

# Part I: Introduction and Overview

## Guide to the Funding Strategies

### INTRODUCTION

Under the Local Government Act 1974 the Council prepared a Funding Policy every three years. The Funding Policy identified how Council activities would be funded and sought to align the funding with the beneficiaries of a particular service.

This involved a three-step process defined in the Local Government Amendment Act (No.3) 1996:

1. Analysis of the theoretical allocation of costs based on economic principles; and
2. Assess the practicality and efficiency of the funding mix; and
3. Identify the funding tools to recover the cost (e.g. Rates, fees...)

The Local Government Act 2002 requires a similar policy named the Revenue and Financing Policy. This policy has been prepared to meet the requirements of Section 101, 102 and 103 of the Act.

The Local Government Act 2002 states under Part 6 (Section 102 (4)(a)) that a local authority must adopt a Revenue and Financing Policy. As defined in Section 103, a policy adopted under this section must state:

*(a) the local authority's policies in respect of the funding of operating expenses from the sources listed in subsection (2); and*

*(b) the local authority's policies in respect of the funding of capital expenditure from the sources listed in subsection (2).*

*The policy must also show how the local authority has, in relation to the sources of funding identified in the policy, complied with section 101 (3).*

Hauraki District Council has adopted the following policies to comply with the LGA 2002 Section 103:

#### 1. Funding Policy - Operating Expenditure

The Council has adopted a funding policy for each activity. In adopting the Funding Policies for Operating Expenditure and identifying the sources of funding the Council has taken into account Section 101 (3) of the LGA 2002:

*(a) in relation to each activity to be funded, -*

- *the community outcomes to which the activity primarily contributes;*
- *the distribution of benefits between the community as a whole, any identifiable part of the community and individuals;*
- *the period in or over which those benefits are expected to occur;*
- *the extent to which the actions or inaction 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.*

*(b) the overall impact of any allocating of liability for revenue needs on the current and future social, economic, environmental, and cultural well-being of the community.*

## 2. Funding Policy - Capital Expenditure

In adopting the Funding Policy for Capital Expenditure the Council has taken into account the requirements for adopting the funding policies for operating expenditure, the sources of funding listed in Section 103 (2) and 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.

In every respect the funding policy for capital expenditure will be the same as the funding policy for operating expenditure.

That is to say, the extent to which the provision of a service by the Council is a public or private good will largely determine the extent to which rates or fees and charges fund capital expenditure. For example, if the revenue funding policy for Libraries is 95% public good: 5% private benefit, we would expect to fund the capital expenditure on book purchases in the same way i.e. 95% by general rates and 5% by fees and charges.

**It is important to note that the Revenue and Financing Policy 2003/04 is a transitional policy based broadly upon the requirements of 1974, 1996 and 2002 legislation. This policy will be reviewed as part of the first Hauraki District Long Term Council Community Plan 2004/05 to be adopted by 30 June 2004.**

The Funding Strategies contain the Revenue and Financing Policy; the Rating Policy and the Funding Impact Statement. These are set out in the following format:

**Part I** sets out the legislative framework for the Revenue and Financing Policy.

**Part II** contains a glossary of terms used in the policy and further explanation of the terms 'economic allocation,' 'intergenerational equity' and 'community wellbeing'.

**Part III** sets out the process Council used to determine the means by which activities should be funded.

**Part IV** applies the process in Part III to the significant activities identified in the Annual Plan.

**Part V** contains an explanation of the rating tools that are available for Council to use to generate revenue.

**Part VI** includes a summary of the funding allocation and the rating tools used for significant activities.

**Note that the Revenue & Financing Policy must be read in conjunction with the Rating Policy.**

# Legislative Framework

The Local Government Act (2002) requires the Hauraki District Council to adopt a Revenue and Financing Policy in conjunction with the Annual Plan. The relevant excerpts from the Local Government Act 2002, are shown below

## Section 101, Local Government Act 2002.

### **101. Financial management—**

- (1) A local authority must manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community.
- (2) A local authority must make adequate and effective provision in its long-term council community plan and in its annual plan (where applicable) to meet the expenditure needs of the local authority identified in that long-term council community plan and annual plan.
- (3) The funding needs of the local authority must be met from those sources that the local authority determines 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 funding 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 102, Local Government Act 2002.

### **102 Funding and financial policies**

- (1) A local authority must, in order to provide predictability and certainty about sources and levels of funding, adopt the funding and financial policies described in subsection (4).
- (2) A local authority must, subject to subsection (3), use the special consultative procedure in adopting a policy under this section.
- (3) A policy under this section may be adopted by a local authority as part of its long-term council community plan.
- (4) A local authority must adopt—
  - (a) a revenue and financing policy; and
  - (b) a liability management policy; and
  - (c) an investment policy; and
  - (d) a policy on development contributions or financial contributions; and
  - (e) a policy on partnerships between the local authority and the private sector; and
  - (f) a policy on the remission and postponement of rates on Maorifreehold land.
- (5) A local authority may adopt all or any of the following policies:
  - (a) a rates remission policy;
  - (b) a rates postponement policy.
- (6) A policy described in this section may be amended only as an amendment to the long-term council community plan.

Section 103, Local Government Act 2002.

**103. Revenue and financing policy—**

- (1) A policy adopted under section 102(4)(a) must state—
  - (a) the local authority's policies in respect of the funding of operating expenses from the sources listed in subsection (2); and
  - (b) the local authority's policies in respect of the funding of capital expenditure from the sources listed in subsection (2).
- (2) The sources referred to in subsection (1) are as follows:
  - (a) general rates, including—
    - (i) choice of valuation system; and
    - (ii) differential rating; and
    - (iii) uniform annual general charges:
  - (b) targeted rates:
  - (c) fees and charges:
  - (d) interest and dividends from investments:
  - (e) borrowing:
  - (f) proceeds from asset sales:
  - (g) development contributions:
  - (h) financial contributions under the Resource Management Act 1991:
    - (i) grants and subsidies:
  - (j) any other source.
- (3) A policy adopted under section 102(4)(a) must also show how the local authority has, in relation to the sources of funding identified in the policy, complied with section 101(3).