Revenue & Financing Policy

Objective

This policy outlines the choices the Council has made in deciding the appropriate sources of funding for operating and capital expenditure from those sources listed in the Local Government Act 2002 (the LGA). The policy also shows how the Council complied with section 101(3) of the LGA which sets out a number of factors we must consider when making these decisions.

The outcome of balancing all those factors requires judgement over many facets of Council functions including but not limited to legal, transparency, accountability, affordability, efficiency, social, and intergenerational equity as well as providing for the financial sustainability of the activities undertaken.

Legal requirements

When making funding policy the Council must work through the process and matters set out in section 101(3) of the LGA and have regard to the section 101(1) obligation to act prudently and in the interests of the community. The requirements of section 101(3) analysis is 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 as a whole, and any identifiable parts of the community and individuals
3) Period in or over which benefits occur
4) The extent to which actions or inactions of particular individuals or a group contribute to the need to undertake the activity
5) The costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities.

No single criterion has greater weight in law than the others, and these are explained in more detail below.

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 the 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 or a targeted rate. The choice between general and targeted funding sources 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

A comprehensive analysis of this is included in the Step One Funding Needs Analysis (Appendix One).

Second step considerations

This step requires the Council to consider 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 second step requires consideration once the first step is completed and this is at the whole of Council level rather than at the activity. It allows the Council to make adjustments to the allocation arrived at after step 1.

A comprehensive analysis of the second step considerations is included in the Step Two Overall Impact Analysis (Appendix Two).

Policy statement – general funding principles

The Council considers the following to be its overall position on revenue and financing matters:

- User pays is appropriate because user fees ensure that those who actually use services, pay for them, rather than relying on rates to subsidise service delivery.
- Transparency is important.
- Rating differentials are a useful tool to make our rating system fairer.
- Where rates are set on property value, capital value is to be used because this captures the high value of commercial property while mitigating the high value of land for farming.
- Where rates are set as a fixed dollar amount, separately used or inhabited parts of a rating unit (SUIP) is to be used, as this captures each dwelling within a rating unit, each shop within a mall, etc, as intended. Some exceptions may be appropriate, such as registered premises targeted rates which are assessed per licence, or certain water charges which are per unit of water as consumed or supplied by restrictor.

Current changes as a result of analysis

Impacts of targeted rates

Roading rates

Based on the outcome of step 1, the Council considered that a Roading rate differential based on capital value of the following was appropriate:

- Urban & utilities 1.0
- Commercial 2.0
- Semi-Rural 1.2
- Rural 1.2

In addition, the Council considered that a fixed targeted rate on all Rural properties to ensure all rural properties contributed to the roading costs irrespective of the capital value was appropriate.

Footpath & Streetlight, Town Centre, and Harbour rates

The Council considered the following rates and the availability of the services to the groups of ratepayers provided by the activities within each of the rate below, and concluded that an increase in the differential for semi-rural areas was appropriate, as well as to apply the rural differential of 0.25 consistently across these rates.

Table 1: Differentials to apply to urban, semi-rural and rural rates

	Previous differential	New differential
Footpath & Streetlights Rate		
- Urban	1.00	1.00
- Semi-rural	0.50	0.75

- Rural	0.20	0.25
Town Centre Rate		
- Urban	1.00	1.00
- Semi-rural	0.50	0.75
- Rural	0.25	0.25
Harbour Rate		
- Urban	1.00	1.00
- Semi-rural	0.50	0.75
- Rural	0.25	0.25

Rates on commercial and visitor accommodation properties

The Council also considered the economic impact of commercial properties and identified that they should contribute to specific activities via rates set on capital value, without a differential. Those activities are:

Table 2: Activities to be funded by commercial rates

Activity	Portion of net cost to be funded by commercial rates[1]
Public rubbish bins emptying, cleaning & maintenance	100%
Parking control	100%
i-Site operating grants	100%
Tourism & marketing	100%
Economic development	60%
Public toilets cleaning & maintenance	50%
Airport	50%
Town centre maintenance & operations	20%
Harbour activities	10%

In addition to commercial properties, there are a number of accommodation providers where part of those rating units are used to provide accommodation, but are not subject to the Commercial Rate. The Council confirmed in its Step One analysis that it was appropriate that each separately used inhabited part of a rating unit that provides visitor accommodation should continue to pay a fixed amount in lieu of the Commercial Rate, that funds the same activities as the Commercial Rate does.

In the Step Two analysis, the Council confirmed that the amount of that fixed amount should increase from the $400 in 2023/24, so it is a fairer contribution to the net costs of those activities funded by commercial rates and to better reflect the benefit they receive from the Council's tourism and marketing activities to attract visitors to the district. The actual amount of this visitor accommodation rate will be reviewed annually in the Annual Plan process.

Harbour Special Operator targeted rate

Having considered the requirements of section 101(3) of the Local Government Act (2002), being the first and second step considerations described at the start of this policy, the Council considers that

[1] Commercial rates in this context refers to the Commercial Rate (set and assessed on capital value) and the Visitor Accommodation Charge (set and assessed per separately used or inhabited part of a rating unit).

certain harbour operators benefit from, and contribute to need for, the harbour activities at South Bay. The Council has concluded from its s101(3) analysis that certain "Special Operators" have exclusive – or predominantly exclusive – use over some areas of the harbour that other users do not, and that a targeted rate for these special operators ensures they contribute to the current and future social, economic, environmental and cultural well-being of the community. The Council has therefore provided for a Harbour Special Operator rate in the Revenue and Financing Policy.

The South Bay harbour costs will be recovered from the following sources

Fees & charges (slipway fees, boat parking fees, cruise ship fees)	50%
Harbour special operator rate (see note below)	30%
Commercial rate	10%
Harbour Differential rate (urban/semi-rural/rural)	10%

The special operators will also be subject to any user fees that would also normally apply to their use of the harbour, such as boat parking and slipway fees. These special operators will also be subject to the commercial rate as would any other commercial operator, because their commercial business also benefits from the general activities of the harbour the same as any other business, and the portion of the commercial rate that would fund the harbour is insignificant in dollar terms. The special operators would not, however, be subject to the Harbour Differential rate as the Special Operator Rate applies in lieu of the Harbour Differential rate.

Special operator rate note

When the Council considered the overall costs of operating the South Bay Harbour it included consideration of those operators that have exclusive or sole operational areas of parts of the harbour, including jetties, seawalls, bus parking and supporting areas. While those jetties are not in the "ownership" of Council, they are attached to Council assets and without those Council assets, the jetties and other assets could not be used by the operators. It acknowledged that the exclusive use is at the detriment to other users. In considering the assessing of a special rate for those operators that have exclusive use, the Council considered those operators were making a commercial return from having exclusive use of the harbour. It is also acknowledged that there are other commercial users that do not have exclusive use, but those users pay an appropriate fee for the use of either the land by way of licence or by way of slipway fee. Those other commercial users do not have exclusive use of the slipway or any other facility within the harbour areas.

While at this stage two special operators have been identified, any further operators that are deemed to have sole use of harbour areas and/or exclusive use of Council assets would also be subject to the special operator rate. The special operators will be rated in proportion of the area used.

Commercial rate and Harbour differential rate note

The Council also acknowledges that all commercial properties in the district benefit from the harbour operations, particularly in the economic inflows generated by our iconic marine-based tourism activity, and also that the wider community benefits from harbour operations are predominantly aligned with their proximity to the harbour.

Impacts and application of the general rate

The Council considered the impacts of groups of ratepayers (urban, semi-rural, rural and commercial) based on location compared with the cumulative services that were available and considered that a general rate differential of 0.8 for rural and semi-rural properties is appropriate.

The general rate at a differential of 0.8 applied to rural and semi-rural properties, acknowledges that many of the activities and services funded by the general rate are more likely to benefit urban and commercial properties simply by virtue of their proximity to the township or access to certain services. The differential also serves to alleviate the impact on rates for farms, which have a higher capital value than urban households.

Use of the Uniform Annual General Charge (UAGC) lever

The uniform annual general charge (UAGC) as a fixed amount per separately used or inhabited part (SUIP).

The Council considered the impacts of rates on all groups of properties and including high value properties (those properties with a capital value significantly greater than the average) which generally pay significant rates, and the use of a fixed (uniform) rate which reduces rates for the higher value properties, but increase rates for lower value properties. The greater the property value from the average the greater the impact. Therefore, the Council considers that the Uniform Annual General Charge (UAGC) should be as close to the 30% cap set by legislation as possible. The rationale for this approach includes that the benefit of almost all Council services and activities accrues to all properties equally, therefore the Council considers all properties should contribute a relatively similar level regardless of the value of their property.

Te Ture Whenua Māori Act (1993)

The Council will promote the retention of Māori land in the hands of its owners, their whanau, and their hapu; and to protect wahi tapu; and to facilitate the occupation, development, and utilization of that land for the benefit of its owners, their whanau, and their hapu. It will do this by way of rates remission on Māori Freehold Land that is not used (where that land is not already non-rateable), and it will also offer rates remission to general land that is owned by Māori, where that land and its ownership is the same in nature as Māori Freehold Land but has not been registered with the Māori Land Court. By the same in nature, the Council considers that multiple owners/trustees and the owners/trustees cannot be easily held liable for payment of rates (in the same manner as Māori Freehold Land).

Policy statement – operating costs

Operating costs are the everyday spending on Council activities, such as maintenance, personnel, and telecommunications. Operating costs also include contributions to the wear and tear on assets used (depreciation), interest charged on borrowing for capital projects and overheads.

Lease & rent revenue, and any revenue generated by an activity is to be applied to that activity in the first instance.

The following sources of funding are appropriate for operating costs:

- User fees
- Grants, sponsorship, subsidies and other revenue
- Special reserves & funds
- Rates

Policy statement – capital expenditure

Capital expenditure is the cost to acquire, upgrade, or renew assets such as property, plant and equipment. These assets are long-term in nature, and it is therefore generally appropriate to fund their acquisition with long-term funds such as borrowing. External funding sources such as grants, subsidies, development contributions, and proceeds from the sale of assets are also appropriate.

For renewal expenditure (the cost to replace an asset or to restore it to its original condition), annual revenue such as subsidies, user fees & charges, general or targeted rates may be preferred rather than borrowing.

Special reserves and funds may be used to meet capital costs if the expenditure is consistent with the purpose of the fund.

The following sources of funding are appropriate for capital expenditure:

- Investment income and proceeds from the sale of assets
- Grants, sponsorship, subsidies and other income
- Special reserves & funds
- Development contributions
- Borrowing
- Rates
- User fees

The allocation between the various tools will be based on the type of expenditure and the available funds per Appendix One: Step One Funding Needs Analysis.

The Council does not currently intend to use lump sum contributions nor financial contributions under the Resource Management Act 1991.

Funding mechanisms

User fees

User fees are applied to services where it is identified there is a benefit to an individual or group, or directly attributable cost. User fees are a broad group of fees charged directly to an individual or entity including but not limited to: hire, rent, lease, licences for land and buildings, permits, planning and consent fees, regulatory fees, fines and penalties, connection fees, disposal fees, statutory charges, harbour and landing fees.

The price of the service is based on a number of factors, including but not limited to:

- The cost of providing the service
- The estimate of the users' 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, including comparability with other Councils
- The impact of rates subsidies if competing with local businesses
- Cost and efficiency of collection mechanisms
- The impact of affordability on users
- Statutory limits
- Other matters as determined by the Council

The ability to charge user fees is limited by various statutes and regulations. As a general 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 (such as the Waste Minimisation Act 2008) fees may be set at greater than the cost of providing the service. It is appropriate to incorporate overhead costs when determining the cost of providing a service.

User fees may be set at any time and are reviewed annually. A list of current user fees is maintained on our website.

Revenue from user fees is generally allocated to the activity which generates the revenue.

Grants, Sponsorship, Subsidies and Other Income

Grants, sponsorship and subsidies are used where they are available. Many of these types of income are regular and predictable and can be budgeted for (for example Waka Kotahi roading subsidy). Some other types are unexpected or unpredictable and may not be able to be prudently budgeted (such as Provincial Growth Fund funding, reparation payments, reimbursements for emergency events, legal settlements and insurance claims). These are applied as they arise to the corresponding activity or project.

Investment Income and Proceeds from the Sale of Assets

The Council's approach to investments is documented in the Investment and Liability Management Policies. These investments generate income such as dividends, interest, and rents, and are applied to operating costs associated with the investment in the first instance.

Development Contributions, Financial Contributions and Lump Sum Contributions

Development contributions relating to resource consents, building consents and/or service connections, are collected and placed in a special reserve associated with the activity funded by the development contribution, and used for the purpose the development contribution was levied. This may include reimbursing loans that were raised to fund development projects in the past. The Council does not currently take financial contributions and does not intend to use lump sum contributions.

Special Reserves & Funds

Special reserves and funds are used for the purposes that they were created. Reserve funds may be used to meet operating costs if the expenditure is consistent with the purpose of the fund.

Borrowing

The Council's approach to borrowing is documented in the Liability Management Policy. The Council generally plans to fund all cash operating costs 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, or meet short-term cashflow requirements from borrowing as an interim arrangement.

General rate

General rates in this context includes the general rate and the uniform annual general charge. Both of these rates apply to every rateable property in the Kaikōura district.

The general rate is assessed on capital value on a differential basis, and is applied to activities that benefit the entire community, where the benefits and costs can not easily be allocated to specific individuals and groups, or where the administrative effort to fund by a specific source would outweigh the activity itself.

The general rate applies a differential of 0.8 to rural and semi-rural properties.

The uniform annual general charge (UAGC) is a fixed amount per separately used or inhabited part (SUIP) and is applied to the same activities that fund the general rate.

Targeted rates

Targeted rates are used when the Council considers that a group of users can be identified (whether by proximity, connection, or access to services), or where it considers that transparency in funding certain activities is important.

Targeted rates include rates assessed on capital value, SUIP, or other factors such as charges on the volume of water consumed.

Examples are targeted rates for water, where only those properties which are connected – or could be connected – are assessed these targeted rates. Another example is the Civic Centre Charge, which is a uniform targeted rate for no reason other than transparency, but the revenue from these rates are ring-fenced in a special reserve and can only be used for their specific purposes.

Activities and their sources of funding

The following table is the outcome of the Step One analysis plus any Step Two adjustments. It shows the funding tools proposed for each activity. It is a summary, see Appendicies One and Two for more detail.

Table 3: Activities and their sources of funding

Activity/tools	General rates (with differential) and the UAGC	Targeted rates		User Fees:	Grants and subsidies:
		Capital Value	Fixed $ amount		
Roads & bridges		35% to 60% with differential	Less than 20% (Dollar amount set annually)		40% to 60%

Activity/tools	General rates (with differential) and the UAGC	Targeted rates		User Fees:	Grants and subsidies:
		Capital Value	Fixed $ amount		
Footpaths & streetlights		70% to 80% with differential			20% to 30%
Economic development	40%	60% Commercial rate & visitor accommodation			
Animal control	10% to 30%			70% to 90%	
Transfer station (net cost to Council)	100%				
Public rubbish bins and recycling stations	50%	50% Commercial rate & visitor accommodation			
Kerbside recycling collection service			100%		
Rural recycling collection			100%		
Resource recovery and re-use, recycling (net cost to Council)	100%				
Statutory planning	20%			Not less than 80%	
Building control	20%			Not less than 80%	
Responsible (freedom) camping	Up to 100%				Wherever available
Parking control	50% of residual	50% of residual Commercial rate & visitor accommodation		Up to 100%	
Food premises & environmental health, and alcohol licencing	20%		Registered Premises Charge Up to 80% with user fees	Up to 80% with targeted rate	
Other regulatory	Up to 80%			Up to 30%	
Town Centre		80-95% with differential		5-20%	
Public Halls (Memorial Hall & Scout Hall)	Up to 100%			Up to 20%	
Airport	50% of Residual	50% of Residual Commercial rate & visitor accommodation		90%-100%	
Harbour – South Bay		30% Special Operator Rate, residual split equally between Harbour Rate (with		Not less than 50%	

Activity/tools	General rates (with differential) and the UAGC	Targeted rates		User Fees:	Grants and subsidies:
		Capital Value	Fixed $ amount		
		differential) and Commercial Rate & visitor accommodation			
Harbour – North Wharf and Old Wharf		Residual split equally between Harbour Rate (with differential) and Commercial Rate & visitor accommodation		Up to 50%	
Civic Centre			70-80%	20-30%	
Housing for the elderly plus MBIE Housing	Residual			100%	
Swimming pool (grant paid to Trust)	100%				
Parks & reserves, walkways, cycle trails & pump tracks, skatepark, playgrounds, sports fields, and foreshore	Not more than 98%			Not less than 2%	
Cemetery	40-55%			45-60%	
Public toilets	50%	50% Commercial rate & visitor accommodation			
Camping ground & Hot Pools				100%	
25 Beach Road (Op Shop) and other leased properties	Greater than 75%			Less than 25%	
Forestry				100%	
Wakatu Quay project	< 5%			> 95% once operational	> 80% to construct
Mayor & Councillors	100%				
Chief Executive's office & communications	100%				
Emergency Management	100%				Wherever available
Library service	100% after fines				
Community Development	100%				Wherever available
Social Services (Family violence, youth support, social recovery)					100%
District Plan		100%		Private plan changes 100%	

Activity/tools	General rates (with differential) and the UAGC	Targeted rates		User Fees:	Grants and subsidies:
		Capital Value	Fixed $ amount		
Environmental Initiatives	100%				Wherever available
Tourism & Marketing		100% Commercial rate & visitor accommodation			
Strategy & Policy	100%				
Water supplies			Up to 100%	Up to 10%	
Wastewater			Up to 100%	Up to 10%	
Stormwater		Up to 100%		Up to 10%	

Table 3 above shows the degree (expressed as a range) to which each funding source is used to fund operating costs in relation to each activity to be funded, as required by section 101(3)(a) of the LGA. They may change over time because of changes in expenditure requirements, as well as changes in revenue due to demand for services and/or the availability of external grants, and so the percentages are indicative.