Revenue & Financing Policy

Policy status:	Adopted
Review due:	30 June 2024
Legal reference:	Local Government Act 2002 Section 102(2)(a) and 103, and Schedule 10, Part 1 (10)

Objective

This policy provides the funding mechanisms to ensure the equitable distribution of costs to those who benefit, as well as providing for the financial sustainability of the activities undertaken.

Financial management

The Council will ensure that each year's projected revenues are set at a level sufficient to meet that year's projected operating expenses. In other words, it will aim to produce a balanced budget.

The Council will manage it revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community. The Council will make adequate and effective provision to meet the expenditure needs of the district, which have been identified in its Long-Term Plan, and in its Annual Plan where applicable.

Funding principles

When making funding policy the Council must work through the process and matters set out in section 101(3) of the Local Government Act and have regard to the section 101(1) obligation to act prudently and in the interests of the community.

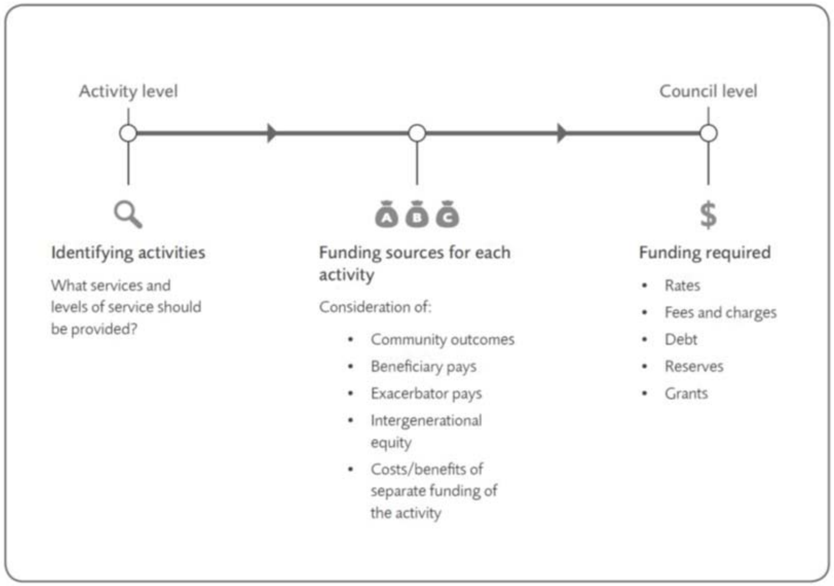
Section 101(3) analysis is basically a two-step process, as discussed below.

First step considerations

The first step requires consideration at activity level of each of the following:

1) Community outcomes to which the activity primarily contributes
2) The distribution of benefits between the community, and any identifiable parts of the community and individuals
3) Period over which benefits occur
4) The extent to which actions or inactions contribute to a need to undertake the activity
5) The costs and benefits of funding the activity distinctly from other activities.

No single criterion has greater weight in law than the others.



1) The community outcomes to which the activity contributes

Our community outcomes are:

Community – we communicate, engage and inform our community.

Development – we promote and support the development of our economy

Services – our services and infrastructure are cost effective, efficient and fit for purpose.

Environment – we value and protect our environment

Future – we work with our community and our partners to create a better place for future generations

The Council manages ten groups of activities to support the achievement of our community outcomes.

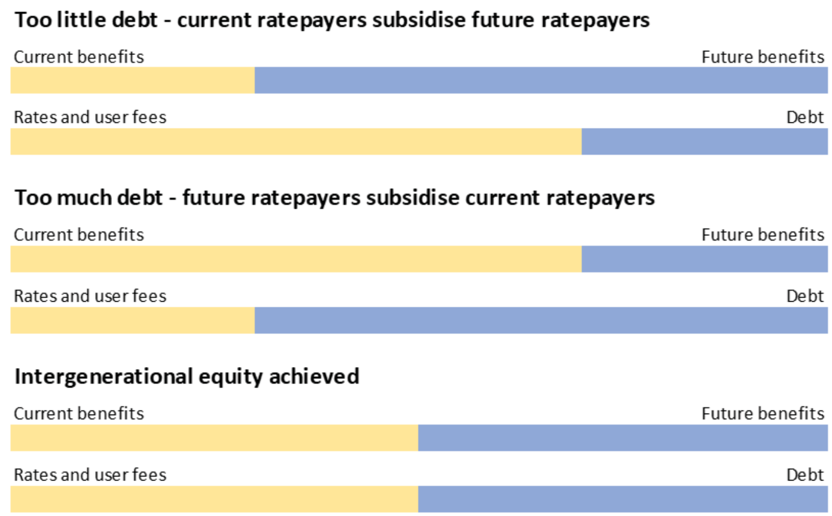
2) **The distribution of benefits between the community as a whole**, any identifiable part of the community, and individuals (the beneficiary pays principle).

The community as a whole means all residents and ratepayers. For some of the Council's activities it is difficult to identify individual users, or people cannot be excluded from entry, or everyone benefits in some way from an activity (also known as "public good"). If the activity benefits the community as a whole, it is appropriate to fund that activity by the community as a whole, such as by general rate. If groups or individuals benefit, then costs can be recovered either by a targeted rate or user fees.

3) **The period over which those benefits are likely to occur** - 'intergenerational equity' principle.

Many of the activities provided by local government are either network or community infrastructure (for example, roads and stormwater channels), which last for a long time. Benefits from infrastructure can be expected to last for the life of the asset. This matter requires consideration of how the benefits and costs for the assets are distributed over time, so that current day ratepayers are not meeting the entire burden by paying for them now. This is illustrated in the diagram below.

The main tool for ensuring intergenerational equity is the use of debt, and then rating future ratepayers to service the debt. A decision not to borrow for new capital is effectively a decision that current ratepayers should meet the cost of services that future ratepayers will consume, and should be made as a conscious policy choice.



4. **The extent to which the actions (or inaction) of any individual or group may contribute to the need to undertake the activity**

   This is the exacerbator pays principle which is that those groups whose actions or inactions give rise to a need to undertake a certain activity should contribute to the costs of that activity.

5. **The costs and benefits of funding the activity distinctly from other activities**
   Should the activity be funded from a general source (e.g. general rates or uniform charge) or from a targeted source such as user fees and charges, or a targeted rate. The choice between general and targeted rating requires consideration of the consequences for transparency and accountability. This might include:
   - The smaller the activity the less likely that funding it separately will be economic or practical
   - Legal requirements may require an activity to be ring fenced

- An activity that may be of benefit to a subset of the community may be a stronger candidate for distinct funding
- Transparent rates may aid in the community seeing what they get for their money

Second step considerations

Having considered the most appropriate sources of funding in relation to each activity, the second step requires the Council to consider the overall impact of any allocation of liability for revenue needs on the community, and to consider if any changes are needed. This involves weighing up the impact of rates on the community. Such considerations might include:

- affordability - the ability to pay by low income households
- barriers to access services
- legal constraints
- materiality
- sustainability; and
- fair treatment of the business sector - balancing the ability to pay and the benefits received.

The Council may, as a final measure, modify the overall mix of funding in response to these considerations.

Preferences for sources of funding

The Council, as a matter of principle, prefers the activities and services it provides to generate their own revenues, and for rates – particularly general rates – to be among the least preferred. Loans may be used to fund operating expenses in certain circumstances, such as to smooth the rates impact during unforeseen events (examples are using short-term loans to reduce or smooth the rates requirement during a pandemic, or following a major disaster such as an earthquake).

The following sets out the Council's preferences in order from top. This is the default order of preference for any new activity, or any existing activity not specified in this Policy.

Preferred funding sources for operating expenses:	
1st Commercial revenue	Dividends, interest earned, logging sales & forestry revenue
2nd User fees & charges	Consent fees, lease revenue, registration fees, etc
3rd Grants & subsidies	Grants and subsidies received from external organisations
4th Special funds & reserves	Funds held for a specific purpose
5th Targeted rates	Rates for a specific purpose levied on a target community
6th General rates	Rates for general purposes levied district wide
7th Loans	Borrowed funds
Preferred funding sources for capital expenses (including repayment of loan principal):	
1st Commercial revenue	Dividends, interest earned, logging sales & forestry revenue
2nd Grants & subsidies	Grants and subsidies received from external organisations
3rd Special funds & reserves	Funds held for a specific purpose
4th Development contributions	Received from developers towards the cost of development
5th Loans	Borrowed funds
6th Targeted rates	Rates for a specific purpose levied on a target community
7th General rates	Rates for general purposes levied district wide
8th User fees & charges	Consent fees, lease revenue, registration fees