

Attachment B:

2018-2028 Revenue and Financing Policy

adopted

Revenue and Financing Policy

The Revenue and Financing Policy sets out how Council funds each activity it is involved in and why. Council is required to have this policy to provide predictability and certainty to customers about the sources and levels of funding.

The policy is set out in four sections with one attachment, as follows:

- 1 Introduction
- 2 Our Funding Approach
- 3 Description of Funding Mechanisms
- 4 Funding of Activities

This Revenue and Financing Policy is required by section 102 and Part 1 of Schedule 10 of the Local Government Act 2002 (LGA) to be included as part of Council's Long Term Plan. Other funding and financial policies required to be adopted by Council under section 102(2) of the Act are not required to be included as part of Council's Long Term Plan.

Council has however elected to include the following policies as part of its Long Term Plan:

- a) a Liability Management Policy
- b) an Investment Policy
- c) policies on development or financial contributions
- d) rating policies

Review

The Revenue and Financing Policy will be reviewed three-yearly as part of the Long Term Plan process.

Supporting Documentation Available

The following supporting documentation is available on Council's website at www.kaipara.govt.nz

- Long Term Plan 2018/2028 – Revenue and Financing Policy - Activity Analysis.

Introduction

The purpose of the Revenue and Financing Policy is to describe how Council funds its operating and capital expenses from the funding sources available to Council and why it chooses the various mechanisms to fund the operating and capital expenditure of Council.

Summary of Key Changes

The key changes from the Long Term Plan 2015/2025 are:

1 The 2017 General Property Revaluation

The Rating Valuations Act 1998 requires local authorities to update property valuations used for setting rates no later than every three years. Kaipara District Council has for the last three rating years applied rates based on valuations as at 01 September 2014. These valuations have been the basis of general and other targeted rates for the 2015/2016, 2016/2017 and 2017/2018 rating years.

Quotable Value recently undertook the 2017 general property revaluation for Kaipara District Council. The approved changes to property values take effect from 01 July 2018, and will be the basis for value-based rates for the following three rating years: 2018/2019, 2019/2020 and 2020/2021.

Further details are available in the Funding Impact Statement (Rating Tools).

2 Rural Fire

Following a governmental review of urban and rural fire services local government responsibility for rural fire services was moved to the new Fire and Emergency New Zealand. These activities are now not included in the Long Term Plan 2018/2028.

Our Funding Approach

In determining how activities are funded Council is obliged to equitably share the costs of delivering services across different users as well as ensuring equity between current and future generations. In deciding how to fund each activity, Council considers the nature of the services provided and who benefits from those services.

It considers¹:

- The community outcomes to which an activity primarily contributes;
- 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; and
- The costs and benefits of funding the activity distinctly from other activities.

It then considers the overall impact of any allocation of liability for revenue needs on the current and future well-being of the district and determines whether it needs to modify any of its earlier decisions.

¹ A copy of this assessment, required by LGA(101(3)(a)), is located on Council's website www.kaipara.govt.nz

Description of Funding Mechanisms

Types of Expenditure

Broadly speaking Council has two types of expenses: **operating expenditure and capital expenditure.**

Operating expenditure is used to fund the ongoing day to day activities and services of Council.

Capital expenditure is money spent in acquiring or upgrading a business asset such as equipment or buildings. Council has three categories of capital expenditure spread across its activities:

- *Renewals* – capital expenditure that increases the life or replaces an existing asset with no increase in service level;
- *Increased Level of Service (ILOS)* – capital expenditure that increases the service level delivered by the asset; and
- *Additional Capacity (AC)* – capital expenditure that is required to provide additional capacity in whole or part necessary to accommodate growth.

Funding Mechanisms

Different funding sources are used for different types of expenditure. Council funds its expenditure using the following funding mechanisms.

User Fees and Charges are fees charged to individuals or groups who are directly using a Council service. In this case, there is a direct benefit to an individual or group. User fees and charges also include rental income. For a user charge to be charged, the beneficiaries must be able to be identified and charged directly for the service they receive. Council also considers issues like the affordability of user charges or how they compare to the market rate for services. The use of user charges may be balanced with other funding sources where the Council believes that a charge set too high will reduce use and therefore diminish the value of the service to the community and impose a greater cost on ratepayers.

Rates

There are two main types of rates:

- General Rates, which can be distinguished according to
 - Value base rates;
 - Differentials;
 - Uniform Annual General Charge (UAGC); and
- Targeted Rates

General Rate is a rate assessed across all rateable properties in the district based on a property valuation system. It is used to fund those services where Council believes there is a public benefit to the whole of the community across the district and where a fixed charge per Rating Unit is not considered appropriate. In so doing, Council acknowledges that a rate based on property value does not necessarily match ability to pay.

By law, the General Rate must be based on a property valuation system. Council currently uses a land valuation system.

Council has four differentials to its General Rate, (for land other than in the Mangawhai Harbour Restoration Area: 100% for residential and small sized lifestyle land under 2 hectares; 155% for all other land use categories and for

land in the Mangawhai Harbour Restoration Area: 101% for residential and small sized lifestyle land under 2 hectares and 156% for all other land use categories). The use of these differentials is to recognise that in addition to the public good element of the services funded by General Rates where everyone benefits and can use them there is a difference, which we have assessed by using land use categories, as to how much ratepayers characterised by each category benefit from the service, primarily the roading network and the extent to which they contribute to the costs of that service.

The Uniform Annual General Charge (UAGC) is a proportion of the General Rate set at a fixed amount per Rating Unit in the district. It is used to ensure a fair distribution across ratepayers given the marked difference in land values across the district. This mitigates the impact of a value-based rate which would otherwise place an unfair burden on higher value properties. The level of the UAGC represents a base level for the cost of benefits received from the services Council provides. Council's policy is to set the UAGC at close to the maximum allowable by law. This policy has been developed following consideration of the impacts of the overall allocation of rating liability required under section 101(3)(b) of the Local Government Act 2002.

Targeted Rates (Area of Service) are rates that are charged to particular communities or groups of ratepayers. They are used to fund services where a particular community or group benefits from the activity being funded. Targeted rates may be assessed on the land value (LV), applied on a uniform basis to each ratepayer (UAC) or charged based on the ratepayer's consumption of the service (consumption). The following activities currently utilise targeted rates funding mechanisms:

- Flood protection and control works (LV);
- Stormwater drainage (LV);
- Sewerage and the treatment of sewage (UAC);
- Water supply (Consumption);
- Mangawhai Harbour Restoration (UAC);
- Halls and Pensioner Housing (Ruawai Tokatoka Hall) (UAC);
- Provision of Roads and Footpaths (LV); and
- Forestry Targeted Rate (LV).

Council will charge each Rating Unit (see **the explanatory note at the end of this Policy**) for each targeted rate. The wastewater targeted rate is to be charged per Separately Used or Inhabited Part (SUIP) except for non-residential properties which will be assessed based on rating units and pan charges.

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

Financial and Development Contributions can be required from developers where the effects of developments is to require Council to incur capital expenditure to provide new or additional assets or assets of increased capacity or to mitigate their direct effects. Council considers that it is appropriate for developers to meet the resulting costs and that these costs should not fall to the existing ratepayer body.

Council's Policies on Development Contributions and Financial Contributions set out the methods by which contributions are calculated and required.

Development Contributions required under the Local Government Act 2002 are generally used to fund growth related capital expenditure on infrastructure provided by the Council as part of its normal capital programme.

Financial Contributions are required under the Resource Management Act 1991. They are usually imposed to fund local works in the vicinity of developments, which should normally be provided by individual developers but which Council decides to provide and fund in order to achieve more satisfactory outcomes for all parties concerned.

Although Council can require both Development Contributions and Financial Contributions, it cannot require both from the same development for the same purpose.

Grants and Subsidies are funding received from other agencies, usually for a specific purpose. As such, they are used to fund those purposes.

Depreciation Reserves are funds in which the probable replacement cost of assets is accumulated each year over the life of the assets, so that they can be replaced readily when they become obsolete. Depreciation in turn is funded from rates and other operating revenues.

Other Reserves are funds for specific purposes. *Retained earnings* are used to fund operating or capital expenses at the Council's discretion. *Special reserves* will be used to fund either operating or capital expenses according to the policy applying to those reserves.

Investment Interest and Dividends are used to reduce the amount of General Rate required.

Borrowing is not a source of revenue. Rather it is a 'bridging' mechanism to assist with the financing required for the construction of long term assets. The debt still needs to be repaid from other sources of revenue (e.g. rates). The use of debt allows us to enjoy the asset in the present while paying for it over time as the debt is paid back. In this sense it is much the same as a home mortgage. Borrowing is usually called upon to fund capital works and assets built or provided now before future new consumers use those services. It is used to ensure fairness or intergenerational equity so that current ratepayers pay for the services they use now, and future ratepayers pay their share too. It is generally used where other available funding sources are exhausted. Council only uses borrowing to fund operational expenditure when it is financially prudent to do so and where there are clearly benefits that are delivered beyond the immediate financial year in which the expenditure is incurred. An example is where there is a significant single year spike in operational costs in delivering a particular activity (such as desludging the wastewater ponds), where the ongoing benefits of the work outweigh the financial costs of borrowing.

Lump Sum contributions are where ratepayers are asked to pay a capital (or lump sum) payment towards meeting the cost of providing a particular asset in their community (e.g. upgrading of a water supply) rather than pay for these capital costs via an annual targeted rate. These contributions will be used to fund the retirement of debt for specific capital activity from time to time.

Application of Funding Mechanisms to Expenditure

Different funding sources are used for different types of expenditure.

Council uses the funding mechanisms as follows:

Funding Mechanism	Operating Expenditure	Capital Expenditure		
		Additional Capacity	Increased Level of Service	Renewals
General Rates, including the Uniform Annual General Charge	✓		✓*	✓*
Targeted Rates	✓		✓*	✓*
Lump Sum Contributions	✓	✓*	✓*	✓*
Fees and Charges	✓		✓*	✓*
Borrowing	✓**	✓	✓	✓
Asset Sales			✓	✓
Development Contributions		✓		
Financial Contributions		✓		
Grants and Subsidies	✓		✓	✓
Depreciation			✓	✓

* Application depends on how the activity to which capital expenditure relates is funded.

** used in exceptional circumstances where the expenditure does not create an asset but benefits of the expenditure accrue over more than one year, e.g. desludging

Rating Act

The Local Government (Rating) Act 2002 places some restrictions on the use of rating tools.

The Act limits total fixed charges (excluding water and wastewater charges) to 30 per cent of total rates revenue. Fixed charges include the Uniform Annual General Charge and targeted rates set at a fixed amount.

When setting the General Rate, the Local Government (Rating) Act 2002 allows a choice of one valuation system from three options:

- 1 The annual value of the land; or
- 2 The capital value of the land; or
- 3 The land value.

Currently, Council's General Rate is based on land value.

Funding of Activities

In determining how activities are funded Council is obliged to equitably share the costs of delivering services across different users as well as ensuring equity between current and future generations. In deciding how to fund each activity, Council considers the nature of the services provided and who benefits from those services.

Council has reviewed each individual activity with a view to determining a fair and equitable funding policy. In doing so Council considered:

- The community outcomes to which the activity primarily contributes
- 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.

Council has considered how to apply the available funding mechanisms to its activities. The following table is a summary of this approach. A copy of the detailed assessment, titled *Supporting Document: Activity Analysis* is available on Council's website at www.kaipara.govt.nz. This document sets out the analysis for sources of funding for each of its activities in accordance with section 101(3) of the Local Government Act 2002.

For operational expenditure, funding portions contributing to each activity are expressed as ranges, from low to high. These ranges equate to the following percentages:

Low: 0-33%
 Medium: 34-66%
 High: 67-100%

Capital expenditure funding contributions are identified. The proportion of capital costs funded from each source will vary depending upon the nature of each capital works project.

Activity	Funding of Operating Expenditure				Funding of Capital Expenditure	Catchment(s) **
	General Rates	Targeted Rates	Fees and Charges	Grants Subsidies and other Funding Sources		
Community Assistance	High			Low	Not applicable	District
Reserves and Open Spaces	High	Low	Low		Financial Contributions, Borrowing, Asset Sales, General Rate	District
Halls and Pensioner Housing	Medium	Low	Med		Financial Contributions, Borrowing, Asset Sales, General Rate, Targeted Rates	District
Libraries	High		Low		Financial Contributions, Borrowing, Asset Sales, General Rate, Targeted Rates, Fees and Charges	District
Building Control (including Land Information Memorandums (LIMs))	Low		High		Not applicable	User pays, District
Resource Consents	Low		High		Not applicable	User pays, District
Environmental Health	Low		High		Not applicable	User pays, District
Animal Management	Low		High		Borrowing, Asset Sales, General Rate	User pays, District

Activity	Funding of Operating Expenditure				Funding of Capital Expenditure	Catchment(s) **
	General Rates	Targeted Rates	Fees and Charges	Grants Subsidies and other Funding Sources		
Civil Defence	High				Borrowing, Asset Sales, General Rate	District
Land Drainage	Low	High	Low		Not applicable	Area of Service (Scheme)
Governance	High				Borrowing, Asset Sales, General Rate	District
Community Planning	High				Not applicable	District
Corporate Services	High		Low		Borrowing, Asset Sales, General Rate	District
Solid Waste	High		Low		Financial Contributions, Borrowing, Asset Sales, General Rate, Fees and Charges, Lump Sum Contributions	User pays, District
Roads and Footpaths	Medium	Low		Medium	Development and Financial Contributions, Borrowing, Asset Sales, General Rate, Grants and Subsidies	District
Wastewater - Other		High			Development and Financial Contributions, Borrowing, Asset Sales, General Rate, Targeted Rates, Lump Sum Contributions, Grants and Subsidies	Area of Service (Scheme)
Wastewater - Mangawhai	Low	High			Development and Financial Contributions, Borrowing, Asset Sales, Targeted Rates, Lump Sum Contributions, General Rate	District Area of Service

Activity	Funding of Operating Expenditure				Funding of Capital Expenditure	Catchment(s) **
	General Rates	Targeted Rates	Fees and Charges	Grants Subsidies and other Funding Sources		
Stormwater	Low	High			Development and Financial Contributions, Borrowing, Asset Sales, General Rate, Targeted Rates	District Area of Service (Scheme) NB: Development Contributions are Scheme Area of Service only
Water Supply		High	Low		Development and Financial Contributions, Borrowing, Asset Sales, Targeted Rates, Lump Sum Contributions	Area of Service (Scheme)

* There are a variety of Targeted Rates

**Unless otherwise stated, Development Contribution catchments are the same as the capital expenditure catchments indicated in the table

Explanatory Note

Separately Used or Inhabited Parts of a Rating Unit (SUIP)

Separately Used or Inhabited Part of a Rating Unit includes any portion inhabited or used by a person other than the owner, and who has the right to use or inhabit that portion by virtue of a tenancy, lease, license or other agreement. For the purpose of this policy, vacant land and vacant premises offered or intended for use or habitation by a person other than the owner and usually used as such are defined as 'used'.

Background

Under the Local Government (Rating) Act 2002 charging Separately Used or Inhabited Parts of a Rating Unit is a factor that may be used to determine liability for both a Uniform Annual General Charge and for targeted rates. The following are examples of where there may be application of multiple charges for Separately Used or Inhabited Parts of a Rating Unit:

- Single dwelling with flat attached
- Two or more houses, flats or apartments on one Certificate of Title (Rating Unit)
- Business premise with flat above
- Commercial building leased to multiple tenants
- Farm property with more than one dwelling
- Council property with more than one lessee

Policy Statement

In setting its rates for the year, the Council will charge each Separately Used or Inhabited Part of a Rating Unit for the following charges:

- Any targeted rate set on a uniform basis for wastewater for residential properties