

Revenue and Financing Policy

Our Revenue and Financing Policy provides predictability and certainty about sources of funding and how we recover the costs for our activities. It explains the reasons for various funding methods for our operating and capital expenditure.

We have reviewed the ways we fund our activities, including how we collect rates and, as a result, we are not proposing any significant changes.

The change in central Government policy on three waters reforms means that the three waters activities (water supply, wastewater and stormwater) have been included in the 2024-34 Long Term Plan.

Revenue and Financing Policy Considerations

In developing this policy, we have considered the requirements of Sections 101(3), 102 and 103 of the Local Government Act 2002 (LGA 2002). These requirements state that a local authority must determine what funding sources are the most appropriate with consideration of the following two steps:

Step One

- The community outcomes to which an activity primarily contributes;
- The distribution of benefits between the community as a whole, any identifiable part of the community and/or individuals;
- The period in or over which those benefits are expected to occur;
- The extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity; and
- The costs and benefits, including consequences for transparency and accountability, of funding an activity distinctly from other activities.

Step Two

The overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental and cultural well-being of the community.

Section 102(3A)(a) of the LGA 2002 states that a revenue and financing policy must support the principles set out in the Preamble to Te Ture Whenua Māori Act 1993. The principles are:

- The spirit of the exchange of kawanatanga for the protection of rangatiratanga embodied in the Treaty of Waitangi be reaffirmed;
- Recognise that land is a taonga tuku iho of special significance to Māori people and, for that reason, to promote the retention of that land in the hands of its owners, their whānau, and hapū, and to protect wāhi tapu;
- Facilitate the occupation, development, and utilisation of that land for the benefit of its owners, their whānau, and hapū.

We support these principles through plans, strategies and policies developed with the four rūnanga of South Taranaki – Ngāti Ruanui, Ngāruahine, Taranaki and Ngā Rauru:

- District Plan – supports the protection of wāhi tapu and the coastal protection area, and supports the development of papakainga;
- Property Acquisitions and Disposals Policy – the appropriate rūnanga is approached as a first right of refusal to purchase Council-owned land declared surplus to requirements.
- Remission and Postponement of Rates on Māori Freehold Land Policy – recognises that certain Māori-owned lands have particular conditions, features and/or ownership structures that make it appropriate to provide relief from rates;
- Tangata Whenua Liaison Fund – supports projects and initiatives that develop positive relationships between Tangata Whenua, Council and the South Taranaki community as set out in Te Tiriti o Waitangi;

- He Pou Tikanga, Ngā iwi o te Tai Whakarunga / Council Partnership Strategy – a newly-developed strategy to provide a partnership framework between ngā iwi and the Council; and
- Urupā maintenance fund – this Long Term Plan recommends the establishment of a fund to support iwi with the maintenance of urupā in South Taranaki.

Community Outcomes

Part of the purpose of local government, as defined in the LGA 2002, is to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future, and our community outcomes align with the community well-beings:

- Mana Mauri – Cultural Well-being – Creative, diverse communities that enhance the mauri of our people.
- Mana Tangata – Social Well-being – Safe, connected communities where people feel happy and proud of where we live.
- Mana Oranga – Economic Well-being – Flourishing communities with a diverse economy, innovative people and resilient infrastructure.
- Mana Taiao – Environmental Well-being – Sustainable communities that manage resources in a way that improves our environment for future generations.

Each activity description lists the community outcomes it primarily contributes to and highlights why we undertake the activity.

Distribution of Benefits

The distribution of benefits is allocated between the community as a whole, any identifiable part of the community and individuals. Benefits that flow to individuals or groups, where it is possible to identify the user or group and stop the service if the user does not pay, are often described as ‘private benefits’, and the costs are generally funded on a user-pays basis. ‘Public benefits’ flow to the whole community when it is not possible to identify the individuals or groups that benefit and the cost of additional people benefiting is small, or the whole community benefits. Most of our activities have a mix of public and private benefits.

We must assess the period over which the benefits flow from each activity. For all of our activities, the operating costs directly relate to the benefits an activity provides during the year of the expenditure. Operating costs are therefore funded annually from annual income including rates, user charges, subsidies and other income.

Capital expenditure creates assets that will produce benefits over their useful lives. These lives range from a few years for office equipment, computers and vehicles to 100 years for some infrastructural assets such as bridges and some pipe networks. The costs of these assets should therefore be funded over the time of benefit. This recognises the concept of intergenerational equity, where each generation pays a share of the value of the asset, while it receives the benefit from that asset. Intergenerational equity is particularly relevant for larger capital assets.

Building financial reserves to fund the capital expenditure required to renew an existing asset is prudent and the interest earned on financial reserves helps to fund the asset replacement. If renewals or replacements occur before the reserve has enough funds, we will use loans to fund the shortfall.

Who Causes the Need for an Activity?

We are required to assess the extent to which each activity exists because of the actions or inactions of an individual or group. This principle, known as the ‘exacerbator pays’ or ‘polluter pays’, suggests that costs should be recovered directly from those causing the need for the activity. Examples are parking fines, food licences, pool safety, dog control and trade waste.

Costs and Benefits of Funding Activities

We consider the individual costs and benefits of the funding of each activity, taking into account the consequences for transparency and accountability. Separate funding allows ratepayers to assess whether the

activity represents good value to them. For some activities, the costs of collecting user charges would be more than the revenue collected, so a number of activities are funded entirely from rates.

The Long Term Investment Fund rates subsidy is deducted from each activity's expenditure prior to the allocation between funding sources. In that respect the Long Term Investment Fund is not considered general revenue.

Impacts on Well-beings

The impacts on the current and future social, economic, environmental and cultural well-beings of the community were considered along with the following matters:

- What is the likely impact of the mix of funding sources on ratepayers on fixed incomes (affordability)?
- Would the policy act as a barrier for individuals in the community to access the activity?
- What incentives would the policy create for growth and development within the District?
- How is the burden of funding distributed across different sectors of the community?
- Would the policy support people to conserve scarce resources, avoid environmentally unfriendly activities and preserve our natural heritage?
- Would the policy support the community to participate in recreational and cultural activities and preserve our historical and other cultural heritage?

Financial Management

The LGA 2002 requires us to ensure that each year's projected operating revenues equal the year's operating expenses (a balanced budget). Despite this requirement, Section 100(2) of the LGA 2002 allows us to set projected operating revenues at a level that does not achieve a balanced budget if we believe it is financially prudent to do so, for example, to fund a previous or future year's deficit or to repay debt.

Other Legal Requirements

While the Revenue and Financing Policy is governed by the LGA 2002, other legislation is relevant for determining appropriate funding mechanisms, including:

Local Government (Rating) Act 2002

This Act sets out legal requirements for rating. It covers who is liable to pay rates, what land is rateable, what kinds of rates may be set and how they are set, the valuation systems that may be used and the various rating mechanisms available, such as targeted rates. It also sets a number of limits. For example, all rates set as a uniform fixed amount, including the Uniform Annual General Charge but excluding uniform rates for water or wastewater, may not exceed 30% of the total rates revenue.

Other Legislation

Several Acts, such as the Sale and Supply of Alcohol Act 2012, set out statutory fees for various types of regulatory services and these may not be exceeded. Where fee setting is up to the Council, there is often a general legal requirement to be "fair and reasonable".

Resource Management Act 1991 (RMA 1991)

This Act sets out our responsibilities in terms of the environment. It allows local authorities to require financial contributions from developers to meet the costs of their effects on the environment, including their impacts on the demand for infrastructure. Alternatively, under the LGA 2002, local authorities can seek development contributions or a combination of development and financial contributions under the respective Acts, subject to compliance with both Act's requirements. We currently take financial contributions, and development contributions are being considered through the District Plan review process.

The RMA was to be replaced with three new Acts, two of which became law briefly and have since been repealed. The Government has signalled that new legislation will replace the RMA 1991.

Funding Sources

- The sources of funding available to the Council are: General rates, including:
 - Choice of valuation system
 - Differential rating; and
 - Uniform Annual General Charge
- Targeted rates
- Lump sum contributions
- Fees and charges
- Interest and dividends from investments
- Borrowing
- Proceeds from asset sales
- Development contributions
- Financial contributions under the RMA 1991
- Grants and subsidies Any other sources

Operating Expenditure

Expenditure on our day-to-day operations is operating expenditure and includes overheads, which are costs not directly attributed to any of the activities, for example support services like Financial Services, Information Services and People and Capability. Operating expenditure is funded from a variety of sources:

General Rates

General rates are charged as a set amount per dollar of the capital value of most properties in the District (some are non-rateable). During our funding review we chose to continue with the capital value rating system for general rates, rather than land value and more targeted rates. This is because of the capital value system's greater tendency to match the 'ability to pay' – owners of higher capital value properties pay a larger contribution in rates than owners of lower valued properties.

Differentials are a tool for altering the incidence of rates. Setting a differential rate does not increase the rating income; it merely allocates the rates requirement in a different way from a pure value-based system. We are not proposing to apply a differential to the general rate.

Uniform Annual General Charge (UAGC)

We assess a UAGC as a fixed amount on each separately used or inhabited part of a rating unit. The UAGC part-funds a range of activities, such as democracy and leadership, arts and culture, community development, environmental sustainability and emergency management.

Targeted Rates

Targeted rates can be assessed on property, including on the basis of use, the area of land, its location and value and the provision or availability of Council services. Targeted rates may be applied as a uniform annual charge on capital or land value, or differentially for different types of property uses. We may also apply targeted rates to fund any part of the cost of activities that benefit identifiable groups in the District.

We charge targeted rates for:

- Water
- Wastewater
- Rooding
- Kerbside refuse collection services
- Eltham Drainage
- Hāwera Business Rate for town promotion

Voluntary Targeted Rates

We have a voluntary targeted rate for property owners who benefit from the installation of insulation that we provide under the Warmer Homes Scheme. The Council resolved in June 2023 to discontinue the scheme as a result of changes to the Credit Contracts and Consumer Finance Act 2003. Property owners that are currently part of the warmer homes scheme will continue to pay their loans as per their agreements with the Council.

Fees and Charges

We apply fees and charges to recover either the full or part cost of a variety of services we provide, such as building consents, the provision of utility connections and vehicle crossings.

Interest and Dividends

We sold Egmont Electricity Limited in 1997 and invested the proceeds in a Long Term Investment Fund. We have allocated \$3.87 million each year from interest earned on the Fund towards subsidising general rates, UAGC and the roading rate. In this long term plan we are proposing to increase the subsidy to \$4.22 million. This is a consultation topic that we are asking for feedback from the community. The Council's preferred option is to increase the subsidy.

Grants and Subsidies

We receive subsidies from Waka Kotahi New Zealand Transport Agency that cover a proportion of the capital and maintenance costs of our roading network.

Any Other Sources

Special funds have either been received from a third party to be used in a specific way (restricted funds) or are tagged to be applied for a specific purpose or area of benefit (non-restricted funds).

Capital Expenditure

We categorise our capital expenditure projects as renewals, extending level of service or growth-related projects.

Renewal Projects

Renewal projects restore or replace components of an asset or the entire asset to meet the designed level of service (to return it to its original size, condition or capacity). These projects will be funded from capital reserves built up from funded depreciation. Where the reserve is not sufficient to meet the programmed renewals, loans will be utilised and repaid from a contribution from the reserve that best fits intergenerational equity and/or the operational funding sources for the particular activity, as per this policy.

Extending Level of Service Projects

Extending level of service projects create new assets or alterations to existing assets that mean a higher level of service is delivered. These projects will be funded by loans and repaid from the operational funding sources.

Growth-related projects

Growth-related projects are additional assets required to serve growth in demand for existing services due to new areas being serviced, such as new water mains and roading. These will be funded from financial contributions and we will consider a contribution from the Economic Development Fund towards the asset creation on a case by case basis after considering specific criteria.

Sources of funding for Capital Expenditure

The following funding sources are used for each capital expenditure category under normal circumstances. Any alternative funding sources are specifically approved by the Council.

Borrowing

We will not borrow to fund operational expenditure unless short term reasons justify this as an interim solution. When funding projects by debt, we spread the repayment over several years to enable us to match charges placed on the community with the period of benefits from the capital expenditure.

Borrowing is managed within the framework specified in the Liability Management Policy. While minimising interest costs and financial risks associated with borrowing is of primary importance, we match the borrowing term with the average life of assets when practical. Our overall borrowing requirement is reduced when other funds are available to finance capital expenditure, such as:

- Council financial reserves, including reserves comprising financial contributions.
- Contributions towards capital expenditure from other parties, such as Waka Kotahi New Zealand Transport Agency for certain roading projects.

- Revenue collected to cover depreciation charges.
- Proceeds from the sales of assets.
- Operating surpluses.

Financial Contributions under the Resource Management Act

Financial contributions are provided for in our District Plan and may be imposed as a condition of development or resource consent. Works and services may be required for purposes specified in the District Plan for ensuring positive effects on the environment. Development can place a significant strain on existing physical resources (utility networks, reserves and public amenities) and the District Plan places a requirement for developers, in most cases, to meet the full and actual costs of extensions and connections to the existing reticulation network.

There is flexibility in the provision of reserve contributions to take into account variations from site to site, particularly the ability to connect to existing reserves or to create access to the margins of waterways and other natural areas. In urban residential subdivision there is also a threshold figure for the provision of land so that a realistic reserve area can be provided. In lieu of land, cash can be provided for the enhancement of reserves in the vicinity.

We do not currently collect financial contributions as provided for in the District Plan under the RMA 1991 as we do not have a financial contribution policy.

Grants and Subsidies

We receive subsidies from Waka Kotahi New Zealand Transport Agency that cover a proportion of the capital and maintenance costs of our roading network. We also receive grants and subsidies from Central Government and grants from external sources. We received grants from the Government as part of its COVID-19 'shovel ready' projects recovery programme – \$3 million towards the construction of Te Ramanui o Ruapūtahanga library, arts and cultural centre and \$7 million for the Nukumarū Station Road extension.

Any Other Source

Special funds have either been received from a third party to be used in a specific way (restricted funds) or are tagged to be applied for a specific purpose or area of benefit (non-restricted funds).

Assets

We own, on behalf of the community, assets worth about \$1.068 billion. The majority are required to deliver the services the community requires of us; for example, the pipes, pumps and monitoring equipment of our water supply network are essential to provide the community with the water supply service it needs and expects.

Our property portfolio has been categorised into:

- Vital to the provision of a Council service or function
- Advantageous to own; or
- Surplus to requirements.

We are identifying properties that no longer have any strategic purpose or public benefit or where the use of sale proceeds would be of greater benefit to the community. Proceeds from asset sales will in the first instance go to repay debt that may be associated with the asset. If the asset is to be replaced with a similar asset or one built to provide for a similar purpose in the foreseeable future (1 - 2 years), the sale proceeds will be held in trust to pay for the new asset's creation. Wherever the sale proceeds are greater than the known debt or the replacement cost of the 'like' asset, the surplus will be made available to the Long Term Investment Fund.

Depreciation

Our policy for funding the depreciation of non-strategic assets is to fund a proportion that allows for the renewal of components, rather than funding the depreciation for total replacement of the asset. As an example, buildings will have roofs and other components replaced to ensure the full useful life of the structure can be achieved, but no funds will be built up to replace the structure. We consider it is not prudent to build up reserves (and increase rates from this generation) for the ultimate replacement of these assets, which for the most part will be in 30 - 50 years' time, when it is unknown if these types of assets will be wanted by future generations.

We have taken into account the current global economic climate and our significant debt programme when considering the funding of depreciation.

Notes to be included in revenue and financing spreadsheet.

Note: Three waters activities are included for year one of the Long term Plan.

The table above indicates the range of public or private good based on the following descriptors:

Descriptor	Range	
High	80%	100%
Medium to High	60%	80%
Medium	40%	60%
Low to Medium	20%	40%
Low	0%	20%

A “High” public good would indicate that the expenditure for that activity likely meets the criteria of a public good on a percentage basis between 80% and 100%.