whether they wish to or not. Such goods will generally be candidates for funding from some general source, such as a general rate. A good towards the private end of the spectrum may be a candidate for a targeted rate or a user charge.

In the end, it is likely to come down to 'reasonable' judgement. Both the LGA and previous case law place the responsibility on elected members to make decisions about who benefits and who should pay.

TIME PERIOD OF THE BENEFITS

The Council must assess the period over which the benefits flow from each activity. For all its activities, the operating costs directly relate to the benefits of an activity provided during the year of the expenditure. Operating costs are therefore funded on an annual basis from annual income, including rates, user charges, subsidies and other income.

Capital expenditure produces assets that will produce benefits over their useful lives. These lives range from a few years for office equipment, computers and vehicles, to a hundred years for some infrastructural assets, such as bridges and some pipe networks. The costs of these assets should therefore be funded over the time of benefit. This is the concept of intergenerational equity and is particularly relevant for larger capital assets.

Building reserves to fund the capital expenditure required to renew an existing asset is the most prudent financial method, that also preserves intergenerational equity i.e. each generation pays a share of the value of the asset while it receives benefit from the asset. The interest earned on the reserves helps to fund the appropriate amount required to eventually replace the asset. When renewals or replacement occur before the reserve has sufficient funds then loans will be utilised to fund the early deficit.

WHO CAUSES THE NEED FOR AN ACTIVITY

The Council is required to assess the extent to which each activity exists because of the actions or inactions of an individual or group. This principle, known as the exacerbator pays or polluter pays, suggests that costs should be recovered directly from those causing the need for the activity. Examples are parking fines, food licences, pool safety, dog control and trade waste.

COSTS AND BENEFITS OF FUNDING THE ACTIVITY

The Council considers the individual costs and benefits of the funding of each activity. This analysis takes into account the consequences for transparency and accountability of the chosen funding method. Distinct funding allows ratepayers to assess whether or not the activity represents good value to them. For some activities, the costs of collecting user charges would be more than the revenue collected. As a result the Council has chosen to fund a number of activities entirely from rates.

These five matters were all considered with no single criterion given a greater weight than the others. The Council then considered the overall impact of the allocated funding, on the overall impact of any allocation of liability for revenue needs on the community, and considered the following matters:

The likely impact of the mix of funding sources on ratepayers on fixed incomes (affordability) is as follows:

- How the Policy will act as a barrier to the accessibility of the activity.
- What incentives the Policy will have for the development of the district.
- How the burden of funding will be distributed across differing sectors of the community.
- How the Policy supports people to conserve scarce resources, avoid environmentally unfriendly activities and preserve our natural heritage.
- How the Policy will support the community participating in recreational and cultural activities and to preserve historical and other cultural heritage?

FINANCIAL MANAGEMENT

In terms of the Local Government Act 2002 (the Act) the Council is required to ensure that each year's projected operating revenues are set at a level sufficient to meet that year's operating expenses (a balanced budget). Despite this requirement, under s100(2) of the Act, the Council is allowed to set projected operating revenues at a different level from that required to achieve a balanced budget, if the Council resolves that it is financially prudent to do so, e.g. to fund a previous or future year's deficit or to repay debt.

OTHER LEGAL REQUIREMENTS

While the Revenue and Financing Policy is governed by the Local Government Act 2002, there are a number of other pieces of legislation that are relevant for determining appropriate funding mechanisms.

LOCAL GOVERNMENT (RATING) ACT 2002

This Act sets out all the legal requirements for rating. It covers who is liable to pay rates, what land is rateable, what kind of rates may be set and how those rates are set. It also sets the valuation system which may be used, the various rating mechanisms available (such as targeted rates) and the number of limits on local government. For example, all rates set on a uniform basis (including the uniform annual general charge, but excluding a uniform rate for water or wastewater) may not exceed 30% of the total rates revenue.

RESOURCE MANAGEMENT ACT 1991

This Act sets out Council's responsibilities in terms of the environment. It also specifies the circumstances in which local authorities may require financial contributions from developers to meet the costs of their impact on the environment, including their impact on the demand for infrastructure.

Alternatively, under the Local Government Act 2002, local authorities are allowed to seek development contributions or a combination of development and financial contributions under the respective Acts. The Council does not currently take development contributions but it is considering the use of financial contributions as part of its review of its District Plan.

OTHER LEGISLATION

A number of Acts, such as the Sale and Supply of Alcohol Act 2012, set out statutory fees for various types of regulatory services. These fees may not be exceeded. Where fee setting is up to a local authority, there is often a general legal requirement for this to be 'fair and reasonable.'

GENERAL POLICIES ON FUNDING AND SOURCES OF FUNDING

Capital expenditure is the category of spending which creates a new asset or extends the lifetime of an existing asset. Expenditure on the Council's day-to-day operations is classed as operating expenditure and also includes overhead costs, which represent all costs not directly attributed to any of the activities e.g. support services like financial services, IT services and human resources.

The sources of funding available to the Council include:

- general rates
- targeted rates
- fees and charges
- interest and dividends from investments
- borrowing
- proceeds from asset sale
- development contributions
- lump sum contributions
- financial contributions under the Resource Management Act 1991
- grants and subsidies
- any other source.

GENERAL RATES

A General rate is assessed across all rateable properties in the district based on land value. It is used to fund those services where the Council has determined that the benefits from the service are available to the whole community, and where a fixed charge per rating unit is not considered appropriate. General rates are set on a differential basis.

Differentials are applied to the General Rate and Targeted Rates based on the uses to which the land is put, and activities proposed to be permitted, controlled or discretionary within the operative District Plan at the time the rate is assessed. The General rate is split into differentials to recognise the different classifications and uses of land within the district, and the differing consumption of Council resources relative to other ratepayers in the district.

Those differentials are calculated as a percentage of the standard rates i.e. a differential rating factor of 0.50 applies a factor of 50% to the standard rate. The differential rating settings are as follows:

DIFFERENTIAL CATEGORY		REASON FOR DIFFERENTIAL	DIFFERENTIAL FACTOR
URBAN DIFFERENTIAL CATEGORIES			
i.	**Wairoa Township (all properties not included in (ii), (iii), (iv) or (v) below)** being all rateable properties defined under the Rate Review Special Order "Differential Rating Special Order Resolution – E: Explanatory Statement 3a as Wairoa Township," and with a land value less than $68,000.		1
ii.	**Wairoa Township (Commercial/Industrial)** being all rateable properties defined under the Rate Review Special Order "Differential Rating Special Order Resolution – E: Explanatory Statement 3a as Wairoa Township Commercial/Industrial."	The reason for this differential is to reflect the relative advantage this group has relative to other ratepayers located in the same urban area. The benefits derive from the proximity to and the usage of Council services provided and the occupation of the Council developed precinct of the district.	3.85
iii.	**Wairoa Township (Commercial/Industrial) (CV <$200,000)** being all rateable properties defined under the Rate Review Special Order "Differential Rating Special Order Resolution – E: Explanatory Statement 3a as Wairoa Township Commercial/Industrial with rateable capital value less than $200,000.00."	The reason for this differential is to recognise the relative burden of rates relative to services received for these properties.	2.75
iv.	**Wairoa Township (Commercial/Industrial) (CV ≥$200,000)** being all rateable properties defined under the Rate Review Special Order "Differential Rating Special Order Resolution – E: Explanatory Statement 3a as Wairoa Township Commercial/Industrial with rateable capital value equal to or greater than $200,000.00."	The reason for this differential is to recognise the relative burden of rates relative to services received for these properties.	2.75
v.	**Residential 3 (LV ≥$68,000)** being all rateable properties defined under the Rate Review Special Order "Differential Rating Special Order Resolution – E: Explanatory Statement 3a as Wairoa Township" and with a land value equal to or greater than $68,000.	This differential category recognises the relative burden of rates relative to services received for these properties.	0.55
RURAL DIFFERENTIAL CATEGORIES			
vi.	**Wairoa Rural (all properties not included in (vi), (vii), (viii), (ix), (xi) (x), (xi) and (xiv) below)** being all rateable properties defined under the Rate Review Special Order "Differential Rating Special Order Resolution – E: Explanatory Statement 3a as Wairoa Rural" with a land value less than $100,000.		1
vii.	**Rural Villages of Frasertown, Nuhaka and Raupunga** being all rateable properties defined under the Rate Review Special Order "Differential Rating Special Order Resolution – E: Explanatory Statement 3a as Wairoa Rural Residential" (the rural townships of Frasertown, Raupunga and Nuhaka).	This differential category recognises the relative burden of rates relative to services received for these properties.	1.25
viii.	**Rural Non-Forestry (LV ≥$100,000 and < $1,000,000)** being all rateable properties defined under the Rate Review Special Order "Differential Rating Special Order Resolution – E: Explanatory Statement 3a as Wairoa Rural", with a land value equal to or greater		1

	than $100,000 and less than $1,000,000.		
ix.	**Rural Non-Forestry (LV ≥$1,000,000)** being all rateable properties defined under the Rate Review Special Order "Differential Rating Special Order Resolution – E: Explanatory Statement 3a as Wairoa Rural" with Land Values greater than or equal to $1,000,000.		1
x.	**Rural Residential/Residential One (Mahia)** being all rateable properties defined under the Rate Review Special Order "Differential Rating Special Order Resolution – E: Explanatory Statement 3a as Mahia Rural Residential."	The reason for this differential is to recognise the relatively high property values that unfairly penalise ratepayers in the district. Also, Council is collecting the similar dollar value as was previously collected.	0.85
xi.	**Rural Residential - Residential One (b) (Tuai)** being all rateable properties defined under the Rate Review Special Order "Differential Rating Special Order Resolution – E: Explanatory Statement 3a as Tuai Rural Residential."	The reason for this differential is to recognise the relatively high property values that unfairly penalise ratepayers in the district. Also, Council is collecting the same dollar value as was previously collected.	0.5
xii.	**Rural Roading Forestry (<100ha)** being all rateable properties defined under the Rate Review Special Order "Differential Rating Special Order Resolution – E: Explanatory Statement 3a as Wairoa Rural Forestry" and with a land area less than 100 hectares.		1
xiii.	**Rural Roading Forestry (≥100ha)** being all rateable properties defined under the Rate Review Special Order "Differential Rating Special Order Resolution – E: Explanatory Statement 3a as Wairoa Rural Forestry" and with a land area equal to or greater than 100 hectares.	This differential category recognises the use to which the land is put and subsequent additional maintenance costs as a result of the forestry activities.	5
xiv.	**Rural Commercial (CV ≥$200,000)** being all rateable properties defined under the Rate Review Special Order "Differential Rating Special Order Resolution – E: Explanatory Statement 3a."	The reason for this differential is to reflect the advantage this group has compared to other ratepayers located in the same rural area, by consuming greater Council resources relative to other rural properties.	3.7

UNIFORM ANNUAL GENERAL CHARGE

The Uniform Annual General Charge (UAGC) is set at a fixed amount per 'separately used or inhabited part' of every rateable part of a rating unit in the district. It is used where the benefits of an activity are for the whole of the District and where the use of a value-based rate would place an unfair burden on high value properties.

TARGETED RATES

A targeted rate is a rate that is charged to a particular group of rateable properties where the Council has identified that a group of rateable properties benefits from a specific service. It is used to fund services where a particular community or group benefits from the activity being funded. Council employs a mix of rates calculated on the following bases:

- land value, differentiated
- capital value, differentiated
- per Separately Used or Inhabited Part (SUIP) of a rating unit
- per connection or installation
- scales of charges
- per unit of consumption

FEES AND CHARGES

The Council impose fees and charges to recover either the full or a part of the cost of a variety of services provided. These include, for example, the regulatory services such as building consents, provision of utility connections and vehicle crossings.

INTEREST AND DIVIDENDS

Interest and dividends from investments are used to reduce the amount of Rates required.

BORROWING

When funded by debt, the Council spreads the repayment of that borrowing over several years. This enables the Council to match charges placed on the community against the period of benefits from capital expenditure.

Borrowing is managed within the framework specified in the Liability Management Policy. While seeking to minimise interest costs and financial risks associated with borrowing is of primary importance, the Council seeks to match the term of borrowings with the average life of assets when practical. The Council's overall borrowing requirement is reduced to the extent that other funds are available to finance capital expenditure. Such other funds include:

- Council reserves
- contributions towards capital expenditure from other parties such as New Zealand Transport Agency (in relation to certain roading projects)
- revenue collected to cover depreciation charges
- proceeds from the sale of assets
- operating surpluses.

PROCEEDS FROM ASSET SALES

Proceeds from asset sales relate to funding received from selling physical assets such as plant and equipment. They are initially used to repay debt associated with that asset. Any remaining proceeds will be used to fund other capital expenditure within the activity that funded the acquisition of the asset sold.

DEVELOPMENT CONTRIBUTIONS

The Local Government Act 2002 provides for local authorities to recover, through development contributions, capital expenditure related to growth. Councils may require development contributions from developments where the effect, including the cumulative effect, of development is to require new or additional assets or assets of increased capacity, and as a consequence, the Council incurs capital expenditure. This includes capital expenditure a Council has already incurred in anticipation of growth.

Significant growth in services resulting from a population increase is not foreseen in the district over the ten year period, therefore the Council has chosen not to take development contributions as a form of revenue at this time.

FINANCIAL CONTRIBUTIONS UNDER THE RMA

Financial contributions can be provided for in a District Plan. Contributions may be imposed as a condition of development or resource consent. Currently the Council has no financial contributions, but the Council will consider financial contributions as part of the review for the next District Plan.

GRANTS AND SUBSIDIES

The Council receives subsidies from the New Zealand Transport Agency, which cover a proportion of the capital and maintenance costs of our roading network. The Council may also receive subsidies from the Ministry of Health for water related capital expenditure.

ANY OTHER SOURCE

Special funds are funds which have either been received by the Council from a third party to be used in a specific way (Restricted Funds) or monies tagged by the Council to be applied for a specific purpose or area of benefit (Non Restricted Funds).

FUNDING OF CAPITAL EXPENDITURE

The Council categorises its capital expenditure projects as renewals, extending level of service or growth related projects. The following funding sources are used for each category under normal circumstances, with any alternative funding sources specifically resolved by the Council.

RENEWAL PROJECTS

Renewal projects restore or replace components of an asset or the entire asset to meet the current level of service (to its original size, condition or capacity). These projects will be funded from capital reserves built up from funded depreciation. Where the reserve is not sufficient to meet the programmed renewals, then loans will be utilised and repaid from a contribution from the reserve that best fits intergenerational equity and/or the operational funding sources for the particular activity, as per the Policy.

EXTENDING LEVEL OF SERVICE PROJECTS

The creation of a new asset or alterations to an existing asset that means a higher level of service is delivered. These projects will be funded by loans and repaid from the operational funding sources.

GROWTH RELATED PROJECTS

Additional assets required to serve growth in existing services due to new areas being serviced. These projects will be funded from rates with the Council considering a contribution from the Economic Development Fund towards the asset creation on a case by case basis, after considering specific criteria.