



# Otago Regional Council

## Draft Financial Strategy and Revenue and Financing Policy

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# 1. PURPOSE

Under sections 102(2) and 103 of the Local Government Act 2002 (the Act), Otago Regional Council (Council) must adopt a Revenue and Financing Policy. This policy outlines how Council funds its operating and capital expenditure from the sources available in the Act and how Council has complied with section 101(3) in setting this Policy.

# 2. INTRODUCTION

Section 101(1) of the Local Government Act requires Council 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 funding sources outlined in section 103(2) of the Act to fund its activities for both operating and capital expenditure.

It includes a summary of funding sources that sets out how these policies are applied to Council's activities. Supporting this, comprehensive section 101(3) analysis is separately documented in the Funding Needs Analysis.

## Guiding Principles

In preparing this policy Council has developed and used the following guiding funding principles.

Principle	What does this mean?	How is it applied?
<b>Workable</b>		
<b>Simple</b>	The rates process and calculation should be kept as simple as possible	Less targeted rates / benefit zones and differentials Simple general rate – region wide Common rating base Simple application of investment income offset
<b>Efficient</b>	The cost of administering and collecting individual rates will not out way the amount of that rate or the benefit of maintaining an individual rate	Separate rates are only used material funding needs Less rate types and differentials
<b>Transparent and accountable</b>	People should be able to understand their rates, how activities are funded and what their rates are funding	Separate targeted rates to highlight those activities Reserves used to ringfence unspent funds Communication on where funding is spent
<b>Fair</b>		
<b>Equitable</b>	Balance of: Vertical equity – those with a greater means to pay will pay a greater share Horizontal equity – those with similar circumstances will contribute a similar amount	CV is general rate basis – aligns to ability to pay Uniform rates used for activities where services / benefits are the same for every property or are more based on people rather than property

		UAGC used to spread rates more evenly across districts
<b>Benefit based</b>	Those that benefit should pay for that benefit either directly or proportionally	Use charges where possible ie bus fares and consent fees Targeted rates for identifiable beneficiaries / exacerbators
<b>Consistent</b>	Application and calculation methodologies for rates will be applied consistently	Similar types of rates will have a similar rates and application of categories / differentials
<b>Incentivised</b>	Funding should be consistent with other non-financial outcomes Council is aiming to achieve	Rates consistent with land use policies and objectives
<b>Sustainable</b>		
<b>Meets the needs of today while maintaining future affordability</b>	Current costs will be funded from current funding The future costs of maintaining current levels of service will also be considered	Balanced budget – at all of Council level and at some activity level
<b>Intergenerational equity</b>	Future generations that reap the benefit should pay for that benefit	Long term expenditure, especially capital expenditure, will be funded over the life of those assets Investment capital will be maintained to ensure income generated is available for distribution to current and future ratepayers
<b>Certainty</b>	Ratepayers will know how much they will be expected to pay	Rates smoothing for activities that has fluctuating year on year expenditure

In some cases, these principles conflict with one another and judgement is required to balance and apply them.

### Sources of Funding

Section 103(2) of the Act allows Council to fund its activities from the following sources:

- General rates
  - Including choice of valuation system
  - Differential rating
  - Uniform Annual General Charges (UAGC)
- Targeted rates
- Lump sum contributions
- Fees and charges
- Interest and dividends from investments
- Borrowings
- Proceeds from asset sales
- Development contributions
- Financial contributions under the Resource Management Act 1991
- Grants and subsidies
- Regional fuel taxes under the Land Transport Management Act 2003
- Any other source

### 3. 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 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 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 Act's section 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.

## 4. FUNDING SOURCES FOR OPERATING EXPENDITURE

This section outlines the funding sources for operating expenditure that are available under section 103(2) of the Act and how Council utilises them.

Operating expenditure is the day-to-day spending that maintains the services delivered by Council. This includes staff costs, supplies and services from third parties, contributions to the wear and tear on assets used (depreciation), interest charged on borrowing (both internal and external) and corporate overheads.

### 4.1. General Rates

General rates are used where there is a wider community benefit or where a defined benefit area or group cannot be determined, or it is uneconomic to separately rate or charge that area or group. General rates are applied to all rateable land in the region and are set as a uniform rate in the dollar on the capital value of each rating unit.

#### **Valuation Basis**

The benefits of most of our general rate funded activities are evenly distributed across the region. Council has adopted a capital value system for the general rate as capital value is better aligned to the ability to pay ie higher capital value properties will generally be better able to bear the cost of a proportionately higher general rate.

#### **Uniform Annual General Charge**

General rates may be collected by a Uniform Annual General Charge (UAGC). This is a fixed amount that is the same for all rating units. The Local Government (Rating) Act 2002 limits rates set on a uniform basis, including the UAGC, to 30% of total rates.

Council uses a UAGC to ensure a minimum amount of rates is charged to all rating units and to assist in managing the distribution of rates across the districts.

#### **Equalisation**

Properties are revalued every three years in a cyclical manner across the region based on the local territorial authority area. Because these rating revaluations occur across the region in different years, all value-based rates (that are charged across more than one territorial authority) are set on an equalised land-value basis.

#### **Differential Rating**

General rates are not charged on a differential basis, other than for the purpose of equalisation as noted above.

### 4.2. Targeted Rates

Targeted rates are used to fund discrete activities where there is a defined area of benefit, or a defined group benefiting from an activity.

Council has set one or more targeted rates to fund a single activity, or a single targeted rate to fund activities. The valuation basis for targeted rates is set individually for each targeted

rate and may be based on capital value, land value or land area. Targeted rates may also 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.

#### 4.3. Lump Sum Contributions

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

#### 4.4. Fees and Charges

Fees and charges are charged directly to users of a service or activity for the direct benefit they receive. Council uses fees and charges where the users of a service can be identified, it's possible and cost effective to collect that revenue and appropriate that the user should pay all or some of the cost.

Council main use of fees and charges is bus fare revenue and regulatory fees and charges under section 36 of the Resource Management Act 1991.

#### 4.5. Interest and Dividends from Investments

Council has investments which provide returns in the form of interest and dividends. Council's main investments are its 100% shareholding in Port Otago Limited and a long-term managed fund.

These investments do not directly relate to a specific activity. To ensure investment income benefits are shared by all ratepayers, Council uses this 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.

#### 4.6. Borrowing

Council aims to fund all cash operating costs from sources other than borrowing but may in specific circumstances, where it determines it prudent to do so, fund some operating costs from borrowing. Borrowing may be internal or external.

#### 4.7. Proceeds from the Sale of Assets

Proceeds from asset sales are not generally used to fund operating costs as they usually relate to and are used to offset capital expenditure. Council may in specific circumstances, where it determines it prudent to do so, fund some operating costs from borrowing.

#### 4.8. Development Contributions

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

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

#### 4.9. Financial Contributions

Council does not currently use financial contributions as a source of revenue but is permitted to under section 108(2)(a) of the Resource Management Act 1991. This allows 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 Development Contributions and Financial Contributions Policy.*

#### 4.10. Grants and Subsidies

Council receives grants and subsidies from other organisations, including Central Government agencies and local territorial 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 Waka Kotahi (New Zealand Transport Agency) for passenger transport services, the Ministry for Primary Industries and the Ministry for the Environment.

#### 4.11. Regional Fuel Taxes

Council does not use regional fuel taxes as a source of revenue.

#### 4.12. Any Other Sources

##### **Other Income**

Other operating revenue may be used as a source of funding and includes (but is not limited to):

- Charges to landowners for contributing to land management activities on their property
- Rent from Council owned properties leased to third parties
- Gravel-extraction revenue
- Management / shared service cost charging to other Councils

##### **Reserves**

Council has a number of reserves and some of these reserves are available to meet operating costs. Surplus funds from previous years are allocated to reserves and may be used to fund expenditure in future years. Council generally uses these funds for the purpose that the reserve was created.

Council may also choose to use reserves for planned or unplanned expenditure. Repayment of reserve deficits comes from the same source of funding used to fund the underlying activity that the reserve relates to. Establishing and using reserves is agreed through the Long-Term Plan and Annual Plan processes.

##### **Funding Alternatives**

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



## 5. FUNDING SOURCES FOR CAPITAL EXPENDITURE

This section outlines the funding sources for capital expenditure that are available under section 103(2) of the Act and how Council utilises them.

Capital expenditure is costs associated with the purchase, improvement, and replacement of assets. Capital expenditure on new assets is generally not directly funded by rates, as this places the entire cost on current ratepayers. Instead, Council uses reserves and/or borrowing (internal or external) to fund the initial capital expenditure which allows the cost to be spread over time so that all beneficiaries of the asset contribute towards the cost.

### 5.1. Proceeds from the Sale of Assets

Proceeds from asset sales are generally used to repay debt or off-set the borrowing or funding requirements for the asset and its activity.

### 5.2. 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.

### 5.3. Reserves / Borrowing

Council maintains reserves which may be used to fund capital expenditure. Capital expenditure is funded from the most efficient source, which may include borrowing (internally or externally). Establishing and using reserves is agreed through the Long-Term Plan and Annual Plan processes.

Council generally doesn't borrow externally to fund individual activities or projects. Internal borrowing is utilised through reserves and Council manages its total debt requirements at an all of Council level which is more efficient and cost effective.

Repayment of reserve deficits due to capital expenditure comes from the same source of funding used to fund the underlying activity that the reserve relates to. Ultimately that means, general rates, targeted rates and investment income are used to repay capital expenditure over time.

#### **Infrastructure Assets**

Most infrastructure assets ie. floodbanks, pump stations culverts and bridges are assigned to specific special rating districts and have an associated reserve. Ratepayers within these districts fund the depreciation on these assets. This income along with disposal proceeds is accumulated in the reserve and used for the purpose of funding replacement or new assets. If there are insufficient funds available in the reserve, borrowing (either internal or external) will be used.

#### **Non-infrastructure Assets**

Council funds capital expenditure non-infrastructure assets through an asset replacement reserve. Depreciation on these funded is funded by the assets that use them and this income

along with disposal proceeds is accumulated in the reserve and used for the purpose of funding replacement or new assets. If there are insufficient funds available in the reserve, borrowing (either internal or external) will be used.

### **Major Projects**

Tools to fund major capital projects will be considered on a case-by-case basis. Where necessary or appropriate, Council may borrow (either internally or externally) to fund a major project. Such projects will generally be funded via establishing a reserve. If borrowing (either internal or external) is used repayment funded be by any of the operating funding tools available to Council including rates, investment income and transfers from other reserves.

In determining the appropriate funding tools for major projects, consideration will be given to matters such as the benefits arising from the project, overall project costs, and the impacts and consequences of the project.

### **5.4. Funding Sources Not Used**

The following funding sources are not used by Council to fund capital expenditure:

- Lump sum contributions
- Fees and charges
- Development contributions
- Financial contributions under the Resource Management Act 1991
- Regional fuel taxes under the Land Transport Management Act 2003

## 6. FUNDING NEEDS ANALYSIS

In undertaking its funding needs analysis Council has assessed the appropriate sources of funding for each activity using the criteria set out in section 101(3) of the Act. This followed a two-step process.

First, for each activity Council considered:

- The community outcomes the activity primarily contributes to; 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 inactions 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 funding the activity distinctly from other activities.

Secondly, Council considered the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental and cultural well-being of the community.

Examples of matters considered in this step include:

- Level of local Territorial Authority rates
- Economic factors ie levels of disposable income, unemployment, population growth
- Level of total and general rates including comparison to other Regional Councils
- Distribution of rates across districts and land use
- Distribution of rate amounts and rate increases
- Impact of the uniform vs value/area based rates

Examples of how Council addresses issues identified in this step include:

- Use of reserves and debt
- Adjusting the level of uniform annual general charge
- Through Council's Rates Remission and Postponement Policy and policy on Remission and Postponement of Rates on Māori Freehold Land – this ensures ratepayers have access to affordability tools, such as considering financial hardship

The output from the Funding Needs Analysis is summarised in the summary of funding sources table that follows in this Policy. This is then applied in Council's rates funding impact statement included in Council's Long-Term Plan and Annual Plans.

## 7. SUMMARY OF FUNDING SOURCES

The following tables show the indicative funding allocations from each funding source used to fund operating and capital expenditure following the section 101(3) funding needs analysis.

**Table 1: Summary of Operating Expenditure Funding Sources**

The rates allocations shown below total 100% of total rates for that activity and are applied after the other sources of funding

Activity	Sub Activity	Fees & Charges	Other Income	Grants & Subsidies	General Rates	Targeted Rates	Internal	Reserves
<b>Governance and Democracy</b>	Governance and Leadership	Actual			100%			
	Donations				100%			
	Elections				100%			General
<b>Public Awareness</b>	Communications	Actual			100%			
	Customer services				100%			
	Enviroschools				100%			
<b>Regional Planning and Strategy</b>	Regional plans, policies and strategies				100%			
	Private plan changes	100%						
<b>Consents</b>	Consents processing	100%						
	Consents appeals		Actual		100%			
	Consents administration				100%			
	Consents public enquiry	Actual			100%			
	Consents reviews – consent holder initiated – Council initiated	100%			100%			
<b>Compliance</b>	Performance monitoring processing	100%						
	Performance monitoring administration				100%			
	Audits and compliance reviews	100%						
	Compliance administration	Actual			100%			
	Dairy inspections					100%		
	Fresh water farm plans					100%		
	Contaminated sites administration				100%			
<b>Incidents</b>	Incident response			Actual	100%			
	Enforcement	Actual			100%			
	Oil spills	Actual		Actual	100%			
<b>Harbour Management</b>	Navigational safety					100%		
	Bylaws response and enforcement	Actual				100%		

Activity	Sub Activity	Fees & Charges	Other Income	Grants & Subsidies	General Rates	Targeted Rates	Internal	Reserves
Air	Air science and monitoring				100%			
	Air strategy implementation				100%			
	Air incentive programmes			Actual		100%		
Biosecurity and Biodiversity	Biodiversity science and monitoring				100%			
	Biodiversity implementation			Actual		100%		
	Community grant funding					100%		
	Biosecurity implementation					100%		
	Wilding pines – administer grant funding – support for control groups			100%		100%		
Land and Water	Land and water science and monitoring				100%			
	Land and water implementation			Actual		100%		
	Water quality remediation			Actual		100%		
	Integrated catchment management			Actual		100%		

Activity	Sub Activity	Fees & Charges	Other Income	Grants & Subsidies	General Rates	Targeted Rates	Internal	Reserves
Emergency Management	Emergency management					100%		
Flood Protection and Drainage	Alexandra Flood Protection	Actual			20%	80%		
	Leith Flood Protection				20%	80%		
	Lower Clutha Flood & Drainage – Flood – Drainage	Actual		Actual	20% 10%	80% 90%		Kuriwao
	Lower Taieri Flood Protection	Actual		Actual	20%	80%		
	East Taieri Drainage	Actual		Actual	10%	90%		
	West Taieri Drainage	Actual		Actual	10%	90%		
	Tokomairiro Drainage				20%	80%		
	Scheme Oversight Bylaws	100%					100%	
River Management	River management – Dunedin					100%		
	River management – Clutha					100%		
	River management – Central Otago					100%		
	River management – Queenstown Lakes					100%		
	River management – Waitaki					100%		
	Lower Waitaki River Control					100%		

Activity	Sub Activity	Fees & Charges	Other Income	Grants & Subsidies	General Rates	Targeted Rates	Internal	Reserves
	River management – non-scheme management						100%	
Climate Change and Hazards	Natural hazards				100%			
	Flood risk management				100%			
	Climate change adaptation				100%			

Activity	Sub Activity	Fees & Charges	Other Income	Grants & Subsidies	General Rates	Targeted Rates	Internal	Reserves
Transport	Public transport – Dunedin	Actual	Actual	51%	20%	80%		
	Public transport – Whakatipu	Actual	Actual	51%	20%	80%		
	Public transport – Regional Trials (Oamaru / Wanaka)	Actual	Actual	51%	20%	80%		
	Public transport – Regional Trials (Balclutha / Central Otago-Wanaka-Queenstown)	Actual		51%	49%			
	Total mobility			51%	49%			
	Transport planning			51%	49%			
	Land Transport Management Act (LTMA) administration	50%			50%			
	Stock truck effluent disposal sites (STEDS)				100%			

Activity	Sub Activity	Fees & Charges	Other Income	Grants & Subsidies	General Rates	Targeted Rates	Internal	Reserves
Internal / Overheads	HR / H&S						100%	
	Finance and Rates						100%	
	Corporate Support						100%	
	Property		Actual				100%	
	IT						100%	
	Vehicles and Plant						100%	
	Treasury		100%		100%			
	– Port Otago on-lending							
	– Port Otago dividends				100%			
	– Managed fund income				100%			
	– Other interest							100%
	Regional Integrated Ticketing (RITS)		75%				25%	

**Table 2: Summary of Capital Expenditure Funding Sources**

Group	Activity	General / Asset Reserves	Scheme Reserves	Borrowing	Other
Regional Leadership	Governance and Community	✓			
	Regional Planning	✓			
	Regulatory	✓			
Environment	Air	✓			
	Biosecurity and Biodiversity	✓			
	Land & Water	✓			
Safety & Resilience	Emergency Management	✓			
	Flood Protection and Drainage	✓	✓	✓	✓
	River Management	✓	✓	✓	✓
	Climate Change and Hazards	✓			
Transport	Public Transport	✓	✓	✓	✓
	Transport - Other	✓			
Internal	Internal	✓		✓	✓