Revenue and Financing Policy
Kaupapahere Whai Moni me te Pūtea

Purpose

To present Bay of Plenty Regional Council's (Council) policies for financing its planned groups of activities, including proposed funding sources.

Under sections 102 and 103 of the Local Government Act 2002 (the Act), Council must adopt a Revenue and Financing Policy.

Introduction

Section 101(1) of the Local Government Act requires us to manage our revenue, expenses, assets, liabilities, investments and general financial dealings prudently, and in a manner that promotes the current and future interests of the community.

This Policy describes how Council will use revenue and financing sources to fund its activities. Tables than set out a summary of our funding sources for operating and capital expenditure by activity. Our comprehensive section 101(3) analysis is separately documented in the Funding Needs Analysis.

We have assessed the sources of revenue and finance for each activity using the following criteria as set out by the Act:

- Community outcomes the activity primarily contributes to
- Distribution of benefits between the community as a whole, any identifiable part of the community and individuals
- The period in or over which benefits are expected to occur
- The extent to which the actions or inactions 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
- The overall impact of any allocation of liability for revenue needs in the community

Section 103(2) of the Act allows us to fund our activities from:

- General rates
  - i. including choice of valuation system
  - ii. differential rating
  - iii. Uniform Annual General Charges (UAGC)
- Targeted rates
- Lump sum contributions
- Fees and charges
- Interest and dividends from investment
- Borrowings
- Proceeds from asset sales
- Development contributions
- Financial contributions under the Resource Management Act 1991
- Grants and Subsidies
- Any other source

General funds as referred to throughout this document is a combination of investment income (interest and dividends) and general rates (including UAGC) and general reserves.

The following sections outline the main funding sources that are available for operating and capital expenditure. Consideration of our Financial Principles has led to an indicative order of preference for the funding sources.

Funding sources for operating expenditure

Operating expenditure is the day to day spending that maintains the services delivered by Council. This includes contributions to the wear and tear on assets used (depreciation),

interest charged on borrowing (both internal and external) for capital projects and corporate services overheads.

Some activities may be best funded from user fees and charges such as bus fares, others with targeted rates such as the drainage scheme maintenance and others from the general rate such as regional planning.

After consideration of the legislative analysis and Financial Principles, the following are the preferred order of funding sources for operating expenditure:

- Grants, subsidies, sponsorship and other sources of revenue
- Fees and charges where benefit can be assigned to individuals
- Financial contributions (not currently used)
- Targeted rates where benefit can be assigned geographically or to itemise specific rates requirements
- Investment income (interest and dividends)
- General rates including UAGC
- Reserves
- Borrowing

This order of preference has been used as part of the proposed funding model for each activity.

Grants and subsidies

Council receives grants and subsidies from other organisations, including Central Government agencies and local authorities, to help fund some of its activities. Grants and contributions are used to fund specific activities and projects for national or local benefit. The main Government subsidies Council receives are from the New Zealand Transport Agency for passenger transport services and the Ministry for the Environment for the Rotorua Lakes activity.

Other sources

Other operating revenue includes:

- Charges to land owners for contributing to land management activities on their property
- Rent from Council owned properties leased to third parties
- Contributions from the New Zealand Transport Agency, local authorities and gravel-extraction revenue for flood protection activities
- Management fees for administrative support to Council controlled organisations

Fees and charges

Fees and charges are charged directly to users of a service or facility for the private benefit they receive.

The concept of user-pays is consistent with the 'benefit/contributor principle', where the users pay for private benefit from the service. It is also consistent with the principle that those causing the need to undertake the activity (exacerbators) pay for work required as a consequence.

User charges are applied where it is not practical for Council to establish a targeted rate on individual consumers to recover the cost of the service. Where user charges are impractical or ineffective, we may set a range of fees and charges to partly fund the private good component of an activity that delivers tangible private benefits.

Under Section 36 of the Resource Management Act 1991, Council can set administrative fees and charges for a range of matters.

These matters are set out in our Section 36 Resource Management Act and Building Act Charges Policy. Under section 150 of the Local Government Act 2002 the Council can set fees or charges for matters provided for in bylaws. Fees must be prescribed either in the bylaw, or following consultation in a manner that gives effect to the requirements of section 82 of the Local Government Act 2002.

Council's Regional Navigation Safety Bylaw (clause 5.6) contains provision for charges to be made for mooring licenses, commercial operating licenses and Port charges.

Council also collects the revenue directly from ticketing for bus travel under it's bus contract (from 1 July 2009) and other regional bus services. This system allows Council the flexibility to charge user fees or to offer more benefits to users of public transport.

In addition, local authorities are empowered to set fees for any service (not covered by other legislation) as one of the consequences of the general power of competence provided in section 12 of the LGA.

Financial contributions

Section 108(2)(a) of the Resource Management Act 1991 authorises Council to include, as a resource consent condition, a financial contribution for purposes as stated in a regional plan.

For more details see Council's Policy on Development Contributions and Financial Contributions.

Targeted rates

Targeted rates are used to fund discrete activities.

Council has set one or more targeted rates to fund a single activity, or a single targeted rate to fund multiple sub-activities within an Activity. Targeted rates may be set on a uniform basis for all rateable land on which the rate is set, or differentially for different categories of rateable land identified in the funding impact statement.

Investment income (interest and dividends)

Council has a range of investments which return interest and dividends. Our major cash investments include day-to-day surplus funds, funds from the sale of Port of Tauranga Limited (POTL) shares in 1991 to Quayside Holdings Limited (Quayside) and the issue of the Perpetual Preference Shares in Quayside during 2007/08. Term investments include a 100 percent shareholding in Quayside (a Council-Controlled Organisation) and a range of day-to-day reserve investments (see the section on Council Controlled Organisations for more detail).

These investments are corporate income sources that do not directly relate to a specific activity, and form a component of 'general funds'. General funds are made up of investment income and regional general rates. To ensure investment income benefits are shared by all ratepayers, we will continue to use our investment income to reduce general rates. Without the investment income off-set, revenue required from general rates would have to increase significantly to fund current levels of service.

Council has decided that the use of special dividend proceeds from the POTL (through Quayside) will be considered year by year. If used to offset operating expenditure it will be distributed through general funds.

General rates

General rates are sets at a uniform rate in the dollar of rateable value for all rateable land within the Bay of Plenty. Council has adopted the land value system for calculating its general rate. Because rating re-valuations occur across the region in different years, this rate is set on an equalised land-value basis.

The benefits of most of our activities are evenly distributed across the region. Council has adopted a land value system for the general rate as our activities, which are part-funded by the general rate, deliver benefits more closely aligned with land values than capital values. For example, the integrated and sustainable management of natural and physical resources is more likely to have a long-term impact on land resources and land values than on the capital improvements associated with that land.

Uniform Annual General Charge

Council sets a UAGC as a fixed amount per rating unit.

The impact of a UAGC is to set a component of rates as a fixed charge per rating unit, and to separate this charge from the valuation base used to calculate the general rate.

The Local Government (Rating) Act 2002 limits rates set on a uniform basis, including the UAGC, to 30%.

Because we believe that more than 30% of our total rate revenue could be levied through a fixed value targeted rate and UAGC, due to the nature of our activities having an even distribution of public good benefits, we have set our UAGC at the maximum permissible under the Act. Council has considered the affordability of rates when making this decision.

Reserves

Council has a number of cash funded reserve funds and some of these reserves funds are available to meet operating costs. Surplus funds from previous years (in the form of reserves) may be used to fund expenditure. Council generally uses these funds for the purpose that the reserve was created. Establishing and using these reserves is agreed through the Long Term Plan and Annual Plan processes.

Borrowing

Council generally plans to fund all cash operating costs from sources other than borrowing but may in specific circumstances, where it determines prudent to do so, fund some operating costs from borrowing.

Lump sum and development contributions

Council does not use lump sum or development contributions as a source of revenue.

Funding alternatives

Council will consider funding alternatives as they become available during the Long Term Plan period. These alternatives may be considered significant at the time, and if so we will engage with the community as required following an assessment of the issue against Council's Significance and Engagement policy.

Funding sources for capital expenditure

Capital expenditure is costs associated with the purchase, improvement and replacement of assets. After consideration of the legislative analysis and Financial Principles, the following are the preferred order of funding sources for capital expenditure.

- Proceeds from the sale of assets
- Grants, subsidies, sponsorship and other sources of revenue that directly apply to the given asset
- Reserves and/or borrowing depending which is the most efficient source of funding

Capital expenditure on new assets is generally not directly funded by rates as this places the entire cost on current ratepayers. Instead, the use of reserves and/or borrowing, allows for the cost to be spread over time through interest and depreciation so that all beneficiaries of the asset contribute towards the cost.

Any net operating surpluses are accumulated into various reserve funds. A specific asset replacement reserve is accumulated through funding depreciation and available for renewal of existing assets.

Proceeds from the sale of assets

Proceeds from asset sales are generally used to repay debt or off-set the borrowing requirements for the asset and its activity if it doesn't meet the Council's determination.

Grants and subsidies

Council receives grants and subsidies from other organisations, including Central Government agencies and city and district councils, to help fund some of its capital expenditure. Grants and subsidies are used whenever they are available.

Reserves and/or borrowing

Council maintains some reserve funds for capital expenditure. Capital expenditure is funded from the most efficient source, which may include borrowing.

Assessing the impact of funding needs

Council has applied the above preferences for the use of funding sources to each activity in its Funding Needs Analysis. Following section 101(3)(a) assessment Council has considered its funding mix against the overall impact of any allocation of liability for revenue needs on the community as required by section 101(3)(b).

The Long Term Plan Financial Principle which guides Council in assessing the funding mix is Principle 2:

- Council achieves the right mix to fund its activities, and keeps rates, fees and charges, affordable, fair and equitable.

Examples of how the Council has balanced its approach to funding its activites include:

- Aligning the Policy on Remission and Postponement of Rates with the local authorities. This ensures the Council's ratepayers have access to the same affordability tools, such as considering financial hardship, options for reverse equity of properties, consistent application of criteria for rates on Māori freehold land and remissions of rates for social/cultural purposes such as recreational facilities, as they do for their local authority rates
- Developing the forestry and bush remission to encourage better land use practices to lessen the amount of nutrients entering the Rororua Lakes
- Seeking alternative funding sources outside the region where wider interests exist (for example, Central Government funding for contaminated site remediation)
- Using general funds and reserves to spread the costs of services throughout the region to reduce the burden on small communities of interest, and when Council services proved wider and indirect benefits across different elements of well-being
- Considering inter-generational equity when funding depreciation and capital projects so current and future ratepayers pay their fair share

Summary of funding sources

Tables 1 and 2 show the indicative percentages each funding source is used to fund costs following our section 101(3)(a) and 101(3)(b) assessment.

Summary of operating expenditure funding sources by sub-activity

Group of activities	Sub-activity	#	General funds	Targeted rates	User fees and charges and other revenue	Grants and subsidies	Reserves
Integrated Catchment Management	Tauranga Harbour	1	●		●		
	Rotorua Lakes	2a	●	●			
	Rotorua Lakes – Deed	2b	●	●			●
	Kaituna	3	●			●	
	Eastern Catchments	4	●		●	●	
	Regional Integrated Catchment Management	5	●				
Flood Protection and Control	Kaituna Catchment Control Scheme	6a	●	●	●	●	●
	Rangitāiki-Tarawera Rivers Scheme	6b	●	●	●	●	●
	Whakatāne-Waimana Rivers Scheme	6c	●	●	●	●	●
	Waioeka-Otara Rivers Scheme	6d	●	●	●	●	●
	Rangitāiki Drainage Schemes	6e		●	●		●
	Minor Rivers Schemes	6f		●			
	Minor Rivers (Ōpōtiki)	6g	●	●			
	Non Scheme Works	6h	●				●
	Regional Flood Risk Coordination	7	●				
Resource Regulation and Monitoring	Biosecurity	8	●		●		
	Air Quality	9a	●	●			
	Air Quality – Rotorua Clean Air	9b		●			
	Resource Consents	10	●		●		
	Regulatory Compliance	11	●		●		
	Maritime Operations	12	●		●	●	
Transportation	Tauranga Passenger Services	13a		●	●	●	
	Rotorua Passenger Services	13b		●	●	●	
	Western Bay Passenger Services	13c		●	●	●	
	Whakatane Passenger Services	13d		●	●	●	
	Regional Passenger Services	13e	●			●	
	Transport Planning	14	●			●	

Key						
0	0-20%	20-40%	40-60%	60-80%	80-100%	100%
	●	●	●	●	●	●

Summary of operating expenditure funding sources by sub-activity							
Group of activities	**Sub-activity**	**#**	**General funds**	**Targeted rates**	**User fees and charges and other revenue**	**Grants and subsidies**	**Reserves**
Regional Development	~~Regional Infrastructure~~	~~15~~					~~●~~
	Regional Infrastructure	15		●			■
	Regional Economic Development	16	●				
	Regional Parks	17	●		●		
Regional Planning and Engagement	Regional Planning	18	●				
	Māori Policy	19	●				
	Geothermal	20	●				
	~~Community Engagement~~	~~21~~	~~●~~				
	Community Engagement	21	■	●			
	Governance	22	●				
Emergency Management	Emergency Management	23		●	●		
Technical Services	Geospatial	24	●				
	Engineering	25	●				
	Data Services	26	●		●		
	Science	27	●		●		

Key						
0	0-20%	20-40%	40-60%	60-80%	80-100%	100%
	●	●	●	●	●	●

Group of activities	Sub-activity	#	External/ internal loans	Reserves	Capital grants, subsidies, insurance recoveries
Integrated Catchment Management	Rotorua Lakes	2a	●	●	
	Rotorua Lakes – Deed	2b	●	●	●
	Kaituna	3	●	●	●
Flood Protection and Control	Kaituna Catchment Control Scheme	6a	●	●	●
	Rangitāiki-Tarawera Rivers Scheme	6b	●	●	●
	Whakatāne-Tauranga Rivers Scheme	6c	●	●	●
	Waioeka-Otara Rivers Scheme	6d	●	●	●
	Rangitāiki Drainage Schemes	6e	●	●	●
	Non Scheme Works	6h	●	●	●
Resource Regulation and Monitoring	Air Quality – Rotorua Clean Air	9b	●		
	Maritime Operations	12	●	●	
Transportation	Tauranga Passenger Services	13a	●	●	●
	Rotorua Passenger Services	13b	●	●	●
	Western Bay Passenger Services	13c	●	●	●
	Whakatane Passenger Services	13d	●	●	●
	Regional Passenger Services	13e	●	●	●
Regional Development	Regional Parks	17	●	●	
Emergency Management	Emergency Management	23	●	●	
Technical Services	Geospatial	24	●	●	
	Data Services	26	●	●	
	Science	27	●	●	
Corporate Services	Land and Buildings	28	●	●	
	Other Corporate Services	29	●	●	

Table 2: Summary of capital expenditure funding sources by sub-activity

Group of activities	Sub-activity	#	External/ internal loans	Reserves	Capital grants, subsidies, insurance recoveries
Integrated Catchment Management	Rotorua Lakes	2a	●	●	
	Rotorua Lakes – Deed	2b	●	●	●
	Kaituna	3	●	●	●
Flood Protection and Control	Kaituna Catchment Control Scheme	6a	●	●	●
	Rangitāiki-Tarawera Rivers Scheme	6b	●	●	●
	Whakatāne-Tauranga Rivers Scheme	6c	●	●	●
	Waioeka-Otara Rivers Scheme	6d	●	●	●
	Rangitāiki Drainage Schemes	6e	●	●	●
	Non Scheme Works	6h	●	●	●
Resource Regulation and Monitoring	Air Quality – Rotorua Clean Air	9b	●		
	Maritime Operations	12	●	●	
Transportation	Tauranga Passenger Services	13a	●	●	●
	Rotorua Passenger Services	13b	●	●	●
	Western Bay Passenger Services	13c	●	●	●
	Whakatane Passenger Services	13d	●	●	●
	Regional Passenger Services	13e	●	●	●
Regional Development	Regional Parks	17	●	●	
Emergency Management	Emergency Management	23	●	●	
Technical Services	Geospatial	24	●	●	
	Data Services	26	●	●	
	Science	27	●	●	
Corporate Services	Land and Buildings	28	●	●	
	Other Corporate Services	29	●	●	