



**SOUTH WAIRARAPA
DISTRICT COUNCIL**
Kia Reretahi Tātau

Revenue and Financing Policy

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Revenue and Financing Policy

1. Introduction

The Revenue and Financing Policy (Policy) contains Council's policies with respect to the funding of operating expenditure and capital expenditure from various revenue sources. When read in conjunction with the Funding Impact Statement (Rating), this policy provides the link between the funding decisions taken at the activity level, with the eventual rates assessment that each ratepayer will receive. It is also the lead policy for other funding and financial policies including:

- » Liability Management Policy
- » Investment Policy
- » Development and/or Financial Contributions Policy
- » Rates Remission Policies
- » Rates Postponement Policy

Section 101 (3) of the Local Government Act 2002 (LGA) sets out the requirements Council must consider as part of the development of the policy. Section 103 of the LGA sets out the general contents of the Policy.

The first step requires consideration, at activity level of each of the following:

- » Community outcomes - the community outcomes to which the activity primarily contributes (in other words Council's rationale for service delivery).
- » The user/beneficiary pays principle – the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals.
- » The intergenerational equity principle – the period over which those benefits are expected to accrue.
- » The exacerbator pays principle – 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.

2. Community Outcomes

The requirement to consider community outcomes in the funding process is seen as an obligation for Council to consider why it is engaged in an activity and to what level. To that extent, possible funding of activities should be consistent with achievement of desired outcomes.

3. Distribution of Benefits

At this stage, Council is required to consider who benefits from the activities performed by Council. This is expressed as the Public/Private split. Economic theory suggests there are two main characteristics that need to be considered when looking at a particular good or service:

3.1. Rivalry in Consumption

A good is a rival in consumption if one person's consumption of the good or service prevents others from doing so, e.g. a chocolate bar is a good with a large degree of rivalry in consumption, i.e. if Bill eats it, Jane cannot.

3.2. Excludability

A good or service is excludable if a person can be prevented from consuming the good or service, e.g. if Bill does not 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 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 a public good 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 and excludable. Most 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 a good or service determine what type of funding mechanism might be used to fund a particular service. Council has already made judgements about what it considers are public goods when deciding whether or not to undertake a particular activity.

For example, a good towards the public end of the continuum may not be a good candidate for user charges as people cannot be prevented from consuming it, or because everyone consumes it whether they wish to or not. Such goods will generally be candidates for funding from some general source such as a general rate. A good towards the private end of the spectrum may be a candidate for a targeted rate or a user charge.

In the end, it is likely to come down to 'reasonable' judgment. Both the LGA and previous case law place the responsibility on elected members to make decisions about who benefits and who should pay.

4. Distribution of Benefits Over Time

Council needs to consider something called 'intergenerational equity' which means that funding decisions are required to consider future generations, not just today. Many of the activities provided by local government are either network or community infrastructure which have long service lives. Benefits from these services can be expected to accrue over the entire life of the asset. Current ratepayers should not be expected to subsidise the benefits that future ratepayers receive nor should future ratepayers subsidise current ratepayers.

One way that Council applies the intergeneration equity principle is by spreading costs over the future. Council will typically borrow to fund the cost of a project and future ratepayers will repay the loan (and interest cost), say over a 25-year period. Council typically only borrows to fund capital expenditure but Council may use short term borrowing to spread some operating costs or smooth funding over a limited period to avoid rates spikes.

Council also needs to ensure that appropriate funding has been allocated to reasonably meet the levels of service that each activity is targeting to meet and financial sustainability into the future needs to be considered.

5. Actions or Inactions of Individuals or Groups

This generally refers to how to make the 'exacerbators' pay. This could include funding mechanisms to allow for the fining of people that cause unwanted Council activity, e.g. cleaning up abandoned cars or rubbish. However, Council has very limited funding mechanisms to enable targeted charging. In many cases, it is not possible to pass this cost on to the exacerbator, therefore, Council needs to identify the quantum of the issue and decide who should bear the cost, if not the exacerbator.

6. Costs, Benefits and Separate Funding

Council is required to consider whether an activity should be separately funded and what the cost implications might be. There are administration costs associated with separate funding and these need to be weighed against any benefits of targeting specific beneficiaries/users of a service, including transparency and accountability.

Transparency and accountability are most evident when an activity is totally distinctly funded. 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.

However, funding every activity this way would be extremely complex. 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 lead Council to fund a number of activities by way of a general rate. To aid in transparency and accountability, Council separates the total general rate into reasonable activity breakdowns when presenting the ratepayer with their rates assessment notices. This then allows the ratepayer to make some form of meaningful assessment down to activity level.

7. Selection of Tools

Section 103(1) requires Council to identify the funding of operational expenditure and capital expenditure.

Operational expenditure is normally funded by way of revenue (income) while capital expenditure can be funded by way of both revenue and non-revenue items such as loans and the use of Council created reserves.

Capital expenditure is expenditure when the benefit of that expenditure is greater than one year and therefore benefits obtained by those assets spread according to the life of the asset.

Section 103 (2) LGA requires Council to identify its funding tools.

A number of tools can be used to allocate both public and private good. The use of targeted rates is good example of this. An activity with a very high percentage of public good can be allocated over a small geographical area and therefore the most appropriate tool to recover the expenditure would be a targeted rate. In this instance a targeted rate is used to recover a public good. However targeted rates can be used to recover a private good such as use of water from a closed network. This is where Council can restrict people using that network and before they can join they have to formally join to it and are charged the appropriate fee(s).

8. Revenue

8.1. General Rates

Including Uniform Annual General Charge (UAGC).

The Council differentiates the General Rate based on land valuation (Schedule 2 Local Government (Rating) Act 2002).

The differential categories are:

Commercial	Urban	Rural
<ul style="list-style-type: none">•All rating units that are used (or available) primarily for any commercial or industrial purpose	<ul style="list-style-type: none">•All rating units used for residential and related purposes within the urban areas of the District Plan	<ul style="list-style-type: none">•All rating units within the rural area in the District Plan.

This is usually used to recover public good.

Council believes that land value allocates the costs fairly between the rural and urban communities.

When Council considered the advantages and disadvantages of rating based on land values versus capital values it identified that:

- » The ratio of land value to capital value was inconsistent across the district and changing the rating basis to land values would have led to more ratepayers having a rates increase than those having a decrease in rates payable.
- » The table below indicates the likely spread of increases and decreases in rates from a move to using capital values to charge for rates.

Movement in General Rates	Percent of General Properties with Movement
Decrease between 0% and 30%	35%
Increase between 0% and 30%	14%
Increase between 30% and 100%	31%
Increase greater than 100%	20%

- » As land value is the current method it is accepted and understood by the majority of ratepayers.
- » There would be additional costs in moving to capital values and additional costs in maintaining the rating database without any significant increase in benefit to Council or ratepayers.

8.2. Targeted rates

Targeted rates, are rates set on a differential value, rates set over an area of benefit and rates for a service or for an activity.

Targeted rates can be used to rate for both private good and public good services.

Current targeted rates include the Uniform Annual Charge (UAC) – Reserves and Civic Amenity rate.

8.3. Lump sum contributions

Lump sum contributions are used for the recovery of specific capital expenditure.

There must have a high component of private good to use lump sum contributions.

8.4. Fees and charges

Any fee, recovery fine or charge made Council for service or activity.

This must have a high component of private good.

8.5. Interest and dividends from investments

Income from an investment. This would be generally public good.

8.6. Financial and development contributions

These are used to recover costs to upgrade services to provide for and mitigate the effects of development. Council currently has a Development Contributions and Financial Contributions Policy. Financial Contributions are levied under the provisions of the Resource Management Act through the Wairarapa Combined District Plan. Development contributions are levied under the Local Government Act. As part of the LTP process, Council has reviewed the Development Contributions policy to better reflect recent changes in legislative requirements for such contributions.

This must have a high component of private good.

8.7. Grants and subsidies

Income from external funding entities. These generally would be of a public good.

9. Borrowing

Loans, both short term and long term. This is a funding tool and does not need a split between public and private good as it is only deferring the eventual charge.

10. Proceeds from asset sales

This would only need to be recognized where an asset was being sold and not replaced with a similar asset. For example where the proceeds from the sale of corporate property were used to fund another activity.

11. Council created reserves

Council created reserves result from surplus revenues over expenditure being held for a particular purpose or the transfer of non-cash expenditure (e.g. depreciation).

12. Rates payments applied to oldest debt

Payments received for rates will be applied to the oldest debt first, regardless of whether the payer requests the payment be applied to the current debt. Rates debt becomes unenforceable after a period of time; this policy assists in avoiding debt falling into this category.

13. Expenditure funding mechanism

The following table summarises Council's view with regard to the appropriate funding mechanism for different types of Council expenditure. Council may incur expenditure to protect the community from actual or potential problems. Whenever possible this cost is passed on to the persons who cause the negative effect through fines and penalties.

This table summarises the distribution of Private and Public benefits and indicates the funding sources SWDC uses for each category of activity.