

# Council Policy

## Draft Revenue and Financing Policy

Effective Date:	1 July 2025
Date First Adopted:	2003
Last Reviewed:	2021
Next Review Date:	2027 (Three Yearly Review)
File reference:	Pol 14
Responsibility:	Group Manager, Finance and Corporate Services
Associated Documents:	N/A

# 1. Policy Objectives

The Objectives of this policy are to:

- state the funding approach of Council in respect to both operating and capital expenditure
- explain who pays and why
- outline how Council's activities are funded
- meet the requirements of the Local Government Act 2002, under sections 102 and 103; Council must adopt a Revenue and Financing Policy.

## 2. Policy Principles

This Policy is based on the principles that:

- Council has a responsibility to exercise prudent financial management for the community now and in the future.
- The cost of providing Council services should be borne equitably by the community and those who use the service.
- Fees and charges should be fair.
- Council will consider affordability when determining the levels of fees and charges.
- Council will endeavour to have a balanced budget with each years operating revenue set at a level sufficient to meet the operating expenditure, unless Council resolves it is financially prudent not to do so. For Council this primarily relates to the non-funding of depreciation expenditure. (See Financial Strategy regarding funding of depreciation expenditure).

## 3. Policy Background

The services provided by Council are divided into significant activities.

### **Legislative requirements**

The Local Government Act requires that the funding needs of Council must be met from those sources which are deemed to be appropriate, following the consideration of:

- The community outcomes to which the activity primarily contributes
- The distribution of benefits among the Community as a whole, any identifiable part of the Community, and 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
- The costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities.

Council must then assess the overall impact on the community of allocating the liability for this revenue, before determining the appropriate funding mechanisms. Council must also determine the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities

The second stage is to take the combined results of the allocations from the first stage and to assess the overall impact of that on the current and future social, economic, environmental, and cultural well-being of the Community.

## 4. Policy Definitions

**Community outcomes:** The outcomes a local authority aims to achieve in order to promote the economic, social, economic and cultural well-being of its district in the present and for the future. They define the desired future for the District. Kawerau's community outcomes are described in this Long Term Plan.

**Distribution of benefits:** Identifying who benefits from an activity provided by Council is important when considering who should pay for the service. Generally, if only individuals receive the benefits of an activity (private benefits), a user-pays system should be considered. If the benefits of an activity are shared by a large group within the community, then an appropriate funding option for that activity would be a targeted rate. Alternatively, if the benefits of an activity are shared by the whole community (public benefit) then an appropriate funding option for that activity would be the general rate.

**Industrial/Commercial:** All properties other than those defined as "Residential".

**Residential:** Properties situated in any zone used solely for residential purposes.

**Period of benefits:** A statutorily required assessment of the period over which the benefits from each activity will flow. This helps identify the period over which the operating and capital expenditure should be funded. For all activities, operating costs are directly related to providing benefits in the year of expenditure. As such, they are required to be adequately funded on an annual basis.

Assets provide benefits over more than one year and therefore benefits are derived over the useful life of each asset. Useful lives range from a few years in the case of computer equipment to many decades for infrastructural assets such as the water supply network. This introduces the concept of 'intergenerational equity' whereby the cost of any expenditure should be recovered over the period of time in which the benefits of that expenditure accrue. This is particularly relevant for significant assets such as the wastewater, stormwater, roading and water supply networks.

To ensure that each generation of ratepayers pay for the benefits they receive, the depreciation costs of an asset are funded from rates from the corresponding year. Infrastructural costs are thus spread more evenly across the life of the asset and the different ratepayers who benefit from it.

**Funding of capital expenditure:** There are three types of capital expenditure which need to be funded: purchase of new assets, replacement of existing assets and repayment of loan principal on debt (both external and internal).

Depreciation reserves are used to fund capital expenditure in Council activities for which asset depreciation is funded. It is estimated that Council will continue to borrow externally to fund the infrastructural asset renewals during the current Long Term Plan. A table showing planned renewal expenditure is included in the financial statements.

The Local Government Act requires that Council operating revenues in any one financial year should be set at a level sufficient to meet all projected operating expenses, including depreciation costs. Depreciation on some assets is not fully funded (see Financial Strategy). Any capital expenditure on those assets is funded from general rates, grants or external loans.

**Contributors to the need for an activity (polluter pays):** The ‘polluter pays’ principle is that the person who creates a problem which incurs costs for Council, should contribute some or all of the funds to meet those costs. For example, dog owners who allow their dogs to roam should pay a fine to cover the cost of impounding. However, this is not always practical, as identifying and charging the offender is not always possible. Similarly, people who do graffiti or dump rubbish illegally are not always caught. Council’s policy is to recover these costs where practicable.

**Costs and benefits of funding the activity distinctly from other activities:** When selecting a particular funding mechanism Council is required to consider the costs and benefits. It is possible to establish specific charges or rates for each service, however this is not the best approach if the cost of establishing and administering a charging system outweighs the benefits, or the revenue gained. This is assessed on a case-by-case basis. Council is also required to consider alternative funding mechanisms in terms of transparency and accountability. One which is targeted for specific cost items is more transparent to users of the activity than general or aggregated funding. However, if the targeted charging approach excessively increases administrative costs then an aggregated charging approach may be better.

### **Overall impact of the method of funding**

In addition to all of the issues explained above, Council is required to consider the overall impact that any allocation of charges and costs may have on the current and future social, economic, environmental and cultural well-being of the Community.

## **5. Policy Statement**

### **5.1 Funding of Operating Expenditure:**

All operating expenses will be funded each year in accordance with the summary table which lists the following funding sources for each activity after Council determines:

- the beneficiaries of Council activities
- the ability of residents to pay for Council services
- whether there are any “exacerbators” for the particular activity; and
- the costs and benefits of using the selected funding source.

## The following are Funding Sources to meet Operating Expenditure:

### **General Rate:**

Council charges general rates through both a Uniform Annual General Charge (UAGC) on each separately used or inhabited part of a rating unit and a rate in the dollar on capital value in accordance with Council's Differential Rating System. The purpose of the UAGC is to ensure a minimum contribution to the general rate from all ratepayers and a more even allocation of the general rate. The UAGC amount has been set by Council to produce the fairest and most equitable overall result for the community.

Council charges general rates on a differential basis in accordance with the Local Government (Rating) Act 2002. Council introduced differential rating 1978. The objective of Council's system of differential rating is primarily to retain the ratio between commercial and industrial ratepayers on the one hand and residential ratepayers on the other. The general rate (including the UAGC) is apportioned on a ratio of 52:48 Industrial/Commercial: Residential.

### **Targeted Rates:**

**Water:** Council charges a uniform fixed amount for the provision of water supply. The rate is charged to each separately used or inhabited part of a rating unit to which Council supplies water, other than properties on metered water supply.

**Wastewater:** Council charges a uniform fixed amount for the collection and treatment of wastewater. The rate is charged to each separately used or inhabited part of a rating unit which is connected to Council's wastewater disposal network.

**Refuse Collection:** Council charges a uniform fixed amount for the collection of residual refuse. The rate is charged to each separately used or inhabited part of a rating unit from which Council is prepared to remove residual refuse.

### **Grants and Subsidies:**

Much of Council's Roading expenditure is subsidised by the New Zealand Transport Agency (NZTA). Subsidies contribute to the long term maintenance of carriageways and stormwater drainage and lighting systems. There is also a small annual amount contributed by the NZ Defence Force for the upkeep of returned servicemen graves, which is included in subsidies and grants.

### **Interest and Dividends:**

Council has minimal equity investments and therefore receives no dividend income of any consequence.

Interest is received from financial investments. Significant replacement of infrastructure assets will occur in the 2025–2034 period. Council will only have moderate cash surpluses and depreciation reserves. While the reserves are invested in accordance with Council's Investment Policy and are retained for expenditure on asset replacement, there will only be small proceeds from these investments. Interest revenue from the investment of these reserves lowers the amount of depreciation funding required from general rates.

### **Fees and Charges:**

Fees and charges are imposed on a wide range of activities. Council considers a number of matters when setting fees.

These include:

- The cost of the service provided, and the private benefits received.
- The ability of users to pay and the possible exclusionary effects to people on low incomes.
- The risk of people not using Council services if charges for those services are perceived to be too high.
- In applicable cases, whether the user lives within or outside the district.

#### **Other Proceeds:**

Proceeds from asset sales and cash reserves are generally used to repay debt, funding capital expenditure or are set aside in a reserve for the future acquisition of new assets. Council may consider in specific circumstances it is financially prudent to use such proceeds and reserves to fund operational expenditure.

## **5.2 Funding of Capital Expenditure:**

Capital expenditure is funded in accordance with the type of expenditure that is incurred:

- Renewals are funded from depreciation reserves (unless funded by external loan).
- Capital expenditure to improve the level of service or meet additional demand is funded from depreciation reserves.
- External loans – to fund large projects such as the replacement of water pipes.

Other sources of capital funding include:

- NZTA subsidy for Roadway renewals and capital expenditure
- Grants from various funding agencies.

#### **Proceeds from Asset Sales:**

Proceeds from asset sales are used to repay debt or are set aside in a reserve for the future acquisition of new assets.

#### **Reserve Funds:**

Most Council reserve funds are held in depreciation reserves. These are used to finance the renewal of existing assets.

#### **Borrowing:**

Council's borrowings are managed per Council's Liability Management Policy. Borrowings are generally used to fund capital projects that include an element of service enhancement or where the project is significant in value greater than depreciation reserves available. Borrowing for significant capital projects allows Council to ensure there is intergenerational equity, enabling the spread of the cost over the life of the asset.

#### **Financial Contributions:**

There is an ability for Council to collect financial contributions as per a Financial Contributions Policy.

### 5.3 Assessment of Overall Impact on Allocation of Funding Needs Contributions:

There is an ability for Council to collect revenue from a range of sources. Council selects funding tools which lead to the most equitable funding of activities in terms of:

- The distribution of benefits across the community
- When the benefits are expected to occur
- The extent to which the action or inaction of particular individuals or group(s) contribute to the need to provide the activity
- Affordability.

While the level of private benefit provided by some activities would justify imposing user fees and charges, Council wishes to enhance community well-being by enabling every resident to access Council services. This is based on the principle that inability to pay should not restrict access to services.

Council has therefore determined that general rates will be used to fund:

- Access to the Public Library / Museum for residents and ratepayers
- Access to the Maurie Kjar Aquatic Centre
- Affordable rental fees for the use of the Town Hall, Concert Chambers, Recreation Centre, Rangi Delamere Centre and Passive Reserves
- Free access to Town Centre Toilets



**Table: Mix of funding mechanisms for operating expenses** *Table: Allocation of costs*

Significant Activity	Who Benefits		Funding Ratio		Comments
	Community/ Public Benefit	Private/Individual Benefit	Community/ Public Benefit (%)	Private/Individual Benefit (%)	
<b>Democracy</b>	✓		100	0	
<b>Economic and Community Development</b>					
Economic Development	✓	✓	80-100	0-20	Development to increase rates base
Pensioner Housing	✓	✓	0-10	90-100	
Community, Cultural and Social	✓		100	0	
Residential/Commercial Developments	✓		20-40	60-80	
Firmin Lodge	✓	✓	40-50	50-60	
Information Centre	✓	✓	40-50	50-60	
Porritt Glade Lifestyle Village	✓	✓	0	100	
<b>Environmental Services</b>					
Resource Management - Planning	✓		100	0	Balance affordability of fees
Resource Management - Consents	✓	✓	20-30	70-80	
Building and Inspection	✓	✓	60-70	30-40	
Environmental Health	✓	✓	70-90	10-30	
Dog Control	✓	✓	90	10	
Dog Registration		✓	0	100	
Civil Defence	✓		100	0	
<b>Roading</b>	✓	✓	60-50	40-50	NZTA subsidy 75% only on subsidised roads
<b>Stormwater</b>	✓		100	0	
<b>Water Supply</b>	✓	✓	10-20	80-90	Current targeted water and wastewater rates are low. Council is to gradually transition to higher targeted rates
<b>Wastewater</b>	✓	✓	10-20	80-90	
<b>Solid Waste</b>					
Refuse Collection	✓	✓	10	90	Targeted rate
Refuse Disposal	✓	✓	20-40	60-80	Balance fees with illegal disposal
Zero Waste	✓	✓	80-100	0-20	Subsidies & user fees
<b>Leisure and Recreation</b>					
Library/Museum	✓	✓	90-100	0-10	Key is community accessibility
Swimming Pools	✓	✓	90-100	0-10	Key is community accessibility
Public Halls		✓	90-100	0-10	Key is affordability of hire fees
Public Toilets	✓	✓	100	0	
Parks and Reserves	✓	✓	90-100	0-10	
Cemetery	✓	✓	20-40	60-80	



Activity	Funding of Operational Expenditure				
	General Rates	Targeted Rates	User Fees & Charges	Subsidies & Grants	Petrol Tax
<b>Democracy</b>	✓				
<b>Economic and Community Development</b>					
Economic Development	✓				
Pensioner Housing			✓		
Community, Cultural and Social	✓				
Residential/Commercial Developments	✓			✓	
Firmin Lodge	✓		✓		
Isite	✓		✓		
Porritt Glade Lifestyle Village			✓		
<b>Environmental Services</b>					
Resource Management	✓				
Planning Resource Management	✓		✓		
Building Control	✓		✓		
Environment Health	✓		✓		
Dog Control	✓				
Dog Registration			✓		
Civil Defence	✓				
<b>Roading</b>	✓		✓	✓	✓
<b>Stormwater</b>	✓			✓	
<b>Water Supply</b>	✓	✓	✓		
<b>Wastewater Supply</b>	✓	✓	✓		
<b>Solid Waste</b>					
Refuse Collection	✓	✓	✓		
Refuse Disposal	✓		✓		
Zero Waste	✓		✓	✓	
<b>Leisure and Recreation</b>					
Library	✓		✓		
Swimming Pool	✓		✓		
Public Halls	✓		✓		
Public Toilets	✓				
Parks & Reserves	✓		✓		
Cemetery	✓		✓	✓	