



ORDINARY MEETING OF COUNCIL

Open Agenda Supplementary Items

Meeting Date:	Tuesday 3 March 2026
Time:	2.00pm (Adopt underlying A/P info)
Venue:	Breakout Room 2 War Memorial Centre Marine Parade Napier

Livestreamed via Council's YouTube Channel

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AGENDA ITEMS

4. REVENUE AND FINANCE POLICY REVIEW

<i>Type of Report:</i>	Legal
<i>Legal Reference:</i>	Local Government Act 2002
<i>Document ID:</i>	1900227
<i>Reporting Officer/s & Unit:</i>	Alister Edie, Senior Financial Strategy & Treasury Lead Talia Foster, Financial Controller

1.0 Executive Summary - Te Kaupapa me te Whakarāpopototanga:

1.1 To formally approve the direction given to date across the Revenue & Financing Policy review process. Approval enables inclusion of amendments to the Revenue & Financing Policy in the 2026/27 AP consultation process.

2.0 Recommendations - Ngā Tūtohunga

That Council

- a. **Adopts** the content of the report titled 'Revenue & Financing Policy Review', to enable preparation of the draft Revenue & Financing Policy and 2026/27 AP consultation documentation.
- b. **Direct** officers to prepare the draft Revenue & Financing Policy and consultation documentation, to be reported back for Council adoption on 19 March 2026.
- c. **Agree** the following preferred amendments to Council's Revenue & Financing Policy:
 - i. Introduce a new Rooding targeted rate on Capital Value with differentials:
 1. Residential at 1.0
 2. Commercial (including industrial and utilities) at 2.6
 3. Rural at 0.85
 - ii. Introduce a new City Ambassadors and CCTV fixed targeted rate to fund the CBD CCTV service, split between commercial and residential SUIP's:
 1. Commercial 75% = 3.0 differential
 2. Residential 25% = 1.0 differential
 - iii. Remove the rural/residential rating differential, as agreed previously by Council. The remaining general rate differentials are:
 1. Residential at 1.0
 2. Commercial (including industrial and utilities) at 2.6
 3. Rural at 0.85
 - iv. Various amendments to activity funding target percentages, based on LGA section 101(3)(a) activity funding needs analysis

3.0 Background - *Ngā Tuāpapa*:

- 3.1 The Revenue and Financing policy is adopted under Sections 102(1) & 103(1) of the Local Government Act 2002 and must contain Napier City Council's general policies on the funding of operating and capital expenditure and show how the local authority has, in relation to the sources of funding identified in the policy, complied with Section 101(3).
- 3.2 Previously, Napier City Council (Council) has reviewed the proposed sources of funding for operating and capital expenditure and has reviewed the funding for each activity to determine the funding policy for each. In accordance with the Local Government Act 2002 (LGA) Council has considered each activity with regard to the following:
- community outcomes to which an activity contributes; and
 - the distribution of the benefits between the community as a whole, identifiable parts of the community and individuals; and
 - the period in or over which those benefits are expected to occur; and
 - the extent to which actions or inactions of individuals or groups contribute to the activity; and
 - costs and benefits of funding the activity distinctly from other activities.
- 3.3 Council has considered each activity to determine what it considers an appropriate funding source for both operating and capital expenditure. Then it has considered 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. It considered the following in determining the final funding source:
- the nature of Napier City as a whole including as a visitor and tourist destination; and
 - the different costs of providing services and facilities and the associated benefits that the commercial (including accommodation providers) and industrial properties receive from those services; and
 - the impact of rates on residential properties, and in particular on the affordability of rates for low, average and fixed income households; and
 - the complexity of the rating system and the desirability of improving administrative simplicity; and
 - the appropriate use of the General Rate.
- 3.4 Council has also considered the impact of fees and charges. Council uses the market rate (where permissible) as the upper limit for determining fees or charges. Where Council believes the imposition of fees or charges at a rate above market will reduce usage of the activity or facility and lead to the imposition of a greater cost on ratepayers, it will modify the amount chargeable to the market rate. In selecting the market rate, Council has made a judgement that the community values the existence of the facility and would rather fund it from rates than for the facility to close.

4.0 Discussion - *Ngā Whakamārama*:

- 4.1 Council officers have conducted a review process for the Revenue & Financing Policy, that meets the requirements of section 101(3) of the Local Govt Act 2002 (LGA). The following three options were considered:

4.2 **Option One – Status Quo**

This involves no changes to the underlying funding mechanisms of the Revenue & Financing Policy, with no changes to rating methodology or activity funding target percentages.

4.3 **Option Two – Preferred Option**

Following LGA section 101(3) analysis, the review process settled on the following preferred amendments to the Revenue & Financing Policy:

i. Introduce a new Rooding targeted rate on Capital Value with differentials:

1. Residential at 1.0
2. Commercial (including industrial and utilities) at 2.6
3. Rural at 0.85

Switching from land value to capital value to calculate the rooding rate provides a fairer distribution of impacts and benefits.

Council considered the key Advantages and disadvantages of capital value when compared with land value, with the advantages being:

- Through the higher value of improvements, CV recognises multiple users of a single property
- Better taxation tool – takes into account full value of property
- Generally, there are smaller percentage swings at each revaluation
- Reduces the reliance on differentials as it takes into consideration the full value
- Captures changes to region's rating base from growth thus pre

With the disadvantages being:

- Administrative cost of notification of changes to rating basis
- May penalise those with low land values
- High CV can exist with low income
- For orchard properties, CV includes fruit trees and vines (but not the crop)
- May penalise/discourage development of higher quality buildings

Rooding is currently funded by the General Rate based on Land Value, so this will not impact how much revenue is received from rates, but how the rates are split across the rating base.

ii. Introduce a new City Ambassadors and CCTV fixed targeted rate to fund the CBD CCTV service, split between commercial and residential SUIP's:

1. Commercial 75% = 3.0 differential
2. Residential 25% = 1.0 differential

City Ambassadors and CCTV are currently funded by reserves, so charging as a rate will increase the rates revenue for Council and will ensure a sustainable revenue stream for this activity.

iii. **Remove the rural/residential rating differential, as agreed previously by Council.** The remaining general rate differentials are:

1. Residential at 1.0
2. Commercial (including industrial and utilities) at 2.6
3. Rural at 0.85

This does not impact how much revenue is received from rates, but how the rates are split across the rating base.

iv. The following **amendments to activity funding target percentages** are proposed, based on LGA section 101(3)(a) activity funding needs analysis:

Non-General Rates Cost Recovery						
Activity	Historical	25-26 AP	26-27 AP	R&FP	Proposed Amendment - Primary Funding Source	Comment
Animal Control	74%	66%	67%	F&C 50-60%	F&C 60-70%	Cost recovery settling between 60-70%
City Development	13%	5%	6%	GR 100%	GR 85-95%	Business Promotion targeted rates
Community Strategies	n/a	16%	30%	GR 100%	GR 70-80%	Resilience rate and Govt Grants received
McLean Park	n/a	40%	36%	F&C 80%	GR 55-65%	Activity now includes asset costs
Napier Municipal Theatre	27%	20%	20%	GR 60-65%	GR 70-80%	Cost recovery reducing over time
Parking	127%	129%	138%	F&C 80-90%	F&C 100%	Activity recovers costs from users
Resource Consents	51%	58%	60%	GR 60%	F&C 55-65%	Improved cost recovery (staffing)
Waste Minimisation	108%	109%	107%	80-90% F&C, targeted rates, waste minimisation levy	100% F&C, targeted rates, waste minimisation levy	Activity is covering costs

Option Three – Full Capital Value Rating Allocation Model

4.4 Switching from a land value to a capital value rates system more accurately reflects the benefits a property receives from local services and infrastructure. For example, a vacant section is not benefiting from water pipes, rubbish collection or streetlights. Accordingly, it is not reasonable for the owner of an undeveloped section to pay a similar amount to that of a nearby property with a dwelling connected to water and utilising other rateable services.

Calculating rates using capital value will decrease big changes to properties' rates when they are revalued every three years because the total movement in the capital value is a smaller movement than just land value.

Capital value is also a fairer way to charge rates to multi-unit dwellings, such as apartments. Currently, ratepayers in these dwellings pay a portion of the total land value each. This means large apartments pay relatively lower rates compared to standalone houses. Using capital value enables each unit to pay according to its individual value.

Using capital value also more accurately reflects growth. It captures the total investment and development activity occurring in urban areas, helping councils to plan for infrastructure and amenities.

Council is keen to test the community's appetite for calculating all rates using capital value. However, it is not considered to be the appropriate time to proceed with this move. There are proposals from central government that will impact councils rating income, including a proposed rates cap of 2%-4%. Additionally, the already legislated

Local Water Done Well changes will impact Council's rates income if three waters services are removed from our books.

Once these reforms come into play, we will have more accurate information to decide whether this is the best option for Napier. In the meantime, Council's preferred option is a pathway towards calculating all rates using capital value.

Summary of advantages and disadvantages

Advantages	Disadvantages
More accurately reflects the services and infrastructure being used by a property.	Low rates on sections may encourage land banking.
Big changes in rates due to revaluations will be minimised.	May penalise those with low land value and high capital value.
Charges rates more fairly to multi-unit dwellings, reflecting their true value.	Low income earners may be in high capital value homes.
More accurately measures city growth, enabling better planning.	May discourage development of high quality buildings.

5.0 Options - He kōwhiringa anō:

5.1 The different options considered for amending the Revenue and Financing Policy are:

5.1 Option One – Status Quo

This involves no changes to the underlying funding mechanisms of the Revenue & Financing Policy. Specifically, there are no changes to:

- The current rating model and rating methodologies
- Activity funding target percentages

Advantages

1. Maintains stability and predictability for ratepayers by retaining the existing rating model and funding arrangements.
2. Avoids redistribution impacts between rating categories that could arise from changes to rating methodologies or funding allocations.
3. Requires no additional implementation effort, system changes, or communication associated with introducing new rates or funding mechanisms.
4. Reduces risk of confusion or concern among ratepayers by keeping the current, familiar approach in place.
5. Ensures continuity with the existing Revenue and Financing Policy framework already embedded in current planning and budgeting processes.

Disadvantages

1. Does not address issues or opportunities identified through the Revenue and Financing Policy review process.
2. Retains existing funding arrangements even where they may be less well aligned with benefit, use, or impact.

3. Limits Council's ability to improve transparency or fairness in how specific activities are funded.
4. Misses the opportunity to update activity funding target percentages based on the most recent section 101(3)(a) funding needs analysis.
5. May result in increasing pressure on general rates where more targeted funding approaches could be more appropriate.

5.2 Option Two – Preferred Option

This is the preferred option that has been determined by the Revenue & Financing Policy review process. The material amendments to the current Revenue & Financing Policy are:

- v. Introduce a new Rooding targeted rate on Capital Value with differentials:
 1. Residential at 1.0
 2. Commercial (including industrial and utilities) at 2.6
 3. Rural at 0.85
- vi. Introduce a new City Ambassadors and CCTV fixed targeted rate to fund the CBD CCTV service, split between commercial and residential SUIP's:
 1. Commercial 75% = 3.0 differential
 2. Residential 25% = 1.0 differential
- vii. Remove the rural/residential rating differential, as agreed previously by Council. The remaining general rate differentials are:
 1. Residential at 1.0
 2. Commercial (including industrial and utilities) at 2.6
 3. Rural at 0.85

This does not impact how much revenue is received from rates, but how the rates are split across the rating base.
- viii. Various amendments to activity funding target percentages, based on LGA section 101(3)(a) activity funding needs analysis

Advantages

1. Improves alignment between funding and benefit by using targeted rates for rooding and CBD CCTV services, ensuring costs are more closely borne by those who receive the greatest benefit.
2. Use of capital value for the rooding targeted rate provides a broader and more stable rating base that reflects both land and improvements, and is more responsive to growth over time. This approach typically results in less fluctuations due to the revaluation cycle.
3. Retaining differentials for commercial, residential, and rural properties reflects differences in use, impact, and benefit from rooding and general council services.
4. Introduction of a fixed targeted rate for City Ambassadors and CCTV provides transparency and certainty around the funding of CBD safety and amenity services.
5. Removal of the rural/residential differential simplifies the rating structure.

6. Updates to activity funding target percentages ensure continued compliance with section 101(3)(a) of the Local Government Act 2002 and improve consistency between funding decisions and assessed funding needs.

Disadvantages

1. Introducing new targeted rates increases the complexity of the overall rating system and requires administrative cost to notify changes to the rating base.
2. Use of capital value for the roading rate may increase costs for properties with high improvement values but limited income, particularly for some households and businesses.
3. The CBD CCTV targeted rate applies costs to a defined area, which may be perceived as inequitable by some ratepayers who consider the benefits to be more city-wide.
4. Orchard property rates may be higher because capital value includes fruit trees and vines, but excludes crops.
5. Changes to funding allocations may result in redistribution effects between rating categories, creating rate impacts for some groups even where total revenue requirements are unchanged.

5.3 Option Three – Full Capital Value Rating Allocation Model

The total amount of rates required to fund council services would be distributed among rating units based on their relative capital values (land value plus improvement value). The current (status quo) rating methodology is allocation by relative land values.

Advantages

1. Provides a broader taxation base by reflecting the full value of land and improvements.
2. Responds more effectively to growth by capturing changes in the overall rating base over time.
3. Generally results in smaller percentage changes at each revaluation compared with land value.
4. Recognises multiple users or intensification through the value of improvements on a property.
5. Can reduce reliance on rating differentials by embedding more value information in the base rating system.
6. Is widely used by local authorities, supporting consistency and comparability.

Disadvantages

1. Involves administrative costs associated with notifying ratepayers of a change in rating basis.
2. High capital values can apply to properties owned by households with limited or fixed incomes.
3. May discourage or penalise investment in higher-quality buildings due to increased rates from improved value.

4. For orchard and horticultural properties, capital value includes trees and vines (but not crops), which may not reflect annual income.
5. Can disadvantage properties with low land values but high improvement values compared with land-value-based systems.

6.0 Next Steps - Te Koke

Council is required to consult regarding the suggested amendments to the Revenue & Financing Policy. The planned schedule is as follows:

19 March – Council meeting to adopt consultation document

30 March – Community consultation opens

24 April – Community consultation closes

May – Hearings and deliberations

25 June – Council meeting to adopt final Revenue & Financing Policy

7.0 Attachments

Nil

Summary of Considerations - *Tuhinga Whakarāpopoto:*

Fit with purpose of Local Government - *Ngā aronga tā te Kaunihera- ā-rohe kōrero*

Council is required to give effect to the purpose of local government as set out in Section 10 of the Local Government Act 2002. That purpose is to enable democratic local decision-making and action by (and on behalf) of communities in the present and for the future.

Māori Impact Statement - *He kōrero whaitake tā te māori kōrero:*

No direct or disproportionate impacts on Māori or mana whenua have been identified. Opportunities for Māori participation are provided through Council's standard consultation and decision-making processes, and no specific tikanga, cultural, social, or environmental impacts for Māori arise from this report.

Climate Change - *Te Huringa o te āhuarangi*

This decision does not have an impact on:

- Greenhouse gas emissions (from council operations, community activities, or associated infrastructure),
- Napier's adaptation to a changing climate (e.g. flooding, sea level rise, coastal erosion, inundation, drought, heatwaves),
- Or is it itself likely to be impacted by these climate-related risks

This is an administrative policy decision and the recommended options have no climate-related implications.

LTP/ Annual Plan/ Financial Strategy/ Infrastructure Strategy - *Te Pae Tawhiti/ ā-tau / ā- Taunaki Ahumoni /ā- Taunaki Hanganga*

These amendments to the Revenue and Financing Policy will be reflected in the 2026/27 year, alongside the Annual Plan 2026/27. Changes do not impact the 2024-27 Three Year Plan, and this decision will not limit further changes for the 2028 LTP if desired.

Financial considerations - *Whai whakaaro Ahumoni:*

The Revenue and Financing Policy does not determine how much money Council requires to operate, but how it will fund those requirements. This decision does impact the rates increase for the 2026/27 Annual Plan by amending the portion of rates funding for certain activities, in particular CBD CCTV. This is explained in the body of the report.

Significance and Engagement - *Ko te Hiranga me te Hiwaia o te whakaaro:*

This decision requires engagement and consultation under the Local Government Act 2002, and a timeline has been provided for consultation in the body of the report.

Consultation (internal/external) - *Ngā Uiuinga (Ki te Kaunihera /ki ngā tāngata katoa)*

This decision requires engagement and consultation under the Local Government Act 2002, and a timeline has been provided for consultation in the body of the report. Consultation will be open to all, with targeted engagement for highly impacted parties.

Risks: Legal/ Health and Safety etc. - *Whaktūpato Ture/ Hauora me te Haumaru*

This policy and process are highly legislated by the Local Government Act 2002. Legal reviews of the policy and process will be completed to mitigate risks.
