

Revenue and financing policy

Introduction

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

The Local Government Act 2002 requires Council to identify the costs of its functions and fund them appropriately. Section 103(2) sets out the funding mechanisms that Council has available to fund its functions. They are:

General rates, including:

Choice of valuation system, and

Differential rating, and

Uniform annual general charges

Targeted rates

Lump-sum contributions

Fees and charges

Interest and dividends from investments

Proceeds from the sale of assets

Development contributions

Financial contributions under the Resource Management Act 1991

Grants and subsidies

Any other sources

The Council has taken account of all these funding sources in designing its revenue and financing policy.

What activities should the Council fund?

The Council has identified nine community outcomes

The range of activities undertaken by the Council is designed to fulfil the outcomes expected by the community.

In determining how activities are funded, the Council is obliged to equitably share the costs of delivering the services across different users as well as ensuring equity between current and future generations. Determining the appropriate way to fund Council activities is complex. It is a process that takes account of many matters including, but not limited to:

- Legal
- Social
- Affordability
- Efficiency
- Equity
- Cost
- Benefit
- Intergenerational equity
- Transparency

This policy explains how Council plans to meet the current and future needs of Council's facilities and services.

Policy principles

Council has determined the following basic principles to guide the appropriate use of funding sources:

- User charges are preferred when a private benefit can be identified and it is efficient to collect the revenue
- Subsidies, grants and other income options are fully explored prior to rates being used
- Each generation of ratepayers should pay for the services they receive and borrowing can assist to achieve this outcome
- Capital costs to replace assets that reach the end of their economic life is firstly funded by rates, and then subsidies
- Capital costs to upgrade or build new assets is funded firstly from sources other than rates (e.g. subsidies, grants, fundraising, financial contributions), and then borrowing.
- Growth related capital costs are funded by borrowing and development contributions (when a policy exists)
- Rating should be simple and easily understood.
- Rates are not a charge for the use of service. They are a tax for the provision/delivery of the service
- If no other funding sources can be used it is appropriate to fund the remaining revenue requirement for operating expenditure from rates.

Complying with these principles can at times be challenging. The Council must apply judgement in assessing many options to determine the appropriateness of funding operating and capital expenditure.

POLICY STATEMENT

Funding of operating expenditure (Section 103(1)(a))

Where expenditure does not create a new asset or extend the life or usefulness of an existing asset, it is classed as operating expenditure. Most of the Council's day-to-day expenditure comes into this category. This includes contributions to the wear and tear on assets used (depreciation), the interest charged on borrowing for capital projects and corporate overheads.

The Council generates sufficient cash inflow from revenue sources (including rates) to meet cash outflow requirements for operating expenditure over the long term.

The Council must ensure that each year's projected operating revenues are at a level sufficient to meet that year's projected operating expenses. This is the balanced budget requirement.

The Council must consider the funding of each activity in a way that relates exclusively to that activity. Some activities may be best funded by user charges, others with targeted rates, others from general rates, or a combination of these.

The Council's policy for funding sources for operating costs include:

User charges

User charges are used for services where there is an identifiable benefit to an individual or group. User charges are a broad group of fees charged directly, and may include:

- Regulatory charges
- Planning and consent fees
- Permits
- Fines and penalties
- Connection and disconnection fees
- Disposal fees
- Statutory charges

- Retail sales and commissions
- Admission fees
- Rent, lease, hire charges
- Recovery of costs for private works

The price of the service is based on several factors, including:

- The cost of providing the service
- The estimate of the user's private benefit from using the service
- The impact of cost to encourage/discourage behaviours
- The impact of cost on demand for the service
- Market pricing
- Cost and efficiency of collection mechanisms
- The impact of affordability on users
- Statutory limits
- Other matters as determined by Council

A council's ability to charge user charges is limited by powers conferred on it by many statutes and regulations. As a rule, fees for statutory functions should be set at no more than the cost of providing the service. In some cases legislation sets the fees at a level that is below cost and in other cases, where provided by legislation the Council may set fees at greater than the cost of providing the service. The Council considers it appropriate to include corporate overhead charges in the determination of the cost of providing a service.

Where the Council is charging for the sale of goods or services not required by statute, the Council's preference is to charge market price. This includes leases, rents, licences for land and buildings.

Fees and charges may be set by the Council at any time and are reviewed by the Council annually. A list of regular fees and charges is maintained on Council's website.

Revenues from user charges are allocated to the activity that generates the revenue.

Grants, sponsorship, subsidies and other income

Grants, sponsorship and subsidies are used where they are available. Many of these items are regular and predictable and therefore can be budgeted (e.g. roading subsidies). Some items of other income are unpredictable and may not be able to be prudently budgeted (e.g. insurance payouts).

The Council expects to continue receiving substantial subsidies of road maintenance from the Government via the New Zealand Transport Agency (Waka Kotahi). While this revenue is recorded as operating revenue a large portion is to fund capital expenditure.

Investment income

Council's investment policy is outlined in its Treasury policy. These investments may generate income such as dividends, interest, and rents.

Income from assets is received to the activity that owns the asset.

Development contributions, financial contributions, proceeds from the sale of assets, and lump sum contributions

The Council does not collect revenue from these sources to fund operating costs.

Reserve funds

The Council maintains a small number of reserve funds. Some of these reserves are available to meet operating expenses.

Borrowing

Council borrowing is generally undertaken at a whole of Council level subject to the constraints on rates increases and levels of borrowing set by the financial strategy.

Council generally plans to fund all cash operating expenses from sources other than borrowing but may in specific circumstances, where it determines it is prudent to do so, fund some operating costs from borrowing.

Rates

Having appropriately exhausted all other funding sources, Council funds its remaining operating expenses from rates. For many Council activities, this is the main funding source.

The Council may establish targeted rates to fund operating costs where benefits can be measured and beneficiaries identified.

The Council considers all these matters when determining the funding of its activities.

Funding of capital expenditure (Section 103(1)(b))

Capital expenditure is the category of expenditure that creates a new asset or extends the life of an existing asset.

The Council must ensure that each year's funding for capital expenditure is at a level sufficient to meet that year's projected capital expenditure.

The Council utilises the following sources to fund most capital expenditure:

User charges

User charges are generally not available for capital expenditure as individual user contributions would generally be too large to be affordable.

The Council does charge for capital works that are solely for private benefit or where capital works are undertaken outside of asset management plans at the request of individuals.

Grants, subsidies, and other income

The Council relies on significant subsidies for capital works in its roading activity. Other activities can access grants and subsidies from time to time generally for specific projects (e.g. new wastewater schemes). Other income can be from many and varied sources and is unlikely to be predictable enough to budget for in advance. Other income used to fund capital costs could include bequests, insurance payouts, and legal settlements.

Grants and subsidies and other income are used wherever they are available.

Development contributions

The Council currently collects development contributions to fund capital costs necessary to service growth over the long term. This is collected in accordance with the Development Contributions Policy.

Any Development contributions received will be applied to the projects as identified in the policy. Projects identified in the policy may be either completed projects (with debt yet to be repaid) or future projects planned to be undertaken.

Financial contributions

The Council collects financial contributions under the Resource Management Act 1991. To avoid, remedy or mitigate adverse effects on the environment as conditions to resource consents. The requirement for these contributions are outlined in the Rotorua District Plan. Most contributions are received as revenue by the vesting of assets in Council; some contributions may be paid to Council.

Proceeds from the sale of assets

From time to time Council disposes of assets. Many of these are low-value items and the revenue is received by the activity that owned the assets.

The Council holds some higher value assets that may become surplus and available for sale. Unrestricted proceeds from the sale of these assets will be used to repay debt, or fund new capital expenditure unless resolved otherwise by Council. Restricted proceeds will be placed in the appropriate reserve fund and used for the purpose required by the document that imposes the restriction.

Reserve funds

The Council maintains some reserve funds for capital projects and will approve the use of the funds when a project meets the specific criteria for the reserve.

Borrowing

The Council may borrow to fund its asset programme. The amount of borrowing available is restricted by the debt limits imposed in Councils Financial Strategy.

Borrowing, both the principal and interest components are generally repaid by future rates.

Borrowing spreads the cost of the project over a longer period, smoothing changes in rates and ensuring that ratepayers who enjoy the benefit of long-lived assets contribute to their costs.

Lump-sum contributions

The Council has the option when undertaking a major project to seek lump sum contributions to the capital cost of the project from those who identified in the projects Capital Project Funding Plan. Lump-sum contributions are provided for in the Local Government (Rating) Act 2002 and have stringent requirements on how they are used. Where a lump sum option is proposed ratepayers choose to participate or not. Council has previously used these provisions and will do so in the future.

The Council plans to offer lump-sum contributions for new wastewater schemes.

Rates

Rates are primarily used to fund day to day operating expenses including depreciation and interest charges. In each year, Council calculates the cash surplus from operating revenue less operating costs to determine the amount of rates funding available to fund capital projects.

The greatest portion of this funding is rates assessed to pay for depreciation (which is a non-cash operating cost). These funds are used to fund projects that renew existing assets.

A portion of rates funds the capital (principal) repayments of debt.

The Council may establish targeted rates to fund capital projects.

A single capital project may have a mix of each of these funding options. Funding options of capital expenditure depends on the nature of the capital expenditure. This can be categorised as:

Cost of renewal of assets

This is the routine replacement of an existing asset with a modern equivalent asset to the same function and capacity, at the end of its life.

Cost of backlog

This relates to the period of a planned (or completed) capital project that is required to rectify a shortfall in a service capacity to meet community demand at agreed levels of service.

Cost of growth

This comprises the portion of planned (or completed) capital projects providing capacity over existing community demand at agreed levels of service.

Cost of improved level of service

This relates to the cost of improving the level of service to an agreed new level above that previously agreed.

Rates

When determining a rate Council will seek to reflect the following:

- Fairness and equity; in that those who benefit contribute to costs and due consideration is given to the ability to pay.
- Transparency; in that rating is clear and readily understandable.
- Simplicity and cost-effectiveness; in administration and implementation.

Rating system

A capital value rating system will be used as the basis for setting and assessing the general rate.

The districts three-yearly general revaluations have been completed and will come into effect for rating purposes on 1 July 2024. The general revaluation will cause the reallocation of some rates across the district. However, it does not result in any change to the total rates that Council collects.

General rates

Council will use the general rate where:

If the community as a whole generally gains benefit from the facility or service; or

If the facility or service is available for all to take advantage of, the recovery of the cost is dependent on ability to pay; or

If the cost of the facility or service is not directly or readily recoverable from a particular group; or

If it the cost of a facility or service cannot be reasonably collected by any other means.

General rating mechanisms available to Council include:

- Uniform Annual General Charge
- Differential rates
- Rate set at a rate in the dollar applied to capital value

Uniform Annual General Charge (UAGC)

The uniform annual general charge (UAGC) is the fixed portion of rates that every ratepayer pays regardless of property value. A fixed charge ensures that every ratepayer pays the same minimum contribution for Council services. The amount of rates collected via the UAGC cannot exceed 30% of our total rates income.

Differential Rates

The Council will set both General and Targeted rates differentially where it considers it is appropriate to rate one or more groups of property to reflect the distribution of benefit received, or costs borne or generated by those groups.

In general, a property will fit into one group or rating category only. Situations occur where a property has multiple uses. In such cases, there will usually be a principal or primary use and secondary use. Where Council considers the secondary use is significant then that part of the property may be rated according to the secondary use differential category.

Current rate differential categories:

- Base rate
- Business
- Rural residential

Targeted rates

The Council will use the Targeted rates where it considers it is appropriate to rate one or more groups of property to reflect a specific benefit received.

Targeted rates may be set on a uniform basis or differentially for different groups of property.

Typical examples of Targeted rates are for Water supply, Sewerage, waste management services, and economic development.

Penalties

The Council will charge the maximum additional charge by way of penalty to unpaid rates.

Overall funding considerations

Further information and analysis of the funding of both operating and capital expenditure for the respective activities of the Council are provided in the body of the Council's long-term plan in terms of Section 101(3) of the Local Government Act 2002. This information includes:

- Beneficiaries of the activity
- Period of benefit
- Who creates the need for the activity
- The funding source
- Specific funding of estimated capital and operating expenditure.