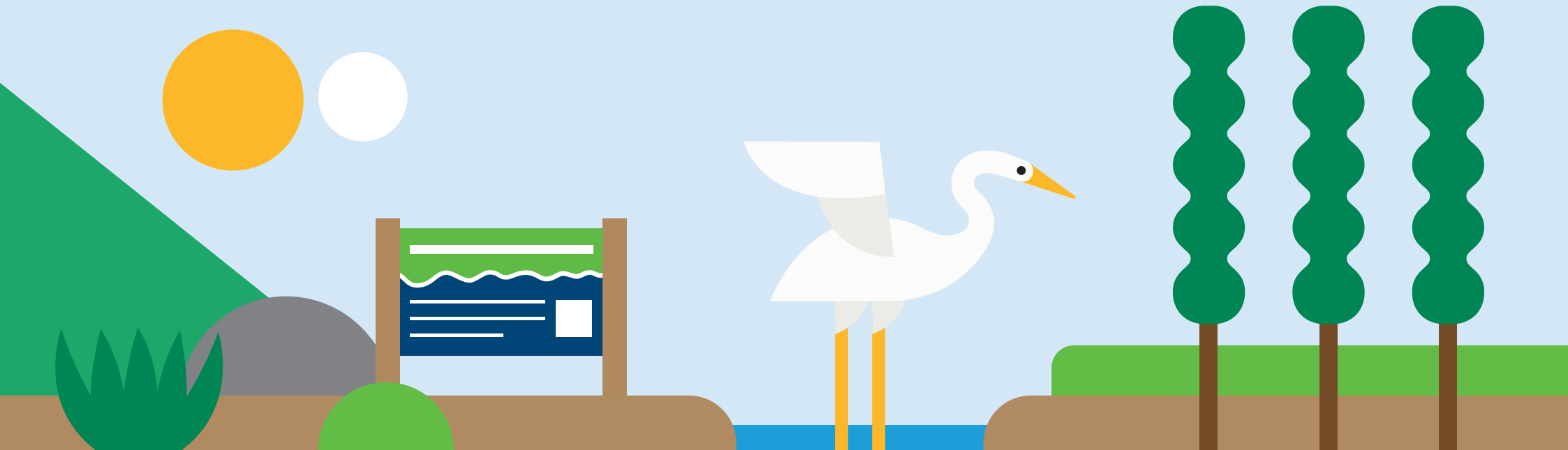


# Te kaupapa here pūtea me te moni whiwhi Revenue and Financing Policy



## 1 Purpose

This document explains the Bay of Plenty Regional Council's (Council) policies for financing its 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.

## 2 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 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 by considering the following matters as set out by the Act:

- The 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 on the current and future well-being of the community.
- How the resulting revenue and financing sources can support the principles set out in the Preamble to the Te Ture Whenua Māori Act.

### 2.1 Te Ture Whenua Māori Act

Council's Revenue and Financing Policy must support the principles set in the preamble to the Te Ture Whenua Maori Act, (the Preamble) 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 whakatakototia 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 Māori 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 Māori 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 Māori people to achieve the implementation of these principles.*

Council supports these principles and has considered how the status of Māori freehold land affects the LGA s 101(3) funding principles, noting that distribution of benefits can be substantially different for Māori Freehold Land compared to land in general ownership e.g. increased land values can be realised through the sale of general land but not Māori Freehold Land. As every block of Māori Freehold Land is different and requires specific consideration, Council's approach is to support the principles of the Te Ture Whenua Māori Act through its policies on Rates Remission and Postponement on Māori Freehold Land. This provides the most appropriate way to support the principles in the Preamble because Council can consider the particular circumstances of each block of land, its tenure, ownership structure, history, and the aspirations of the owners.

## Funding sources available

Section 103(2) of the Act allows us to fund the operating and capital expenditure for 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
- Borrowing
- Proceeds from asset sales
- Financial contributions under the Resource Management Act 1991
- Grants and subsidies
- Any other source

The term General Funds is used in this policy and refers to a combination of investment income (interest and dividends) and general rates (including UAGC) and general reserves.

Assessment of activities against the matters set out in the Act has identified the most suitable revenue and financing sources for operating and capital expenditure.

The following sections explain the intended use of each funding source and Tables 1 and 2 present the planned shares of funding from each source, expressed as ranges.

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

After consideration of the legislative matters and Council's Financial Principles in its Financial Strategy, the following list generally expresses 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 and it is practical to charge fees
- 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.

#### 3.1 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. From time to time, other grants and subsidies become available and where Council is able to benefit from them, it will use them in preference to other funding sources.

#### 3.2 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.

### 3.3 Fees and charges

Fees and charges are charged directly to individual 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.

Fees and charges are applied where it is the most practical and effective way of recovering private benefits from users of a service. We may set a range of fees and charges for different types of users, taking into consideration the effect that fees could have on patterns of use of the service and the community outcomes Council aims to promote. Examples of this are different bus fares for different groups of users.

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 Fees and 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 2017 (clause 5.6) contains provision for charges to be made for mooring licenses, commercial operating licenses and Port charges.

Council also collects revenue directly from bus fares. In some circumstances, the public benefit of increased use of bus services, like reduced congestion, makes fare-free services appropriate.

In addition, local authorities are empowered by section 12 of the LGA to set fees for any service not covered by other legislation.

### 3.4 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. Currently Council does not use this tool.

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

### 3.5 Targeted rates

Targeted rates are used where activities are considered by Council to provide greater benefit to a particular area, compared to the region as a whole.

Council may 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, as identified in the funding impact statement.

### 3.6 Investment income (interest and dividends)

Council has a range of investments which return interest and dividends. Our major 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.
- 100 percent shareholding in Quayside (a Council-Controlled Organisation).
- Units in the Toi Moana Trust (a Council Controlled Organisation and unit trust).
- A range of day-to-day reserve investments.

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 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 offset, revenue required from general rates would have to increase significantly to fund current levels of service.

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

### 3.7 General rates

Council has adopted the land value system for calculating its general rate as our activities that 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.

General rates are set at a uniform rate in the dollar of rateable value for all rateable land within the Bay of Plenty. As rating re-valuations occur across the region in different years, this rate is set on an equalised land-value basis.

### 3.8 Uniform Annual General Charge

Council sets a UAGC as a fixed amount per rating unit. The impact of a UAGC is that a component of general rates is a fixed charge per rating unit.

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

Council considers that considering the nature of our activities it is appropriate for the maximum amount of revenue to be recovered through fixed value charges that all properties pay. As a result we have set our UAGC at the maximum permissible under the legislation. Council has considered the affordability of rates when making this decision.

### 3.9 Reserves

Council has a number of cash funded reserve funds and some 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.

### 3.10 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.

### 3.11 Lump sum and development contributions

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

### 3.12 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.

## 4 Funding sources for capital expenditure

Capital expenditure means the cost of purchases, improvements and replacements 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.

### 4.1 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.

## 4.2 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.

## 4.3 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.

## 5 Assessing the impact of funding needs

Council has considered the above preferences for the use of funding sources when assessing each activity in its Funding Needs Analysis. After this 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, now and for the future.

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

- For significant changes to funding sources as a result of policy reviews, ramping in the effects over several years (for example, a change to the funding for Rotorua Catchments activity, will be implemented in stages – refer Table 1)

- Considering overall affordability as part of the Financial Strategy.
- Providing a Policy on Remission and Postponement of Rates (All Land) and a Policy on Remission and Postponement of Rates on Māori Freehold Land. This ensures the Council's ratepayers have access to rates relief that is appropriate for the individual, such as financial hardship relief.
- Seeking alternative funding sources outside the region where wider interests exist, for example, Central Government funding.
- Using general funds and reserves (where available and considered prudent) to spread the costs of services throughout the region, to reduce the burden on small communities of interest, and when Council services provide 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.



## 6 Summary of funding sources

Tables 1 and 2 show the indicative percentages for each funding source, following our assessment of the matters in LGA section 101(3)(a) and 101(3)(b).

Table 1 Summary of operating expenditure funding sources by activity

LTP 2024-2034 - Summary of Operating Expenditure Funding Sources							
Groups of activities	Activity Sub-activity	General funds	Targeted rates	User fees and charges and other revenue	Grants and subsidies	Reserves	Total
Healthy Catchments	Coastal Catchments including Regional Parks	80-100%			0-20 %		100%
	Rotorua Catchments (staged implementation) – for 2024/25	40-60%	40-60%		0-20%	0-20 %	100%
	Rotorua Catchments – for 2025/26	60-70%	20-40%		0-20%	0-20 %	100%
	Rotorua Catchments – for 2026/27	70-80%	10-20%		0-20%	0-20 %	100%
	Rotorua Catchments – for 2027/28 and thereafter	80-100%			0-20%	0-20 %	100%
	Freshwater Programme	100%					100%
	Biosecurity	80-100%			0-20%		100%
	Climate Change Programme Coordination	100%					100%
Flood Protection and Control	Rivers and Drainage Schemes						
	- Kaituna Rivers Scheme	0-20 %	60-80%			0-20 %	100%
	- Rangitaiki-Tarawera Rivers Scheme	0-20 %	60-80%			0-20 %	100%
	- Whakatane-Tauranga Rivers Scheme	0-20 %	60-80%			0-20 %	100%
	- Waioeka-Otara Rivers Scheme	0-20 %	60-80%			0-20 %	100%
	- Minor Rivers Schemes (Ōpōtiki)	0-20 %	60-80%			0-20 %	100%
	- Minor Rivers Schemes (excluding Ōpōtiki)		100%			0-20 %	100%
	- Rangitaiki Drainage Schemes		100%			0-20 %	100%
	- Minor Drainage Schemes		100%			0-20 %	100%

**LTP 2024-2034 - Summary of Operating Expenditure Funding Sources**

Groups of activities	Activity Sub-activity	General funds	Targeted rates	User fees and charges and other revenue	Grants and subsidies	Reserves	Total
	- Non-Rivers Scheme Works	100%					100%
	Flood Protection and Control	100%					100%
Regulatory Services	Emergency Management		Up to 100%	0-20%		0-20 %	100%
	Resource Consents	50-80%		20-50%			100%
	Regulatory Compliance	60-80%		20-40%			100%
	- Rotorua Air (excluding Clean Heat loans and grants)	100%		100%			100%
	- Rotorua Air – Clean Heat loans and grants						100%
	Maritime Operations	60-80%		20-40%			100%
Transportation	Transport Service Deliveries						
	- Tauranga Public Transport	0-20 %	30-50%	0-20 %	40-60%	0-20 %	100%
	- Rotorua Public Transport	0-20 %	30-50%	0-20 %	40-60%	0-20 %	100%
	- Western Public Transport	0-20 %	30-50%	0-20 %	40-60%	0-20 %	100%
	- Whakatāne Public Transport	0-20 %	40-60%	0-20 %	30-50%	0-20 %	100%
	- Regional Public Transport	60-80%		0-20 %	20-40%		100%
	Transport Planning	80-100 %			0-20 %		100%
Regional Planning and Development	Policy Planning	100%					100%
	Spatial Planning	100%					100%
	Regional Development						
	- Regional Development (Economic)	50-100%				0-50 %	100%
	- Regional Development (Infrastructure)		0-100%			0-100%	100%

**LTP 2024-2034 - Summary of Operating Expenditure Funding Sources**

Groups of activities	Activity Sub-activity	General funds	Targeted rates	User fees and charges and other revenue	Grants and subsidies	Reserves	Total	
Democracy Engagement and Community Participation	Community Engagement	80-100%	0-20 %			0-20 %	100%	
	Governance Services	100%					100%	
Partnerships with Māori	Te Amorangi (Māori Strategy)	100%					100%	
	Te Pae Tawhiti (Māori Capability and Capacity Building)	100%					100%	
Support and Technical Services	Data Management	80-100%		0-20 %			100%	
	Science	60-100%		0-40 %			100%	
	Collaboration and Shared Services	0-100% General rates or internal recoveries						100%
	Corporate	0-20% General rates; 80-100% internal recoveries						100%

Table 2 Summary of capital expenditure funding sources by activity

The list of activities below identifies funding sources for capital expenditure in activities where the likelihood of capital expenditure is high. For all other activities, if capital expenditure occurs it would be funded through internal or external borrowing.

Group of activities	Activity / Sub Activity	External / Internal loans	Reserves	Grants, subsidies, insurance recoveries
Healthy Catchments	Catchments - Regional Parks	✱	✱	
	Rotorua Catchments	✱	✱	✱
Flood Protection and Control	Rivers and Drainage Schemes	✱	✱	✱
Regulatory Services	Regulatory Compliance - Rotorua Air	✱		
	Maritime Operations	✱	✱	
	Emergency Management	✱	✱	
Transportation	Transport Service Deliveries	✱	✱	✱
Regional Planning and Development	Regional Development (Infrastructure)	✱	✱	✱
Support and Technical Services	Data Management	✱	✱	
	Science	✱	✱	
	Corporate – Land and Buildings	✱	✱	