environment SOUTHLAND
REGIONAL COUNCIL
Te Taiao Tonga

This policy outlines the choices we have made in deciding the appropriate sources of funding for operating and capital expenditure from those sources listed in the Local Government Act 2002 (LGA). The requirements for a Revenue and Financing Policy are in the sections 102 and 103 of the LGA. Section 103 requires that the Revenue and Financing Policy must state its policies for:

- sources of funding for operating expenditure, and
- sources of funding for capital expenditure.

A local authority must manage its revenue, expenses, assets, liabilities, investments, and general financial dealings prudently and in a way that promotes the current and future interests of the community using the following criteria from the Acts:

Section 101(3) Local Government Act
"*The funding needs of the local authority must be met from those sources that the local authority considers to be appropriate, following consideration of:*

(a) in relation to each activity to be funded-
- *i. the community outcomes to which the activity primarily contributes; and*
- *ii. the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; and*
- *iii. the period in or over which those benefits are expected to occur; and*
- *iv. the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity; and*
- *v. the costs and benefits, including consequences for transparency and accountability of the activity distinctly from other activities; and*

(b) 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.

Section 100T(2) Biosecurity Act 1993
Regional pest management plan or regional pathway management plan.
A regional council must decide the extent to which it should fund the implementation of its regional pest management plan or its regional pathway management plan from a general rate, a targeted rate, or a combination of both, set and assessed under the Local Government (Rating) Act 2002.

(a) The extent to which the plan relates to the interests of the occupiers of the properties on which the rate would be levied:
(b) The extent to which the occupiers of the properties on which the rate would be levied will obtain direct or indirect benefits from the implementation of the plan:
(c) The collective benefits of the implementation of the plan to the occupiers of the properties on which the rate would be levied compared with the collective costs to them of the rate:
(d) For the regional pest management plan, the extent to which the characteristics of the properties on which the rate would be levied and the uses to which they are put contribute

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B15.0	Executive	**Approved** – 23-24 July 2003 **Reviewed** –22 March 2006 **Reviewed** – 4 February 2015 **Reviewed** – 28 March 2018 **Reviewed** – May 2021 Reviewed- March 2024	Council	A363045	-

to the presence or prevalence of the pest or pests covered by it:

(e) For the regional pathway management plan, the extent to which the characteristics of the properties on which the rate would be levied and the uses to which they are put contribute to the actual or potential risks associated with the pathway.

We have considered the above before establishing this policy. Table 1 sets 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 (link to document).

1.

We have developed some principles to assist in making informed and consistent choices under the legal framework. The following principles have been developed and applied:

- We ensure the everyday costs for services to the region are met from everyday income
- We ensure that where future ratepayers use assets created today, they will pay their share through our prudent use of debt
- We maintain financial resilience by having funds, debt capacity and insurance, sufficient to fund unplanned or unforeseen events
- We clearly define service levels and deliver them in an efficient and effective, customer focussed manner, providing value for money
- We charge on a cost recovery basis where we identify there is a private benefit and it is efficient to collect
- We aim for rates to be affordable and equitable, with increases set to provide certainty to ratepayers
- We manage our investment funds and other investments by taking a prudent approach to risk and return
- We support the principles set out in the Preamble to Te Ture Whenua Māori Act 1993.

Complying with these principles can be challenging and compromise between principles is often required.

We have a number of funding source options[1] when considering the day-to-day funding of activities, programmes or projects. We use these funding sources, or a mix of them, to match each individual activity, programme or project on a discretionary basis. Table 1 sets out the general order of consideration starting with fees and user charges, with general funds being the last funding source to be considered.

[1] Funding options are set out in section 103(2), LGA

Table 1

Funding Sources	Application by Environment Southland
Fees and user charges	User charges are applied to services where it is identified there is a benefit to an individual or group, or directly attributable cost. User charges are a broad group of fees charged directly to an individual or entity including, but not limited to: ▪ service charges ▪ hire ▪ permits ▪ regulatory charges ▪ fines and penalties ▪ private works. ▪ rent, lease, licenses for land and buildings ▪ planning and consent fees ▪ statutory charges ▪ retail sales ▪ landing fees The price of the service is based on a number of factors, including but not limited to: (a) the cost of providing the service (b) the estimate of the users' private benefit from using the service (c) the impact of cost to encourage/discourage behaviours (d) the impact of cost on demand for the service (e) market pricing, including comparability with other councils (f) the impact of rates subsidies if competing with local businesses (g) cost and efficiency of collection mechanisms (h) the impact of affordability on users (i) statutory limits (j) other matters as determined by the Council. The ability to charge user charges is limited by various statutes and regulations. As a general rule, fees for statutory functions should be set at no more than the cost of providing the service. In some cases, legislation sets the fees at a level that is below cost and in other cases, where provided by legislation (such as the Waste Minimisation Act 2008) fees may be set at greater than the cost of providing the service. It is appropriate to incorporate overhead costs when determining the cost of providing a service. Where goods or services are sold commercially, and taking into consideration legislative limitations, our preference is to charge a market price. This includes retail sales, leases, rents and licenses for land and buildings. Fees and charges may be set at any time and are reviewed annually. A list of current fees and charges is maintained on our website. Revenue from user charges is allocated to the activity which generates the revenue. 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 Council's activities.
General rates: Valuation base	Applied to activities delivering wider community benefits using capital value. Council considered the merits of both land value and capital value for the general rate. Having considered the overall impacts on all ratepayers it was concluded capital value is a better tool based on the taxation principles of equity/affordability and benefit/impact and is therefore its preferred method. Higher capital value properties are generally better able to bear the costs of a proportionally higher general rate and through the higher value of improvements,

Uniform Annual General Charge	capital value recognises multiple impacts of a single property. Further, Council considers that recovering the general rate on capital value creates a more resilient rates base better able to respond to rate changes. Council also considered that capital value better reflects the principles set out in the Preamble to Te Ture Whenua Māori Act 1993 than land value because land that is undeveloped will generally pay less than a developed property under capital value. The Council also considered the impacts of various types and locations of properties and concluded that a general rate differential is not appropriate. A Uniform Annual General Charge (UAGC) is a fixed rate per property. It is part of the total general rates and set at a level that we consider appropriate. The Local Government (Rating) Act 2002[2] limits rates set on a uniform basis, including the UAGC and targeted rates, to a maximum of 30% of total revenue sought from all rates.
Targeted rates	These may be used for discrete activities benefit, or for transparency purposes to fund a specific service or activity. Targeted rates are not a substitute for a user charge but allow us to assist communities to fund services that can only be delivered with collective funding. Any reserve funded by a targeted rate is available to be used as general reserves if the targeted rate ceases and the activity becomes general rate funded. Differential rates may be used. Full descriptions of categories for differential rating and the relationships between categories are contained in the Funding Impact Statement.
Grants and subsidies **Investment income (interest and dividends)**	Council receives grants and contributions from other organisations, including government agencies and local authorities, to help fund some of the activities that may have national or local benefit. Where grants and subsidies are available, we will apply when it is considered beneficial to do so. Where funding applications are successful or where long- term contracts have grants and subsidies, the funds are used for that purpose. Our investments are managed and funds allocated as per our Treasury Policy and Statement of Investment Policy Objectives. The annual cash dividend received from South Port NZ Ltd is generally used in part or full to reduce the general rate as planned in the Long-term Plan (LTP) or Annual Plans.
Borrowing	Council borrow to fund operating costs when we consider it is prudent to do so, for; • working capital requirements and short-term funding gaps • certain operating expenses or overall operating cash deficits as planned in the LTP and Annual Plans • unplanned expenditure e.g. opportunities, weather events and emergencies.
Proceeds from asset sales	Proceeds from asset sales are applied to the replacement of assets. Where assets are used for a particular purpose and will not be replaced in the year of sale, the proceeds are put into the reserve for that activity. Proceeds are accounted for as sale proceeds and as a transfer to reserves.
Lump sum and development contributions	Council do not use lump sum or development contributions as sources of revenue.
Financial contributions	Section 108(2)(a) of the Resource Management Act 1991 authorises us to include as a resource consent condition, a financial contribution for purposes as stated in a regional plan. These are provided for in the Regional Coastal Plan, the Regional Water Plan, and the partially operative proposed Southland Water and Land Plan and may be applied on a case-by-case basis.

[2] Section 21, Local Government (Rating) Act 2002

Capital expenditure is money spent on building assets which have a long life and long-term benefits. The level of capital expenditure over the period of a LTP is relatively minor compared to operating expenses. We take a long-term view to funding services and assets on a sustainable basis.

New assets may be funded from external sources (e.g. government), borrowing, reserve funds or rates (general and targeted). The costs of finance and debt repayments would be funded in this same way as the operating costs of the activity. This choice may be modified should it be appropriate having considered the requirements of s101(3)(a) and (b).

We plan to fund replacement and renewed assets such as plant and vehicles with rates (depreciation), asset sales and reserve funds.

We plan to fund new and replacement flood protection infrastructure primarily from external sources and borrowing.

Consultation Matter
In this LTP we are planning a significant investment in flood protection infrastructure.

We are proposing to change this Revenue and Financing Policy to be clear how we plan to fund new and replaced flood protection infrastructure investment:

- we propose to seek funding from external sources including the Central Government
- we propose to fund the local share from borrowing
- we propose to fund interest costs on debt and principal repayments of debt from the proposed new region wide Flood Protection Infrastructure rate.

We are required by section 101(3)(b) of the LGA to consider "the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural wellbeing of the community". After undertaking this assessment, as a final measure, we may modify the overall mix of funding that would otherwise apply after the initial s101(3)(a) analysis for both operating and capital expenditure.

The following adjustments may be made:

(a) as the region covers three territorial councils rating valuations are equalised.

(b) the allocation of the rates liability between sectors of the rating base may be altered by the use of the UAGC. We may modify the amount of the UAGC during the term of the LTP to reflect a change in benefit or to achieve better community outcomes or wellbeing

(c) the allocation of the rates liability between sectors of the rating base may be altered by the transfer of the rate revenue requirement between capital value and land value rates. This modification would generally be considered after the calculation of the rate revenue requirement for activities and in itself is not a reallocation of activity costs but an adjustment to achieve better community outcomes or wellbeing which include that ratepayers receive changes in rates consistent with others

(d) we may waive or discount fees and charges where it is considered appropriate to do so. Some matters we may consider in deciding whether it is appropriate to waive fees are for social reasons, the promotion of events and facilities, commercial reasons, poor service or to minimise risk

(e) we may remit rates where it is required or considered appropriate to do so and as allowed for in the Rates Remissions and Postponements Policy (including Māori Freehold Land). These policies address social, economic, environmental or cultural matters

(f) we may use accounting provisions and reserve funds to spread the costs of activities over multiple years to smooth the cost to users and ratepayers

(g) marine fees revenue has been a large source of external revenue. The funding from this supports part of Biosecurity, Science, Mataurangi Māori and Marine Safety activities. We may make an adjustment to our preferred funding of operational costs for these activities and fund any shortfall from debt and/or general surpluses at any time it is considered appropriate.

(h) investment income is not directly allocated to activities and is held in general funds. We decide annually any portion that is allocated to activity reserves and whether a portion will be used to reduce the general rate.

The above funding sources as described were considered when determining the funding required from general rates or targeted rates for each activity in the Funding Needs Analysis, as required by Section 101(3)(a).

Table 2 shows the degree (expressed as a range) to which each funding source is used to fund operating costs following the s101(3)(a) assessment. This s101(3)(a) assessment has been modified by the s101(3)(b) assessment.

The ranges in Table 2 are expressed as a percentage of the revenue budgeted to fund each activity and are indicative only. They may change over time because of changes in expenditure requirements. Actual funding sources may differ from the budgeted funding sources

Table 2 - Summary of funding sources for operating expenditure

Group of Activities	Activity	General rate	Targeted rate	Fees and charges	Contributions, grants and
Healthy Environment	Policy and Planning	100%			
	Regulatory	40 - 60%		40 - 60%	
	Science and Matauranga Maori	40 - 60%		20 - 40%	0 - 20%
	Engagement, Partnerships and Empowerment	80 -100%			0 - 20%
	Biosecurity	80 -100%	0 - 20%	0 - 20%	0 - 20%
Safe and Resilient Communities	Flood protection and Control		80 -100%		0 - 20%
	Natural Hazards and Climate Change	100%			
	Emergency Management and Response	0 - 100%		0 - 100%	
	Maintaining Safe and Navigable Waterways	0 -20%		80 -100%	
	Community Wellbeing	100%			
Thriving Region	Regional Stretegic Planning	100%			
	Transport	0 - 50%			50 -100%
	Governance and Democracy	100%			
	Te Tiriti Relationships	40 - 60%			40 - 60%

The Revenue and Financing Policy and Funding Needs Analysis uses bands to show the range in which we are budgeting revenue. The final setting of rates is based on the Funding Impact Statements for the relevant year.

References

- the Funding Needs Analysis, required by Section 101(3), provides the background and analysis to explain the funding decisions we have made. It is guided by the funding principles and choices of funding sources documented in the Revenue and Financing Policy

- the Financial Contributions Policy explains why we have chosen to use financial contributions to fund activities

- the Treasury Policy places restrictions on the use of debt and the proceeds from asset sales, investment income and capital

- the Funding Impact Statement is included in each LTP and Annual Plan as required by LGA clauses 15 or 20 of schedule 10. This statement shows the results of the detailed rates calculation for each year

Together the above documents form the necessary components to lawfully charge under the LGA for our revenue requirements. We must also comply with other legislation regarding the setting of some fees and charges and the Local Government (Rating) Act 2002 for the setting of rates.