

# FUNDING NEEDS DETERMINATION

DECEMBER 2017



**TE WAIROA**  
**WAIROA DISTRICT**

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## PURPOSE

This document details the analysis and explains the judgement Council applied in deciding how it will obtain funding for its range of activities. The resulting principles inform and are contained in Council's Revenue and Financing Policy.

The evaluation approach observes the requirements of section 101(3) of the Local Government Act 2002, which specifies:

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 to be funded,
  - i) the community outcomes to which the activity primarily contributes; and
  - ii) the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; and
  - iii) the period in or over which those benefits are expected to occur; and
  - iv) the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity; and
  - v) the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities; and
- b) the overall impact of any allocation of liability for revenue needs on the community.

## BACKGROUND

Every three yearly Long-term Plan iteration brings an opportunity for Council to review its Revenue and Financing Policy. Council has utilised a highly complex funding and rating matrix since 2000. Even though the methodology predates the Local Government Act 2002, it contains funding allocations to activities and a multitude of rate types and differentials that are largely faithful to the requirements of the legislation.

However, the inherent complexity renders the policy unwieldy and rating outcomes difficult to interpret. Council has therefore undertaken a review of its funding methodology and this document sets out the fundamental principles for funding operating costs, along with detailed rationales for all of Council's activities, and for capital expenditure.

There are obvious challenges in undertaking such an exercise. Council's activities are often homogeneous in that they are available to everyone, or there is secondary consumption or benefit and even an opportunity cost. Council recognises that sustainable funding relies on prudence, judgement and a holistic view. In this regard, the determination of funding sources also aligns to the purpose of local government. This is described in section 10 (1)(b) of the Local Government Act 2002, 'to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses'.

## FUNDING SOURCES FOR OPERATING COSTS

Operating costs are the day-to-day expenses that keep the activities running. These include payments to suppliers, repayment of loans and interest as well as depreciation, which is the wear and tear on assets that will eventually need to be renewed or replaced. Overall Council will seek to generate sufficient revenue to meet its operating costs each financial year. Reserves will be used to manage cyclical fluctuations.

- a. Council will seek to maximise external revenue sources, such as subsidies and grants, wherever they are available.
- b. For elements of activities where there is exclusive private benefit or the actions or inactions of particular individuals or groups affect the scope of the activity, Council will recover the costs via fees and charges, or other direct sources such as rental income.
- c. Where activities are available equally to particular groups Council will recover the costs of provision via targeted rates.
- d. For activities that are available throughout the district, Council will apply a general rate. This will be calculated using differentials to reflect the inherent varying demand that different land uses place upon these activities, and to achieve a distribution that Council considers appropriate in the context of affordability and its community outcomes.

Council will not generally use borrowing to fund its operating costs. An exceptional case would be for a project that is expected to deliver economic benefit in the future.

A detailed rationale for the funding sources determined for each activity is attached as Appendix 1.

## FUNDING SOURCES FOR CAPITAL EXPENDITURE

Capital expenditure relates to the acquisition, construction, renewal and replacement of fixed assets. Council applies the following principles to the funding of capital expenditure:

- a. Council will seek to maximise grant and subsidy revenue wherever available. This is particularly relevant to roads, via NZTA.
- b. Depreciation reserves will be the primary funding source for renewals, along with any corresponding accumulated investment revenue. Any shortfalls will be funded via borrowing.
- c. Council does not currently utilise development contributions or financial contributions. These remain a viable option and will be evaluated as Council proceeds with the review of its District Plan. However, Council may seek lump sum contributions for some projects, particularly those that respond to growth or changes to levels of service. This option was included previously in the funding proposal for the Māhia and Opoutama wastewater scheme. This is likely to feature again with future growth and consent requirements for water services.
- d. The balance of funding required for new assets will be derived from the sale of investments, general reserves, and borrowing. Debt servicing is covered by Council's Liability Management Policy. To ensure that each generation pays for a reasonable share of the consumption of an asset, Council will generally not recover depreciation costs until debt or reserve funding is repaid.
- e. Minor expenditure on short life assets, such as furniture and office equipment may be funded through rates.
- f. The proceeds from the sale of assets will be utilised to fund replacements where applicable, such as motor vehicles, or for the purpose prescribed in a business case approved by Council, as with land parcels.
- g. Insurance proceeds will be utilised if an insured asset is destroyed and replaced. If the asset is not replaced this revenue will be held in a corresponding reserve until Council identifies a suitably qualifying project.

A combination of these will sometimes be appropriate. Council considers that it is inappropriate to separately determine funding sources for capital expenditure for each activity for the following reasons:

1. The principles identified above are common to all assets and thus all activities
2. The funding method is determined by the nature and lifecycle of the asset, rather than the activity it supports.
3. The annual operating costs for each activity include capital funding elements:
  - a. Renewals and replacements are primarily funded by reserves that accumulate from depreciation charges.
  - b. Borrowing, investments and general reserves used to fund other assets are repaid over time through the operating budgets for respective activities.

Therefore, by evaluating operating funding sources for its activities, Council automatically determines funding sources for capital expenditure. For clarity the statutory requirements as the relate to capital expenditure are considered below:

| Ref  | Element                                       | Funding Consideration   |
|------|---|---|
| i.   | Community Outcomes                            | Expected to be the same as the operating costs for the particular activity  |
| ii.  | Distribution of Benefit                       | Expected to be the same as the operating costs for the particular activity. A variation may arise where the scope of an activity is altered due to growth or changes to the level of service. For example, operating costs for water services are recovered through targeted rates levied on the rating units connected to the networks. An extension to the reticulation network to enable a new catchment to connect may be funded through lump sum contributions.  |
| iii. | Period of Benefit                             | While operating costs relate to benefits delivered in a particular year, capital expenditure will often occur in one year but provides benefit over the life of the asset. Therefore, the funding mechanism will distribute the liability over that asset life in the form of depreciation charges, debt servicing and reserve replenishment. These are applied through the operating budgets for the respective activities.  |
| iv.  | Actions or Inactions of Individuals or Groups | To some extent this factor may influence the amount of capital expenditure that is required for a particular activity. Council will weight its funding requirements to reflect this where it is reasonable to do so. For example, <ol style="list-style-type: none"> <li>1. A high degree of irresponsible dog ownership may create the need for a larger pound. It would be unrealistic to expect to recover the full cost from a relatively small group in one go, but the proportion of annual operating costs that are funded by fines, fees and charges reflects this.</li> <li>2. The cost of provided treated water is recovered through targeted rates from rating units that are within the scheme catchments. For standard users this is on a fixed amount basis. However high demand from certain undertakings affects the design capacity and life of the treatment plant. Council applies a volumetric rate to high users and considers the use of lump sum contributions for asset renewals.</li> </ol> |
| v.   | Separate Funding                              | Council's considerations in this area will be influenced by the scale, complexity and significance of projects, the prospective funding mix, and elements i to iv above.<br><br>Council will also observe any regulatory requirements or other specific area of accountability. This is often the case where there are co-funding arrangements such as the subsidy for roadworks that Council receives from NZTA.<br><br>Where significant capital expenditure is required to extend activities to new user groups Council believes separate funding mechanisms are useful to provide transparency to the community. For example, the Māhia and Opoutama wastewater reticulation scheme is funded by a combination of lump sum contributions and capital contribution rates, distinct from the rest of the wastewater activity.   |

# OVERALL FUNDING CONSIDERATIONS

By pursuing a principle of maximising external revenue sources Council seeks to deliver the best value possible to the community.

Council also recognises that consumption of many of its activities is not discretionary, and in some circumstances, it is compulsory. Council therefore, after considering the direct consequences of the factors contained in S101(3)(a), it takes an overview of the distribution of liability across the community.

There are social, environmental and economic interdependencies throughout the community. Some undertakings support the achievement of others, while others exist at the exclusion of others. Undertakings can create, save, consume and divert resources and opportunities.

Council seeks to achieve an appropriate balance, taking into account that the factors considered above are part of the equation as well such factors as affordability and its vision for the district.

For these reasons, Council has taken an holistic view and applied weightings to ensure that the distribution of its funding needs is appropriate and sustainable.

Recognising that growth and diversity are beneficial to the district, but that these will materialise at different times and at varying rates of change in various areas Council has allowed for a combination of consistency and flexibility in its funding methodology, via:

- Percentage ranges of potential funding sources for operating costs
- Mixed funding where realistic and appropriate
- Rating policy that includes:
  - A capital value based general rate
  - A small range of land use differentials that can be reviewed and adjusted as demographics and demands evolve
  - A uniform annual general charge expressed as a percentage of the general rate that can be reviewed and adjusted.
  - Targeted rates

# APPENDIX 1: FUNDING DETERMINATIONS FOR ACTIVITIES, S101(3)(A)

The following table sets out the rationales Council has applied to determine the allocation of funding sources for its activities. These are stated at cost centre level for transparency.

| Activity  | i) Outcomes   | ii) Beneficiaries   | iii) Period  | iv) Actions / Inactions                                | v) Separate Funding  | Funding Determination  |
|---|---|---|--|--|--|--|
| <b>Community Facilities:</b>  |   |   |  |  |  |  |
| <ul style="list-style-type: none"> <li>Built Spaces - Community Centre Community Halls</li> </ul> | Culture & heritage<br>Recreation<br>Supportive & caring<br>Safe & secure<br>Good health<br>Education                | Whole district  | Continuous – funded annually   | Insignificant  | Provides transparency and accountability   | General Rate 100%  |
| <ul style="list-style-type: none"> <li>Community Support</li> </ul>                               | Culture & heritage<br>Recreation<br>Supportive & caring<br>Education  | Specific user groups<br>Whole district<br>Affordable housing cadets | Continuous – funded annually   | Insignificant  | Specific accountability to providers of grant revenue and users.<br>General transparency to the community                | House sales 10% - 15%<br>Grants 10% - 15%<br>Donations 0% - 5%<br>General Rate 70% - 80% |
| <ul style="list-style-type: none"> <li>Library</li> </ul>   | Culture & heritage<br>Recreation<br>Supportive & caring<br>Education  | Specific user groups<br>Whole district                              | Continuous – funded annually   | Minimal - late returns                                 | Specific accountability to providers of grant revenue.<br>General transparency to the community                          | Grants 0% - 5%<br>Fees 0% - 5%<br>General Rate 90% - 100%                                |
| <ul style="list-style-type: none"> <li>Open Spaces – Cemeteries</li> </ul>                        | Culture & heritage<br>Supportive & caring<br>Environment  | Families of deceased<br>Whole district                              | Continuous – funded annually   | Insignificant  | Provides transparency and accountability   | Grants 0% - 5%<br>Fees 15% - 20%<br>General Rate 75% - 85%                               |
| <ul style="list-style-type: none"> <li>Open Spaces – Parks and Reserves</li> </ul>                | Culture & heritage<br>Recreation<br>Supportive & caring<br>Safe & secure<br>Good health<br>Environment<br>Education | Specific user groups<br>Tenants<br>Whole district                   | Continuous – funded annually   | Moderate effect of behaviour on availability and scope | Provides transparency and accountability   | Fees and Rentals 0% - 5%<br>General Rate 95% - 100%                                      |
| <b>Corporate Functions:</b>   |   |   |  |  |  |  |
| <ul style="list-style-type: none"> <li>Administration</li> </ul>                                  | All   | Whole district as a support function                                | Continuous – funded annually.<br>Some periodic such as three yearly election service | Minimal - LGOIMA enquiries                             | Fees applied for some services.<br>Otherwise this is a support service that is funded as an overhead to other activities | Fees 0% - 10%<br><br>Rates via internal overhead 90% - 100%                              |

| Activity  | i) Outcomes  | ii) Beneficiaries   | iii) Period  | iv) Actions / Inactions  | v) Separate Funding   | Funding Determination                                   |
|---|--|---|--|--|---|---|
| <ul style="list-style-type: none"> <li>Administrative Buildings</li> <li>Sundry Property</li> </ul> | All  | Whole district  | Continuous – funded annually   | Insignificant  | Funded through other activities via internal rent charge.   | Rates via internal rent 100%                            |
| <ul style="list-style-type: none"> <li>Camping Ground</li> </ul>                                    | Culture & heritage<br>Recreation   | Visitors, residents and businesses  | As provided and available  | Seasonal   | Provides accountability guests, transparency to community   | Fees and Charges 40% - 50%<br>General Rate 50% - 60%    |
| <ul style="list-style-type: none"> <li>Commercial Property</li> </ul>                               | Economy  | Tenants   | Term of occupancy  | Behaviour and demand of tenants  | Provides accountability   | Lease revenue 100%                                      |
| <ul style="list-style-type: none"> <li>Finance</li> </ul>   | All  | Whole district as a support function  | Continuous – funded annually   | Affected by non-payment of receivables and behaviour that leads to additional invoicing. | Fees applied for some counter services. Otherwise this is a support service that is funded as an overhead to other activities | Fees 0% - 10%<br>Rates via internal overhead 90% - 100% |
| <ul style="list-style-type: none"> <li>Forestry</li> </ul>  | Economy  | Whole district as a return on investment and environmental protection. Ratepayers in water service catchments where amenities are protected | Windfalls in harvest years – today's ratepayers should not pay to maintain an investment that provides a return in the future. | Negligible   | Provides transparency and accountability  | Reserves 100%   |
| <ul style="list-style-type: none"> <li>Pensioner Housing</li> </ul>                                 | Culture & heritage<br>Supportive & caring<br>Safe & secure<br>Good health              | Tenants and their families  | Term of occupancy  | Negligible   | Provides accountability to tenants and families, transparency to community  | Lease revenue 100%                                      |
| <ul style="list-style-type: none"> <li>Staff Housing</li> </ul>                                     | Culture & heritage<br>Supportive & caring<br>Safe & secure<br>Good health<br>Education | Tenants   | Term of occupancy  | Negligible   | Provides accountability to tenants and families, transparency to community  | Lease revenue 100%                                      |

| Activity   | i) Outcomes  | ii) Beneficiaries   | iii) Period  | iv) Actions / Inactions   | v) Separate Funding   | Funding Determination                                    |
|--|--|---|--|---|---|--|
| <b>Leadership &amp; Governance:</b>  |  |   |  |   |   |  |
| <ul style="list-style-type: none"> <li>Council (Community Representation)</li> </ul> | All  | Whole district  | Continuous – funded annually   | Variable  | Provides transparency and accountability  | General Rate 100%  |
| <ul style="list-style-type: none"> <li>Economic Development</li> </ul>               | Economy  | Whole district  | Continuous – funded annually   | Variable  | Provides transparency and accountability  | Subsidies 0% - 10%<br>General Rate 90% - 100%            |
| <ul style="list-style-type: none"> <li>Māori Relationships</li> </ul>                | Culture & heritage   | Whole district  | Continuous – funded annually   | Variable  | Provides transparency and accountability  | General Rate 100%  |
| <ul style="list-style-type: none"> <li>Visitor Information</li> </ul>                | Economy<br>Culture & heritage<br>Recreation<br>Education                             | Whole district<br>Tourism operators   | Continuous – funded annually   | Variable and seasonal   | Provides transparency and accountability  | Commissions / Retail 0% - 10%<br>General Rate 90% - 100% |
| <b>Planning and Regulatory:</b>  |  |   |  |   |   |  |
| <ul style="list-style-type: none"> <li>Building Inspection</li> </ul>                | Economy<br>Recreation<br>Safe and secure<br>Good health<br>Environment               | Property owners,<br>residents and<br>businesses<br>Developers<br>Whole district | Continuous – funded annually<br>Some periodic such as reaccreditation                          | Can be affected by scale and nature of developments.  | Supports accountability to regulatory bodies and transparency of consistency to community | Fees and Charges 40% - 50%<br>General Rate 50% - 60%     |
| <ul style="list-style-type: none"> <li>By-law Control</li> </ul>                     | Recreation<br>Safe and secure<br>Good health<br>Environment<br>Education             | Animal owners,<br>property owners,<br>residents and visitors.                   | Continuous – funded annually   | Adversely affected by irresponsible behaviour.  | Supports accountability to regulatory bodies and transparency to animal owners            | Fees and Charges 40% - 50%<br>General Rate 50% - 60%     |
| <ul style="list-style-type: none"> <li>District Planning</li> </ul>                  | Economy<br>Recreation<br>Leadership<br>Safe and secure<br>Good health<br>Environment | Property owners,<br>residents and<br>businesses<br>Developers<br>Whole district | Resource management activity supported annually<br>Cyclical review of District Plan – 10 years | Can be affected by scale and nature of developments and undertakings  | Supports accountability to regulatory bodies and transparency of consistency to community | Fees and Charges 40% - 50%<br>General Rate 50% - 60%     |
| <ul style="list-style-type: none"> <li>Environmental Health</li> </ul>               | Safe and secure<br>Good health<br>Environment<br>Education                           | Property owners,<br>residents and<br>businesses<br>Developers<br>Whole district | Continuous – funded annually   | Can be affected by scale and nature of developments and undertakings.<br>Adversely affected by irresponsible behaviour. | Supports accountability to regulatory bodies and transparency of consistency to community | Fees and Charges 10% - 20%<br>General Rate 80% - 90%     |



| Activity   | i) Outcomes  | ii) Beneficiaries   | iii) Period  | iv) Actions / Inactions   | v) Separate Funding   | Funding Determination   |
|--|--|---|--|---|---|---|
| <ul style="list-style-type: none"> <li>Liquor Licensing</li> </ul>   | Safe and secure<br>Good health<br>Environment<br>Education | Residents, businesses and visitors  | Continuous – funded annually   | Adversely affected by irresponsible behaviour.  | Supports accountability to regulatory bodies and transparency of consistency to community | Fees and Charges 10% - 20%<br>General Rate 80% - 90%                        |
| <b>Solid Waste Management</b>  | All  | Residents, businesses and visitors within catchments.<br>Potential external users.                                  | Continuous – funded annually<br>Long-term for landfill management  | Adversely affected by irresponsible behaviour – fly tipping<br>Positively affected by responsible behaviour – recycling | Provides transparency and accountability to users and community                           | Fees and Charges 40% - 50%<br>Targeted Rate 50% - 60%                       |
| <b>Transport:</b>  |  |   |  |   |   |   |
| <ul style="list-style-type: none"> <li>Airport</li> </ul>            | All  | Private users and operators<br>Whole district   | Continuous – funded annually   | Negligible  | Provides transparency and accountability to users and community                           | Landing Fees 5% - 10%<br>Lease rental 5% - 10%<br>General Rate 80% - 100%   |
| <ul style="list-style-type: none"> <li>Parking</li> </ul>            | All  | Residents, businesses and visitors  | Continuous – funded annually   | Negligible  | Accountability and transparency to road users and community                               | General Rate 100%   |
| <ul style="list-style-type: none"> <li>Roads – subsidised</li> </ul> | All  | Residents, businesses and visitors.<br>Directly from personal use and indirectly from access to goods and services. | Annual for maintenance, three yearly as part of NZTA approved programme and long-term for renewals via depreciation. | Heavily affected by nature of use, volumes and loads. Direct link to land use.  | Accountability to NZTA, transparency to road users.                                       | Subsidy 50% - 70%<br>General Rate 30% - 50%                                 |
| <ul style="list-style-type: none"> <li>Roads – local</li> </ul>      | All  | Residents, businesses and visitors.<br>Directly from personal use and indirectly from access to goods and services. | Annual for maintenance and long-term for renewals via depreciation.  | Heavily affected by nature of use, volumes and loads. Direct link to land use.  | Accountability and transparency to road users   | Fees and Charges 0% - 10%<br>Petrol Tax 0% - 10%<br>General Rate 80% - 100% |

| Activity  | i) Outcomes  | ii) Beneficiaries                            | iii) Period          | iv) Actions / Inactions                | v) Separate Funding   | Funding Determination  |
|---|--|--|----------------------|--|---|--|
| <b>Water Services:</b>  |  |  |                      |  |   |  |
| <ul style="list-style-type: none"> <li>Stormwater</li> </ul>                                  | Economy<br>Transport<br>Recreation<br>Supportive & caring<br>Safe & secure<br>Good health<br>Environment         | Property owners in catchment areas, visitors | Annual and long-term | Affected by development and road usage | Accountability and transparency to local communities              | Investment 0% - 5%<br>Targeted Rate 95% - 100%                             |
| <ul style="list-style-type: none"> <li>Wastewater general</li> </ul>                          | Economy<br>Culture & heritage<br>Supportive & caring<br>Safe & secure<br>Good health<br>Environment<br>Education | Whole district                               | Annual and long-term | Affected by general behaviour of users | Accountability and transparency to whole community.               | Investment 0% - 5%<br>Fees and Charges 0% - 5%<br>Targeted Rate 90% - 100% |
| <ul style="list-style-type: none"> <li>Wastewater Māhia / Opoutama Capital Schemes</li> </ul> | Economy<br>Supportive & caring<br>Safe & secure<br>Good health<br>Environment                                    | Property owners in catchment areas, visitors | Asset life           | Negligible                             | Accountability and transparency to catchment and whole community. | Targeted Rate 90% - 100%   |
| <ul style="list-style-type: none"> <li>Water Production</li> </ul>                            | Economy<br>Supportive & caring<br>Safe & secure<br>Good health<br>Environment                                    | Property owners in catchment areas, visitors | Annual and long-term | Affected by general behaviour of users | Accountability and transparency to users and whole community.     | Targeted Rate 100%   |
| <ul style="list-style-type: none"> <li>Water Reticulation</li> </ul>                          | Economy<br>Supportive & caring<br>Safe & secure<br>Good health<br>Environment                                    | Property owners in catchment areas, visitors | Annual and long-term | Affected by general behaviour of users | Accountability and transparency to users and whole community.     | Investment 0% - 5%<br>Fees and Charges 0% - 5%<br>Targeted Rate 90% - 100% |