

# Revenue and Financing Policy 401

## Contents

1	Purpose	Page 2
2	Funding Principles	Page 4
3	Operating Costs	Page 4
4	Operating Costs Funding Sources	Page 4
5	Capital Costs Funding Sources	Page 8
6	Additional Information	Page 10
7	Document Control	Page 12

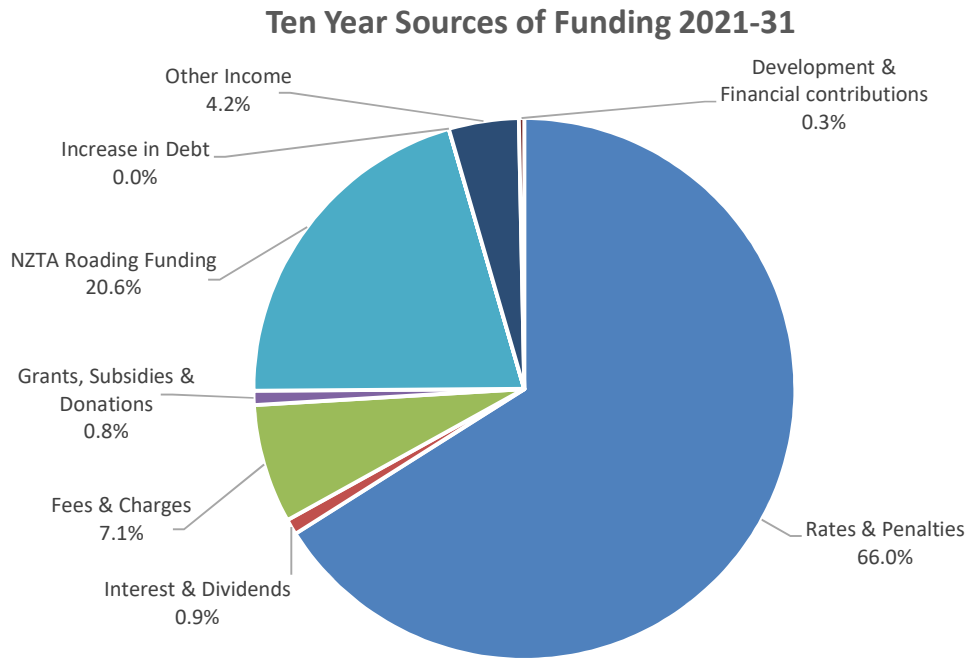
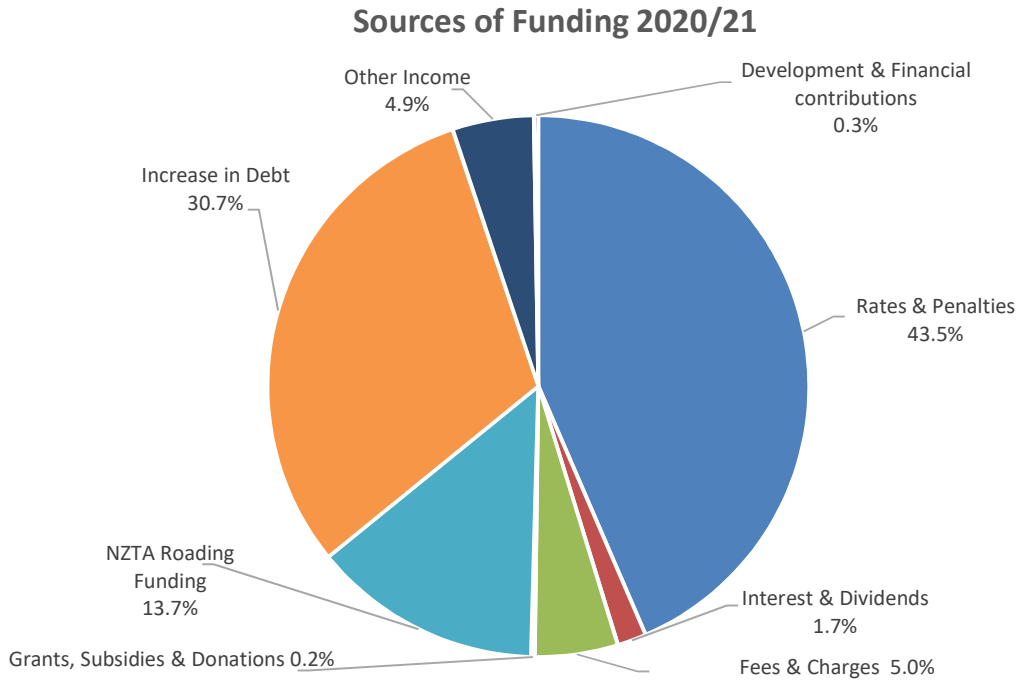
## **1. Purpose**

The Revenue and Financing Policy summarises Waimate District Council's (Council) view on the equitable funding of Council's activities. It addresses all potential revenue and funding sources open to Council and how and when Council may use such sources. In choosing funding sources, Council is primarily concerned with enhancing the social, cultural, economic, and environmental wellbeing of the district and its residents, and takes account of many factors in its decision-making, including community outcomes, benefit, affordability, equity, simplicity, efficiency, transparency, accountability, and overall community wellbeing. The policy addresses Council's assessment of equity between current and future generations.

In Council's assessment, this policy represents the fairest and most equitable use of the funding sources available to meet operating expenses.

The charts in table 1 show the sources of funds for the year ended 30 June 2021 compared with all 10 years (2021/31) of this Long Term Plan (LTP). While Council's primary source of funding is rates, there remains a high and increasing reliance on subsidy. The comparison of the funding from the increase in debt does not represent any change in approach, but is representative of the one and ten year periods covered by each graph, with the use of forestry returns to repay debt during the ten years. The changes shown in the charts do not represent significant shifts in Council's funding approach, but are reflective of the areas of focus highlighted in the Infrastructure and Financial Strategies.

**Table 1. Overall Sources of Funds**



## **2. Funding Principles**

Council has determined the following basic principles to guide the assessment of fairness and equity in choosing funding sources:

1. Each generation of ratepayers should pay for the services they receive,
2. Rates are the funding source of last resort,
3. Rates increases should be within the limits as set in the Waimate District Council Financial Strategy,
4. User charges are preferred whenever a private benefit can be identified and it is efficient to collect the revenue,
5. Subsidies, grants, and other income options are fully explored prior to rates being used, and
6. Borrowing should be within the limits as set in the Financial Strategy

Complying with these principles can at times be challenging. Council must exercise prudent judgment in assessing many options to determine fairness in its development of budgets and the choice of funding sources to implement these budgets.

## **3. Operating Costs**

Operating costs are the day to day spending that maintains the services delivered by Council. This includes a contribution to the wear and tear on assets used. Principle 1 (above) requires that operating costs should be met from operating income; in other words, 'a balanced budget'. This ensures fairness, in that the users of the service pay for their use.

An unbalanced budget occurs when we smooth the impact of significant swings in income and expenditure, over a number of years, using debt. Council has determined that this is an acceptable funding strategy.

## **4. Operating Costs Funding Sources**

### ***User Fees and Charges***

User fees and charges are used for services where there is a benefit to an individual or group. The price of the service is set by taking account of a number of factors. These may include:

- The cost of providing the service,
- The estimation of the users' private benefit from using the service,
- The impact the cost has to encourage or discourage behaviours,
- The impact the cost has on demand for the service,
- Market pricing, including comparability with other local authorities,
- The impact of rates subsidies if competing with local businesses,

- The cost and efficiency of revenue collection mechanisms,
- The impact of affordability on users, and
- Other matters as determined by Council

### ***Grants, Sponsorships, and Subsidies***

Grants, sponsorships, and subsidies are used wherever they are available. Council expects to continue receiving substantial subsidies for road maintenance. Some services can only be continued so long as funding from this source continues. Council rarely budgets for grants income unless it has determined a likelihood of success in reaching the budget goal.

### ***Investment Income: Dividends, Interest***

This includes income from investment activities such as dividends, interest, forestry returns and reserve funds. The income from these activities is generally used to offset the costs of the investing activity. Surplus revenues will be allocated by Council to operating or capital costs at each Annual Plan. For some activities Council applies funds held in reserve in order to reduce the rates contribution in that activity.

### ***Investment Income: Rents***

Income from Council-owned properties is recorded in the Property Activity. Such income offsets the cost of operating these properties and, should a surplus be achieved, any portion of that surplus not required for reinvestment is distributed to the general rate. Community Housing surpluses are placed in a reserve for asset renewal.

### ***Rates***

Having exhausted all other funding sources, Council funds its remaining operating expenses from rates. For many activities, this is the main funding source (see Table 2), reflecting Council's view that the collective benefit to the District is greater than any identifiable individual benefit.

To assess the allocation of rates, Council has reviewed each activity of Council and considered the following factors to be the determinants of the fairness of an allocation:

- Level of alignment with the overall objective of enhancement of social, cultural, economic, and environmental wellbeing of the district,
- Community outcomes,
- Distribution of benefits to individuals, groups, or the district as a whole,
- When the benefit will occur,
- The impact of individuals or groups on the need to undertake the activity,
- The costs and benefits of funding the activity separately, and
- Affordability, transparency, accountability.

Having considered these factors Council recognises that rates are a tax on property owners and each property will use a different mix of services than represented by the rate charge.

In considering the overall impact of the liability to pay rates, Council is of the view that it is neither possible nor fair to allocate the cost solely on individuals' benefits (i.e. as if rates replicated user pays). It is through the collective contribution of the whole district that the District is best able to develop and prosper.

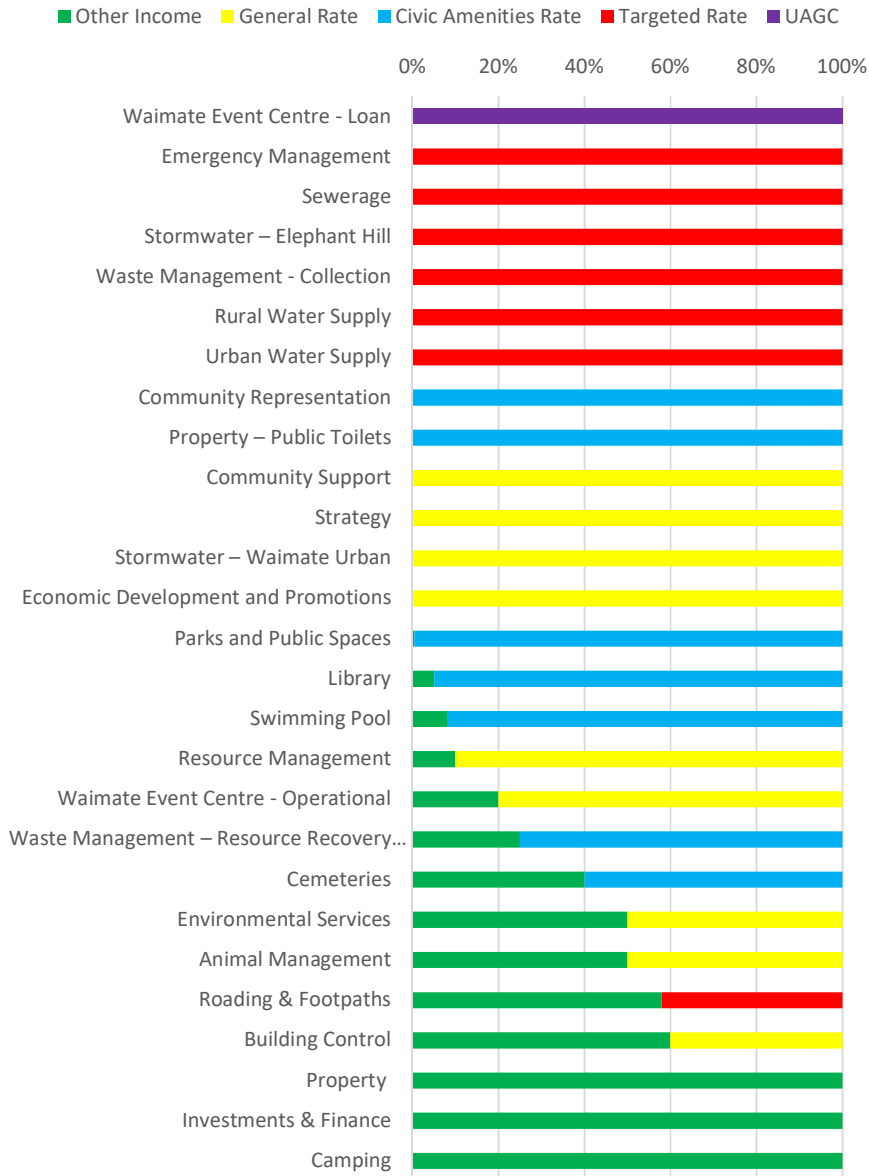
For these reasons Council prefers to fund activities based on a combination of general rates (based on capital values), targeted rates and separately used or inhabited parts (i.e. residential dwellings). Categories of rateable land have been defined to balance the imposition of the tax on rural properties with the assessed benefit that urban properties get, mainly through proximity to services or to higher levels of service.

Council considers that a rating structure that fairly attributes user pays on appropriate activities and is also relatively easy for ratepayers to understand is preferable. To this end, Council uses four main rates to fairly and equitably distribute the rate:

1. General rate - allocated on capital value,
2. Civic amenities rate - allocated as a uniform targeted rate,
3. Targeted rates - allocated based on usage or capital value as appropriate, and
4. Uniform targeted rate - the only rate set on a uniform basis is the Waimate Event Centre Loan Targeted Rate.

These rates are modified following a funding needs analysis of the share of each activity the Urban area and Rural areas should fairly pay.

**Table 2 - List of Activities and Summary of Funding Sources**



**Targeted Rates**

Council uses targeted rates to fund services where Council has determined the cost of the service should be targeted to the group which benefits much more than the general benefit

most ratepayers receive. Targeted rates may be set on a uniform basis and/or a value basis (either land or capital), or Separately Used or Inhabited Parts basis.

Council uses “separately used or inhabited parts” of rating units for charging some rates. Council’s definition of this term is contained within the Funding Impact Statement.

Council has one Uniform Targeted Rate, which supports the funding of the Waimate Event Centre Loan repayment.

Details of the rates charged are included in the Funding Impact Statement.

### ***Capital Costs***

Capital costs, for the purpose of this policy, is spending on assets that provide the community with a service over a longer period of time than operating expenditure. As at 30 June 2020 Council owns \$427 million worth of assets (Property, Plant & Equipment) and plans to spend \$65.5 million (between \$5.3 million and \$11.5 million each year) over the next 10 years on a mix of renewal, additional demand and service-improvement.

Council has a mix of funding tools available to purchase and improve assets.

## **5. Capital Cost Funding Sources**

### ***User Fees and Charges***

User fees and charges are used for services where there is a benefit to an individual or group. Generally these funds are not used to pay for asset purchases, as the amount to pay is unaffordable and generally the beneficiaries are many and change over the long period of the asset’s life. This makes user charges impractical and unfair. As such, borrowing and charging users annually for financing costs using rates is often a more affordable method of charging users contribution.

### ***Grants, Subsidies, and other Income***

Grants and subsidies are used wherever they are available. Council expects to continue to receive substantial subsidies for the development of new and existing roads. Council looks to maximise the subsidies and grants that are available, at all times.

Grants are often available for capital projects. Council rarely budgets for grants income unless it has determined there is a strong likelihood of success in reaching the budget goal. Some capital projects are dependent on successful grant income for these projects to be undertaken.

### ***Financial Contributions***

Council has adopted a Financial Contributions Policy. The funds collected under this policy will be applied to the projects as identified by those policies or where not identified as resolved by Council. Funds are held in reserve should they be received in advance of a project.



### ***Proceeds from the Sale of Assets***

From time to time Council sells assets as per the Property or Land Sale, Purchase and Lease Policy 410.

When major asset sales are made Council will determine the best allocation of those funds taking account of the Financial Strategy. Some assets have restrictions on how the proceeds may be used; for example endowment property proceeds must be placed in the District Endowment Reserve Fund.

### ***Borrowing***

For larger capital costs that provide a long term benefit to the community, Council may determine that borrowing the funds is the fairest method of allocating the costs of a project over time to users. The financing costs, including principal and interest, are charged as operating expenses and funded under the operating expense funding policy unless funded otherwise as determined by this policy.

Council will manage its borrowing within Council's rate and debt limits as defined in the Financial Strategy.

### ***Reserves***

From time to time Council will have reserve funds accumulated specifically for the purchase of assets. Council allocates portions of the funds to asset purchases in accordance with the purpose of the fund. In making the allocation, Council will have regard to current and future calls on the fund and make allocations that are fair to current and future ratepayers.

### ***Rates***

Rates are used firstly to fund the day to day expenses of Council. This normally includes funding an annual amount (depreciation) toward the ongoing replacement of existing assets, and the funding of its financing costs on debt created to purchase assets.

As a last resort, rates may be required to fund the balance of the capital cost of a new asset. Council will make an assessment on each major project and determine:

- How much the rates contribution will be,
- Which group of ratepayers should pay, and
- Whether to include that in the General Rate or some other targeted rate as determined by Council

Council may consider the establishment of targeted rates to collect funds to repay loans. In doing so Council will also consider the options for remission, postponement, early repayment, or lump sum repayment that are available to assist with the fair allocation of the rates.

## **6. Additional Information**

This policy represents the high level revenue and financing policies of Council. Council has separately completed a funding needs analysis (S101 (3) LGA) for each activity and major capital project. Further information relevant to this policy is contained in the Financial Strategy, Rating Policies and Funding Impact Statement.

The current S101 analysis giving rise to the rates allocation by activity and differential is attached in the next table.



## 7. DOCUMENT CONTROL

Queries:	Corporate Services Group Manager
Effective:	MMM 2021 (2021-2031 LTP)
Previous Review Date(s):	29 June 2012 (2012-22 LTP) 30 June 2015 (2015-25 LTP) 30 June 2018 (2018-28 LTP)
Next Review Date:	June 2024 (2024-2034 LTP)
Document Owner:	Corporate Services Group Manager
To be only amended by:	Resolution of Council