



# REVENUE AND FINANCING POLICY

Effective from 01 July 2021

## Revenue and Financing Policy

The requirements for a Revenue and Financing policy are in the Local Government Act 2002. Section 103 requires that the Revenue and Financing Policy must state its policies for:

- funding operating expenditure and
- funding capital expenditure.

A local authority must manage its finances, and financial dealings in a way that promotes the current and future interests of the community.

*“The funding needs... must be met from those sources that the local authority considers to be appropriate, **following** consideration of:*

- in relation to each activity to be funded,-*
  - the community outcomes to which the activity primarily contributes; and*
  - the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; and*
  - the period in or over which those benefits are expected to occur; and*
  - the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity; and*
  - the costs and benefits, including consequences for transparency and accountability of the activity distinctly from other activities; and*
- the overall impact of any allocation of liability for revenue needs on the community. (Section 101(3))*

Council has considered the above before establishing this policy.

## Policy for funding operating expenses

Funding Sources Per Section 103(2)	Application by Invercargill City Council
General rates, including <ul style="list-style-type: none"><li>• choice of the valuation system</li></ul>	Applied to activities delivering wider community benefits using capital value base. The capital value rate is applied on the same basis to all properties. Rating

Funding Sources Per Section 103(2)	Application by Invercargill City Council
	values are revised every three years.
<ul style="list-style-type: none"> <li>• differential rating</li> </ul>	<p>Invercargill City Council will apply differentials where there is a significant difference in the level of service available to properties relative to the collective values of the properties within a group. If differentials are to be applied the groups will be Commercial/Industrial, Farming, Lifestyle, Tiwai point smelter and residential. Council will analyse the effect of the UAGC on the incidence of rates between groups, in determining whether or not a differential will apply.</p>
<ul style="list-style-type: none"> <li>• Uniform Annual General Charge</li> </ul>	<p>A uniform Annual General charge is set based on separately used or inhabited parts of the property. It is part of the total general rate and set at a level that Council considers appropriate. The level of the charge is subject to some legal limitations and Council will not breach that limit. In setting the UAGC Council will analyse the effect that any UAGC has in shifting the incidence of rates away from Farming and Commercial onto residential.</p>
Targeted rates	<p>Council has a preference for rates to be within the General rate unless the services have a specific area of benefit, which is not as wide as the entire district, and where the amount of the separate rate is substantial enough to warrant the additional administration required for a separate targeted rate.</p> <p>Targeted rates are not a user charge as there is no provision for a user to opt out. They are levied for separate services where the Rate is a proxy for a uniform user fee. Those services are Sewage disposal, Water supply, Transportation, Stormwater Drainage and refuse collection.</p> <p>They allow Council to assist communities to collectively fund services that can only be delivered without collective funding. Due to the administration of separate targeted rates Council will try to avoid setting a targeted rate for less than \$100k for the total value of the rate. If a targeted rate is set for a lower revenue level Council will identify the special circumstances that warrant an additional rate.</p> <p>Targeted rates are set for transparency purposes rather than to create an on-going pool of funds separately managed. Therefore any unspent targeted rates will become part of Council general funds.</p>
Lump sum contributions	<p>Available for capital project funding under the Local Government (Rating) Act 2002. It is a complex mechanism which is not considered to provide any advantage to our ratepayers and so is not used.</p>
Fees and charges	<p>Fees and charges are a preferred funding option for services where they are practicable. They reflect that a choice has been made to utilise community resources.</p>

Funding Sources Per Section 103(2)	Application by Invercargill City Council
	<p>That choice gives benefit to the individual and may impose costs on the wider community. Charges are set to recover the costs Council incurs in delivering that activity. Council recognises that some services it provides are for facilities which are available for community and private benefit. If that service attempted to recover full costs it is likely they would be too expensive for users. If the charges are set too high, it could lead to reducing use, and this may mean the net cost of the service increases.</p> <p>Council believes the community wishes these services to be made available so that individuals have the option to use them if they choose. There the general rate meets a level of cost to provide the option for the community use. In these cases, Council uses its judgement to set the fees at a level it believes is at an acceptable market level.</p>
Interest and dividends from investments	<p>Interest and dividends are treated as part of general funds and support the services which are general rate funded. An exception to this is where reserves have been established for targeted rates which cover the long-term needs of a service area. Rates set for that purpose are used for that purpose, and funds not used in a particular year are invested, and interest on those funds are used for that service.</p>
Borrowing	<p>The financial strategy identifies that Council operates a net debt policy. This means that we measure our debt based on total external borrowings less funds invested in term deposits. So borrowing and use of invested cash are treated in the same manner being part of our “balance sheet” funding. Our goal with borrowing is for borrowing to be used primarily for capital spending, however borrowing may also be used to level out highs and lows that can occur in services that have cyclic funding needs.</p> <p>Borrowing is used to recognise issues of inter-generational equity for assets that have a long life and will benefit the community for a long time.</p> <p>Borrowing will not be used to fund long term operational shortfalls but may be used as part of a strategy to get to long run sustainable rates level without large one-off rates rises. However, Council recognises that staggering necessary rates rises inevitably comes at the cost of higher rates.</p>
Proceeds from asset sales	<p>Proceeds from asset sales will not be used to fund operational costs.</p>
Development contributions	<p>Invercargill is forecasting little if any growth. As Council desires growth, it considers that Development contributions are likely to be an impediment to growth. Also the asset base for service delivery is large enough</p>

Funding Sources Per Section 103(2)	Application by Invercargill City Council
	to cope with some growth, without requiring significant growth related investment. Not applied
Financial contributions under the Resource Management Act 1991	Invercargill is forecasting little if any growth. As Council desires growth, it considers that Financial contributions are likely to be an impediment to growth. Also the asset base for service delivery is large enough to cope with some growth, without requiring significant growth related investment.
Grants and subsidies	Other organisations determine the availability of Grants and subsidies. Where grants and subsidies are available, Council will apply when it is considered efficient to do so. Where funding applications are successful or where long-term contracts have grants and subsidy the funds are used for that purpose. The biggest part of subsidy comes from NZTA for roading works. The level of the subsidy is set by NZTA.
Any other source. Special purpose investments (reserves)	Over many years of operations, Council has established a number of Special fund reserves. These reserves are backed by cash investments. Where funds are available in those reserves, they will be used only for the purpose that the reserve was established. When that occurs, the funds in the reserve will be used to meet either a capital cost or operating cost. These funded reserves are a way for the council to manage expenditure and revenue so that the requirements from the community are more even and predictable. Special funds invested will earn interest on the funds and reduce the borrowing needs in higher expenditure years.

## Capital expenditure funding sources

Council provides activities which have a long life and long-term benefits. The level of capital expenditure over the period of a long-term plan is relatively minor compared to operating expenses. Council takes a long-term view to funding its services and assets on a sustainable basis. Funding of capital works is from:

- General and Targeted rates: Rates will be used to fund capital work. Rates are set based on long term projections, to enable sustainable levels of service, which includes renewal of assets. Typically, rates will fund renewal of assets, but there will be years where rates will fund a portion of new capital items, and years when rates will be repaying loans. Rates and debt are the primary funding sources for Councils planned capital work and these two items need to have an equilibrium identified with the Financial strategy.
- Borrowing: Borrowing will be used to fund capital expenditure when the level of renewal is above the average renewal funded in the plan. It is also used to fund the majority of level of service improvement for assets. This reflects that those assets will have a long life and so the cost of the asset should be shared a longer period of time.
- Subsidy and grants: A reasonable amount of capital expenditure in the Roothing activity is funded from NZTA subsidy. Council seeks to maximise the amount of NZTA subsidy

available. For some community facilities, it is possible to get grants from specific organisations. Where this is possible Council will use these grants to lower the capital requirement from the community.

- Proceeds from Asset sales: Council owns a number of properties that have been purchased for operational and strategic reasons. Where capital assets are sold the funds from those sales will be used to fund capital items. This will occur through the repayment of loans which will enable increased borrowing capacity for the capital items. This ensures that debt is attributed to the appropriate group of activities.
- Development contributions: Council does not charge development contributions or financial contributions. Growth is not significant in Invercargill and Infrastructure is able to cope with population growth in the foreseeable future.

## Consideration of overall effect of funding allocations

When considering the revenue requirements and funding mechanisms used Council is mindful of the impact that both fees and rates can have on individuals in the community. Charges are set to recover the costs that individuals impose on the community and the benefit they receive from the activity. Rates are also set to reflect the ongoing costs of Council activities. Regional Council rates are a small component of total rates paid by property; Council does not believe Council rates levels impose any hardship.

## Summary of funding mechanisms used in Activities

Mechanisms selected to fund a particular activity are based on a regular assessment of the efficiency of imposing multiple small charges compared to funding from a larger funding source such as general funds. However, there is a preference for individuals benefiting and causing costs to pay for the costs they impose. This means that individuals can become more aware of the impact their resource use choices have on the sustainability of our activities.

Activity	User fees	Subsidy/ Petrol tax	Investment income Dividends and Interest	General Rate	Targeted rate
Roading	Marginal	Marginal		Majority	
Sewerage	Marginal	Marginal			Majority
Solid Waste Management	Market			Residual*	Marginal
Stormwater				Majority	Marginal
Water Supply	Marginal	Residual			Majority
General Services (Listed below)					
Aquatic Services	Market	Residual		Residual	
Arts and Culture	Availability			Majority	
Corporate Services	Majority			Marginal	
Democratic Process		Residual		Majority	Residual
Housing care	Full				

Investments	Market		Majority		
Libraries	Availability	Residual		Majority	
Parks and Reserves	Availability			Majority	
Passenger transport	Market	Majority		Marginal	Marginal
Property				Full	
Public toilets				Full	
Regulatory Services	Majority			Marginal	
Venue Services	Market			Marginal	

\*Solid Waste Management is predominantly funded from a uniform targeted rate per bin, but a portion of the activity for waste minimisation and part of the contract rate is attributed to City wide public benefit.

User charges are used for services where there is a benefit to an individual. If it is possible to efficiently impose a charge, the council does so, on the basis of either recovering the full cost of the service, the marginal cost added by users, or a rate that the market will pay. The market rate becomes an issue to limit the potential for charging. It applies in circumstances where the council believes that a charge set too high will reduce use and therefore, diminish the value of the facility to the community, and impose a greater cost on ratepayers. In selecting market rate the council has made a judgement that the community values the existence of the facility and would rather fund it from rates than for it to close.

Explanation of notations in the above table

1. **Full** (100%) means that all, or almost all, of the cost of the activity is funded from that particular source.
2. **Availability** means that the cost of having the service available is met from that funding source. For these services council believes that charges can be a major barrier to access for some members of the community. Revenue in these services reflects revenue from programmes, hire of the facility and added value services.
3. **Subsidy** means that a portion of the activity is funded from a government subsidy. In some instances the subsidy makes a relatively minor contribution, but in others, such as roading, the subsidy is a substantial contributor to the cost of the activity. Those subsidies are identified within the individual plan of the activity.
4. **Petrol Tax** is a local government share of the petrol tax levied by central government. It is used to contribute to the costs of road maintenance.
5. **Majority** (more than 50%) means the majority of the service is funded from this source. When used in the fees and charges column it reflects the view that the services should be recovered from users but that legislation imposes some constraints which may mean that full recovery is not possible.
6. **Marginal** (10-50%) reflects that the service has a level of public benefit but also recognises that the level of the service required is influenced by the actions or inactions of others. The revenue reflects a contribution to the cost from those parties.
7. **Market** means that the council attempts to set its charges at a level that is affordable for the users and competitive with similar services either within the city or outside the city. It is used where market rates are not sufficient to meet the full costs of the service. The balance is funded from rates.
8. **Residual** (Less than 10%) indicates that a portion of funds comes from this source. It reflects that in some circumstances there are constraints on council charges, or that the alternative revenue source may include enforcement revenue which is imposed to achieve compliance and may not always cover the costs of enforcement.
9. Licence and enforcement fees can be charged for some services. Licence fees may be

set by the council or by regulation, and may not always cover the full costs of the service. Enforcement fees are charged to achieve compliance and do not necessarily meet the full costs of the enforcement activity.

<b>Reference Number:</b>	A3275564
<b>Effective Date:</b>	1 July 2021
<b>Review Period:</b>	This Policy will be reviewed every six (6) years, unless earlier review is required due to legislative changes, or is warranted by another reason requested by Council.
<b>Supersedes:</b>	Revenue and Finance Policy 2018
<b>New Review Date:</b>	July 2027
<b>Associated Documents/References:</b>	Nil.
<b>Policy Owner:</b>	GM - Finance and Assurance, Invercargill City Council