

REVENUE AND FINANCING POLICY

Introduction

The Local Government Act 2002 (LGA2002) requires the adoption of policies which outline how operating and capital expenditure for each activity will be funded. They are aimed at providing predictability and certainty about sources (the types of revenue) and levels of funding.

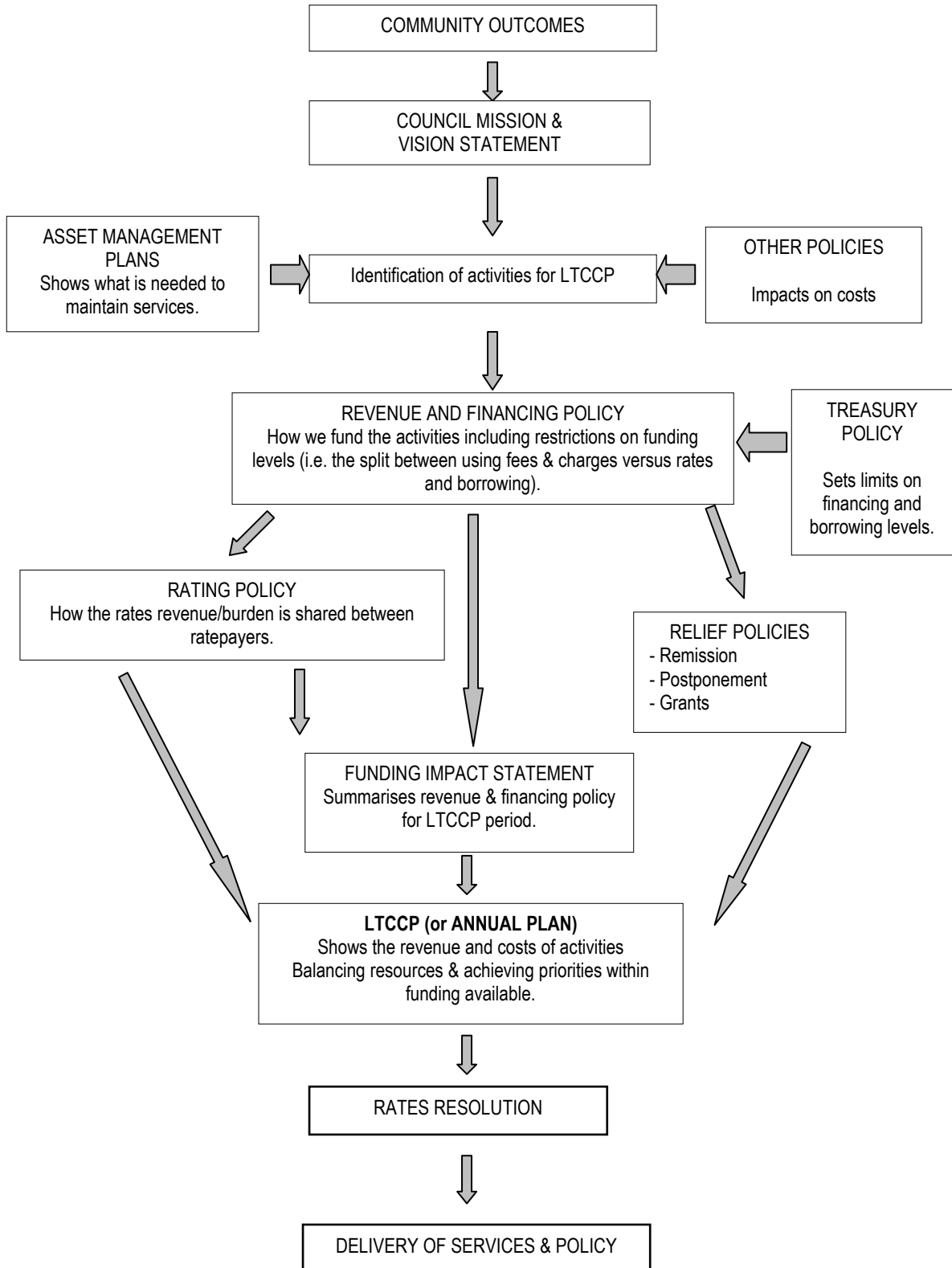
The Act requires the Council to manage its finances prudently and in a manner which promotes the current and future interests of the community. The Council must ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses and that its long-term development programme is financially sustainable.

In deciding the most appropriate funding source for each activity, Council must show that it has considered, for each activity to be funded, the following matters (Section 101 (3) (a) LGA 2002):

- The community outcomes to which the activity primarily contributes; and
- The distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; and
- The period in or over which those benefits are expected to occur; and
- The extent to which the actions or inaction of particular individuals or a group contribute to that need to undertake the activity; and
- The costs and benefits, including consequences for transparency and accountability of funding the activity distinctly from other activities; and
- The overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental and cultural wellbeing of the community.

This policy supersedes the Council's Funding Policy first adopted in July 2000 as required by Local Government Amendment Act (No3) 1996. Changes agreed during the 2003/2004 funding review and the related budget round have been incorporated into this current policy.

The following chart shows how the Revenue and Financing Policy links to the overall policies of Council



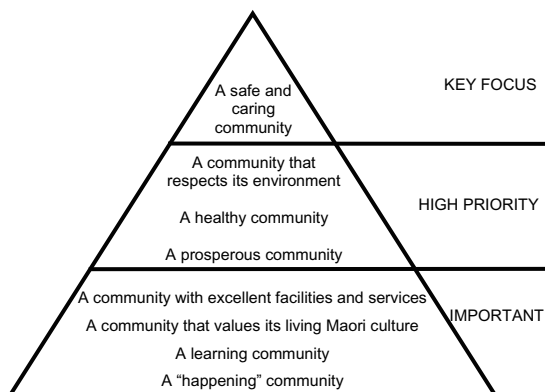
FUNDING

To choose the appropriate funding source for each activity Council decides:

1. What should be funded.
2. Who should pay after taking into account who benefits or causes the activity and the timing of such benefit or cause.
3. How much (if any) adjustment needs to be made to any fee or charge or allocation thereof for fairness, equity, wellbeing or ability to pay reasons.
4. The most appropriate funding or charging mechanism to collect the revenue; and
5. Reviews and summarises the overall result in the funding impact statement.

What activities should we fund?

In its LTCCP Council has identified eight community outcomes



Council undertakes a range of activities to achieve the community outcomes in each annual budget round. Every activity is reviewed for its effectiveness in achieving Council's and the community's outcomes. The activities are included in part 4 of this LTCCP with the link back into the above outcomes.

A summary of the activities is included on the final page of this policy.

Who should pay?

Who benefits

Council needs to consider who benefits from each group of activities.

Economic theory places all goods and services on a continuum. The position of particular goods or service depends on the degree to which it possesses the following two characteristics:

Rivalry in consumption – goods are rival in consumption if one person's consumption of the goods or service prevents others from doing so, e.g. chocolate bars are goods with a large degree of rivalry in consumption; if Bill eats them, Jane cannot.

Excludability - a goods or service are excludable if a person can be prevented from consuming the goods or service, e.g. if Bill doesn't buy a movie ticket then the usher can exclude him by preventing him from entering the theatre.

At one end of the continuum there are the so-called 'public goods'. 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. A good example of public goods 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.

At the other end of the continuum are 'private goods' which are both rival in consumption and excludable. Most of our daily consumables are private goods.

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 goods or a service determine what type of funding tool might be used to fund a particular service. Local authorities may already have made judgements about what they consider are public goods when deciding whether or not to undertake a particular activity.

The summary at the final page of this policy shows which activities Council considers:

- Benefit the community as a whole
- Benefit part of the community
- Benefit individuals

Balancing funding requirements of today and those of tomorrow

The LGA 2002 requirement to consider periods in or over which benefits are expected to occur relates to allocating costs of capital expenditure fairly between the ratepayers of today and tomorrow to ensure intergenerational equity. The mechanism to achieve this is borrowing, so that servicing and repayment costs are spread over the period of enjoyment of the asset. Council is also required to manage its affairs prudently. The Treasury Policy, which deals with borrowing and investment, is designed to ensure Council is prudent in its financial decision-making.

Some activities of Council relate to a portion of the District rather than to the District as a whole. These are “ring-fenced” for the purpose of managing costs and revenue. Borrowings relating to these activities come within the “ring fence” and are dealt with on an intergenerational basis.

Other borrowings, being those that fund district-wide activities and the general purposes of Council, are only entered into where it is prudent to do so. The cost of servicing is allocated across these activities in proportion to the capital involved in each activity.

Council’s view of the intergenerational equity concept is that it does not necessarily promote a high level of borrowing for assets that provide benefits over time, and thus over generations. Rather, it provides a component in the total funding strategy that will allow it to fund and rate on a consistent basis over time, with each generation paying its fair share. The best measure of intergenerational equity is that everybody funds their fair share of depreciation.

Further, generations do not begin and end simultaneously. Generations change their composition on a rolling basis. Each generation inherits benefits from the past and passes benefits on to the future.

Accordingly, Council’s approach has been to combine a prudent approach to borrowing with a consistent level of rating so that rates are levied on a consistent basis over time with each generation making its contribution.

Six activities are “ring-fenced” and identified as separately funded activities. They are pensioner housing, refuse collection, landfill, water supply schemes, urban waste water, and rural waste water. Apart from the above six activities, the debt used to fund Council’s business is not related to any specific assets. It is managed at a prudent level and finance charges allocated to activities on the basis of the level of net expenditure.

Who causes the costs?

Costs arising from negative effects relate to the costs of expenditure incurred to control negative effects that have been caused by the actions or inaction of any persons or categories of persons. These costs are sometimes referred to as “exacerbator pays” or “polluter pays”, depending on the nature of the costs. They typically include costs that have been caused by a person or category of persons, such as trade waste costs arising from the lack of control of animals.

Council has, in its funding policy, sought to recover these costs to the maximum level possible, from the persons and categories of people who cause the costs. The mechanisms used are direct fees and charges.

The fairness and equity adjustment funding charges

The fees, charges and funding mechanisms used are based on a sustainable approach reflecting social, economic, environmental and cultural wellbeing of both the current and future Rotorua community.

In setting fees, charges, and rates, Council recognises the need to consider factors of fairness and equity including wellbeing and ability to pay.

An adjustment for wellbeing and ability to pay is the reason why some activities identifiable to individuals are only partially funded from direct user charges.

The rating policy details how Council has considered wellbeing and ability to pay in setting the rates allocation between categories of ratepayer.

The most appropriate charging mechanism

How much detail?

On a day to day basis, Council completes many tasks from planting gardens, to administering bylaws, to running a waste water sewerage system.

Council, in setting its funding policy, needs to address what level of detail it should report and whether it should separately fund each of these tasks.

Transparency and accountability are most evident when an activity is totally funded by a specific mechanism. This allows ratepayers, or payers of user charges as the case may be, to see exactly how much money is being

raised for and spent on the activity, and to assess more readily whether or not the cost to them of the activity represents good value.

Funding every activity on such a distinct basis would be extremely complex administratively. For some activities, the quantity of rates funding to be collected amounts to only a few cents per ratepayer. The administrative costs, and lack of significance, would lead to increased Council costs that are not really justified.

Accordingly, Council has taken a practical approach and grouped tasks into activities that align with how the tasks are managed and the services provided by Council.

The result, Council believes, is that the LTCCP adequately meets the requirements of transparency and accountability with minimal impact on administrative costs.

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

Council has determined the most appropriate way of funding operating expenses for each activity. This was based on an assessment of the nature of the benefits provided for the activity, who benefits, and for what period.

Funding source proportions were then attributed as being public, private, exacerbator, or other, as follows:

Public (via general rates)

An activity should be collectively funded if the benefits of the activity are largely received by the broader community without differentiation, in equivalent proportions, and the costs of the activity cannot easily be attributed to an individual or group of individuals.

For example:

Democracy. Everyone benefits. No individual can be responsible for the costs. Therefore it is entirely publicly funded.

Private (direct fees or charges if practical, or targeted rate)

An activity should be funded on a user-pays basis if an individual or group of individuals directly receives benefits of the activity exclusively, and the costs of the activity can easily be attributed to that individual or group of individuals. For the purposes of this policy, targeted rates are deemed to be a private funding source.

For example:

Community housing. Only individuals that live in the housing benefit directly. Those individuals can be held responsible for the costs. Therefore it is entirely privately funded.

Exacerbator (direct fees & charges if practical)

An activity should be funded by an exacerbator if the benefits of the activity are largely received by the broader community without differentiation, in equivalent proportions, but the costs of the activity can be attributed to an individual or group of individuals.

For example:

Parking enforcement. Everyone faces the cost of unavailability of public parking if someone parks over time. The person that parked over time can be held directly responsible for that cost. Therefore the public costs can be privately borne completely by that person.

Other (subsidies & grants)

An activity can be funded from other sources if the benefits of the activity are largely received by the broader community without differentiation, in equivalent proportions, but the costs of the activity can be met by other means.

For example:

Roading. Everyone benefits. No individual can be responsible for the costs. However, Council is eligible for central government grants from organisations such as Transfund. Therefore it is entirely publicly funded, but a proportion of the costs is recouped from 'other' sources.

The analysis for each activity within the eight outcomes is set out in section 3 of the LTCCP. These are a guideline only as there may be justification for variation from these proportions on a case by case basis.

The process for funding operating costs of these activities is as follows:

- Any operating grants or subsidies for a particular activity are applied in reduction of the gross cost
- Where it is practical to recover the designated portion of the net operating cost of an activity from a private user or exacerbator, fees and charges are set at levels designed to achieve this, provided there are no legislative constraints on doing this
- Where a fee or charge is not practical, targeted rates may be set in accordance with Council's rating policies
- Any net income from investments may then be applied and any residual requirement will be funded through general rates and/or uniform annual general charges – these latter rates and charges will be set on a differential basis in accordance with Council's rating policy, providing a district wide approach.

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

Council takes a consolidated corporate approach to the management of its financial position. Through its Long Term Council Community Plan, it balances the level of capital expenditure required to meet strategic goals and maintain current service levels with what is sustainable within the prudential guidelines it has set. These parameters are contained in the Treasury Policy.

The concept of considering the funding of Council's activities on a district-wide basis was developed in 1992 and founded on the premise that the district is one community. This was supported by:

- Synergistic relationship between city and rural communities, and lakeshore settlements.
- Large parts of district affected by lakes or their catchments and geothermal activities.
- Much of the expenditure that is local by nature being also available to all the district e.g. rural seal extension.
- Council has been even-handed with local expenditure across the district over time.

Asset management plans are maintained for all infrastructural services and these provide information about asset condition and asset renewals required to maintain desired service levels.

Routine ongoing plant and equipment purchases are funded from depreciation charges and operating revenue.

Capital renewals are funded from subsidies and grants (when available), depreciation, asset sales and, if necessary, from operating revenue or borrowing.

New capital developments are funded from subsidies and grants (when available), user contributions, reserves, asset sales and, where necessary, from borrowing.

Borrowing is an appropriate funding mechanism to enable the effect of peaks in capital expenditure to be smoothed and also to enable the costs of major developments to be borne by those who ultimately benefit from the expenditure. Borrowing, as noted above, is managed within the framework of the Treasury Policy and together with the asset management plans, helps ensure prudent stewardship and effective use of Council resources for now and the future.

Connecting the revenue and financial policy to other policies

1. The Funding Impact Statement provides details on the funding mechanisms to be used for each year covered by the Ten Year Plan (LTCCP). The Funding Impact Statement shows how Council intends to implement the Revenue and Financing Policy each year. It also shows the amounts to be collected from each available source, including how various rates are to be applied.
2. The schedule on the next page shows activities and the application of the renewal and financing policy.
3. Part 4 of the LTCCP shows the detailed activity analysis.
4. The Rating Policy (next section) shows the detailed framework for how the rates revenue (our major source of revenue) is allocated amongst ratepayers on a robust, fair and equitable basis.

Revenue and Financing Policy - Summary of Funding Sources

Activity Group By Activity	Community Outcome Contributes To (see key below)	Who benefits				Total
		Whole of the community	Part of the community	Individuals	Interest & Subsidies	
		Funding Mechanism				
		General Rates	Targeted Rates	Fees & Charges	Other Sources	
Community Leadership						
Democracy	All	100				100
Policy & Strategic Direction	All	90		4	6	100
Kaupapa	All	100				100
Social And Cultural						
Aquatic Facilities - Centre	1,3,5,7,8	56		44		100
Aquatic Facilities - Waikite Pools	1,3,5,7,8,	25		75		100
Cemeteries/Crematorium	1,3,5	55		45		100
Central Business District	1,5,8	99		1		100
Civil Defence Emergency Management	1	92			8	100
Community Assistance	1,3,5,8	96		4		100
Community Halls	1,5	94		6		100
Community Policy & Resources	1,4	100				100
Event Venues Convention Centre	1,2,4,5,6	75		25		100
Event Venues Sportsdrome	1,2,4,5,6	82		18		100
Event Venues Soundshell	1,2,4,5,6	70		30		100
Event Venues International Stadium	1,2,4,5,6	75		25		100
Pensioner Housing over time	1	0		100		100
Public Gardens/General Reserves	1,2,4,5,8	91		9		100
Public Library	All	90		9	1	100
Rotorua Museum of Art & History	1,2,4,7	62		38		100
Environmental						
Animal Control & Wnading Stock	1,2	44		56		100
Building Control	1,2,3	30		70		100
Environmental Planning Policy	2,3,4	99		1		100
Environmental Planning Implementation	2,3,4	82		18		100
Inspection Health & Regulatory	1,2,3	99		1		100
Inspection Health Licensing	1,2,3	16		84		100
Inspection Bylaws & Geothermal	1,2,3	97		3		100
Inspection Sale of Liquor	1,2,3	52		48		100
Inspection Hazardous Substances	1,2,3	100		0		100
Inspection Lake Waters	1,2,3	25		75		100
Parking On-Street	1,5			100		100
Parking Off-Street	1,5	47		53		100
Economic						
Destination Rotorua Marketing	4,5,8	75		25		100
Economic Development	1,2,4,5,6,7	82			18	100
Tourism Rotorua Travel & Information	1,2,5	29		70	1	100
Infrastructural						
Engineering Support	2,5	98		2		100
Land Drainage	1,2	96			4	100
Landfill over time	1,2,3,4,5			100		100
Passenger Transport Infrastructure	1	78		2	20	100
Refuse	1,2,3		87	13		100
Roading Subsidised - Operations	1,2,5,7,8	56			44	100
Roading Subsidised - Capital	1,2,5,7,8	51			49	100
Roading Works General & Unsubsidised	1,2,5,7,8	90			10	100
Road Safety	1,3	53			47	100
Rural Fire	1	96		4		100
State Highways Administration	1,5	2		98		100
Waste Management	2	95		5		100

FUNDING

Activity Group By Activity	Community Outcome Contributes To (see key below)	Who benefits				Total
		Whole of the community	Part of the community	Individuals	Interest & Subsidies	
		Funding Mechanism				
		General Rates	Targeted Rates	Fees & Charges	Other Sources	
Waste Water Urban Basin (over time)	1,2,4,5	0	96	4		100
Waste Water Rural Investigations	1,2,4,5	100				100
Waste Water Eastern Operating Scheme	1,2,4,5		100			100
Waste Water Rural Operating Scheme	1,2,4,5		100			100
Waste Water Eastern Capital	1,2,4,5	15	38		47	100
Waste Water Rural Capital	1,2,4,5	15	35		50	100
Water Operations (over time)	1,2,3,5		99	1		100
Water Capital - Rural Residential	1,2,3,5			\$2,500 per Property		
Water Capital - Rural Farming	1,2,3,5		100			100

Key

1 A safe & caring community	4 A prosperous community	7 A learning community
2 A community that respects its environment	5 A community with excellent facilities & services	8 A "happening" community
3 A healthy community	6 A community that values it's living Maori culture	