

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 then 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 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.

Te Ture Whenua Maori Act

Council's Revenue and Financing Policy must support the principles set in the preamble to the Te Ture Whenua Maori Act, which are:

Nā te mea i riro nā te Tiriti o Waitangi i motuhake ai te noho a te iwi me te Karauna: ā, nā te mea e tika ana kia whakaūtia anō te wairua o te wā i riro atu ai te kāwanatanga kia riro mai ai te mau tonu o te rangatiratanga e takoto nei i roto i te Tiriti o Waitangi: ā, nā te mea e tika ana kia mārama ko te whenua he taonga tuku iho e tino whakaaro nuitia ana e te iwi Māori, ā, nā tērā he whakahau kia mau tonu taua whenua ki te iwi nōna, ki ō rātou whānau, hapū hoki, a, a ki te whakangungu i ngā wāhi tapu hei whakamāmā i te nohotanga, i te whakahaeretanga, i te whakamahitanga o taua whenua hei painga mō te hunga nōna, mō ō rātou whānau, hapū hoki: ā, nā te mea e

tika ana kia tū tonu he Te Kooti, ā, kia whakatakotia he tikanga hei āwhina i te iwi Māori kia taea ai ēnei kaupapa te whakatinana.

Whereas the Treaty of Waitangi established the special relationship between the Maori people and the Crown: And whereas it is desirable that the spirit of the exchange of kawanatanga for the protection of rangatiratanga embodied in the Treaty of Waitangi be reaffirmed: And whereas it is desirable to recognise that land is a taonga tuku iho of special significance to Maori people and, for that reason, to promote the retention of that land in the hands of its owners, their whanau, and their hapu, and to protect wahi tapu: and to facilitate the occupation, development, and utilisation of that land for the benefit of its owners, their whanau, and their hapu: And whereas it is desirable to maintain a court and to establish mechanisms to assist the Maori people to achieve the implementation of these principles.

Council supports these principles through considering how the status of Maori freehold land affects the LGA s 101(3) funding principles. In particular, the distribution of benefits can be substantially different for Maori Freehold land compared to land in general ownership e.g. increase land values can be realised through the sale of general land but not Maori Freehold Land. As every block of Maori Freehold Land is different and requires specific consideration, Council's approach is to support the principles of the Te Ture Whenua Maori Act through its policies on Rates Remission and Postponement on Maori Freehold Land to provide for the most appropriate support for the particular circumstances of the block of land, its ownership structure and the aspirations of the owners.

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 its bus contract (from 1 July 2009) and other regional bus services. In some circumstances, the public benefit of bus services, like reduced congestion, makes fares free services appropriate.

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 set 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 activities include:

- Considering overall affordability as part of the Financial Strategy. This includes consideration of local council rates, local levels of disposable income, local levels of unemployment and benchmarking rates with other Regional Councils. Providing a Policy on Remission and Postponement of Rates. This ensures the Council's ratepayers have access to affordability tools, such as considering financial hardship, that are appropriate for the individual.
- Developing the forestry and bush remission to encourage better land use practices to lessen the amount of nutrients entering the Rotorua 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.

Table 1: Summary of expenditure funding sources by sub-activity operating

LTP 2021-2031 Version 2 - Summary of Operating Expenditure Funding Sources (10 year average)

| Group of activities | Activity / Sub Activity | General funds | Targeted rates | User fees and charges and other revenue | Grants and subsidies | Reserves | Total |
|----------------------------------|--|---------------|----------------|---|----------------------|----------|-------|
| Catchment Management | Activity: Coastal Catchments | 80-100% | | 0-20 % | 0-20 % | | 100% |
| | Activity: Rotorua Lakes | | | | | | |
| | 120 - Catchment General | 40-60% | 40-60% | | 0-20% | | 100% |
| | 123 - Sustainable Water | 0-20% | 0-20% | | 40-60% | 40-60% | 100% |
| | Activity: Regional Parks | 80-100% | | 0-20 % | | | 100% |
| | Activity: Biosecurity | 80-100% | | 0-20 % | 0-20 % | | 100% |
| Flood Protection and Control | Activity: Rivers and Drainage Schemes | | | | | | |
| | 210 - Kaituna Rivers Scheme | 0-20 % | 60-80% | 0-20 % | | 0-20 % | 100% |
| | 211 - Rangitaiki-Tarawera Rivers Scheme | 0-20 % | 60-80% | 0-20 % | | 0-20 % | 100% |
| | 212 - Whakatane-Tauranga Rivers Scheme | 0-20 % | 60-80% | 0-20 % | | 0-20 % | 100% |
| | 213 - Waioeka-Otara Rivers Scheme | 0-20 % | 60-80% | 0-20 % | | 0-20 % | 100% |
| | 214 - Rangitaiki Drainage Schemes | | 100% | | | | 100% |
| | 215 - Minor Rivers and Drainage Schemes | 0-20 % | 80-100% | | | | 100% |
| | 216 - Non-Rivers Scheme Works | 100% | | | | | 100% |
| | Activity: Regional Flood Risk Coordination | 100% | | | | | 100% |
| Resource Regulation & Monitoring | Activity: Air Quality | 40-60% | 40-60% | | | | 100% |
| | Activity: Resource Consents | 40-60% | | 40-60% | | | 100% |
| | Activity: Regulatory Compliance | 60-80% | | 20-40% | | | 100% |
| | Activity: Maritime Operations | 60-80% | | 20-40% | 0-20 % | | 100% |

LTP 2021-2031 Version 2 - Summary of Operating Expenditure Funding Sources (10 year average)

| Group of activities | Activity / Sub Activity | General funds | Targeted rates | User fees and charges and other revenue | Grants and subsidies | Reserves | Total |
|-----------------------------------|--|---------------|----------------|---|----------------------|----------|-------|
| Transportation and Urban Planning | Activity: Public Transport | | | | | | |
| | 410 - Tauranga Public Transport | | 40-60% | 0-20 % | 40-60% | 0-20 % | 100% |
| | 411 - Rotorua Public Transport | | 40-60% | 0-20 % | 40-60% | | 100% |
| | 413 - Western Public Transport | | 40-60% | 0-20 % | 40-60% | | 100% |
| | 414 - Whakatāne Public Transport | | 40-60% | 0-20 % | 40-60% | | 100% |
| | 412 - Regional Public Transport | 60-80% | | 0-20 % | 20-40% | | 100% |
| | Activity: Transport and Urban Planning | 80-100% | | | 0-20 % | | 100% |
| Democracy Engagement and Planning | Activity: Environmental Strategy | 80-100% | 0-20% | | | | 100% |
| | Activity: Policy and Planning | 100% | | | | | 100% |
| | Activity: Maori Policy | 100% | | | | | 100% |
| | Activity: Community Engagement | 80-100% | 0-20 % | | | | 100% |
| | Activity: Governance Services | 100% | | | | | 100% |
| | Activity: Regional Development | 20-40% | 0-20% | | | 60-80% | 100% |
| Emergency Management | Activity: Emergency Management | | | | | | |
| | 710 - Bay of Plenty Civil Defence Emergency Management Group | | 100% | | | | |
| | 711 - Regional Response | | 80-100% | 0-20 % | | | |
| Support Services | Activity: Technical Support | 80-100% | | 0-20 % | | | |

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 | ● | ● | |