Statement of Proposal

Revenue and Financing Policy

Consultation 16 March – 19 April 2021

Version: For consultation

This is a proposal to review our Revenue and Financing Policy (Policy) under the Local Government Act 2002 (LGA). We are proposing some amendments to the Policy and asking the community for submissions to assess support/objections so any alterations can be considered before Council adopt the Policy and it come into effect on 1 July 2021.

Background
In the interest of efficiency this Statement of Proposal (SOP), for the review of the Policy, is being undertaken alongside the Long Term Plan 2021-31. Council is consulting on the Policy using section 83 (special consultative procedure) of the LGA as this aligns with what we are required to do for the Long Term Plan 2021-31 consultation. This also covers the requirement to consult in a way that gives effect to the principals of consultation of the LGA.

The Policy must also be included within our Long Term Plan.

Purpose
The purpose of consultation is to assess public support/objections so any alterations can be considered before Council adopt the Policy.

What is the Policy?
The Policy aims to explain how we will fund the operating expenses and capital expenditure of our activities from the funding sources specified in the LGA 2002 and Local Government (Rating) Act 2002 (LGRA 2002), and provide predictability and certainty about our sources and levels of funding.

Reasons we review the Policy
The reasons for our Policy proposal are the result of the following statutory requirements:

- section 102(2)(a) of the LGA 2002 requires that we must have a Policy;
- sections 103(1) and 103(2) of the LGA 2002 set out the required contents of the Policy;
- clause 10 of schedule 1 to the LGA 2002 requires that the Policy be included in the Long Term Plan.

What are the key changes to the Policy?
Key changes to the policy are slight amendments to the funding sources for Cemeteries, Libraries and Pools and Spas to reflect the current situation. Also amendments to the funding sources for rubbish and recycling to reflect the both recent changes and the anticipated future changes in this area.

Analysis of reasonably practicable options – the Policy
In preparing the Policy as a whole we have considered three broad options and we would like your thoughts on what we should do. The Policy itself sets out in detail the considerations we have made in relation to sections 102 and 103 of the LGA 2002, however in terms of our overall funding we have three key options:

<u>Option 1 – Adopt the Policy</u>
Council would adopt the Policies as they have been proposed.

Advantages	Disadvantages
Allows us to recover costs appropriately for services and facilities.	Some rates and/or fees may increase.

<u>Option 2 - Status quo</u>
The Policies would remain the same as present.

Advantages	Disadvantages
The public are familiar with current Policy	These may not reflect appropriate cost recovery for services and facilities.

Option 3

We would decrease our reliance on fees and charges, development contributions and move towards a more rates-based system whereby rates fund services and facilities.

Advantages	Disadvantages
The cost of services and facilities is spread over all ratepayers.	We will need to recover our costs through rates increases.

Statutory requirements and Policy Considerations

We are required under the Local Government Act 2002 (“LGA 2002”) to adopt a Revenue and Financing Policy (“Policy”).

Determining funding needs

The decision-making process required to adopt our Policy are set out in the LGA 2002, sections 76 to 82.

In essence the process involves determining the activities that should be undertaken and the sources of funding that are most appropriate having regard for:

- in relation to each activity to be funded (under section 101(3)), the community outcome 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; and
- the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental and cultural interests of the community.

Section 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 listed in subsection 2.

(2) The policies are—

(a) a revenue and financing policy;

(4) A local authority—

(a) must consult on a draft policy in a manner that gives effect to the requirements of section 82 before adopting a policy under this section:

(b) may amend a policy adopted under this section at any time after consulting on the proposed amendments in a manner that gives effect to the requirements of section 82.

Section 103 Revenue and Financing Policy:

(1) A policy adopted under section 102(1) 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:*
(ba) *lump sum contributions:*
(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(1) must also show how the local authority has, in relation to the sources of funding identified in the policy, complied with section 101(3).*

(4) *If a local authority amends its revenue and financing policy under section 93(4), only a significant amendment to the policy is required to be audited in accordance with sections 93D(4) and 94.*

Economic Concepts

At their most basic level, funding and financial policies show who pays, for what, when. The Policy is a device for recording and explaining the decisions we have made regarding the funding of our activities. Transparency in this document is especially important to demonstrate the link between dollars and value to the ratepayer.

Much of the Policy refers to the considerations in section 101(3) of the LGA 2002, and our application of those considerations. The analytical process is a sequential two step process. The first step includes consideration at an activity level of the rationale for service delivery, the beneficiary pays principle, the exacerbator pays principle, inter-generational equity, and the costs and benefits of separate funding. The second step of the analysis involves consideration of the results of the first step and their impact on community interests.

A clear rationale for service delivery is a vital piece of information to have when working through the section 101(3)(a) analysis. Knowing why we are delivering the service can help sort out who benefits, when they benefit, and who any of the exacerbators are, as well as obtaining some idea of what impacts on community interests might arise from the way we fund a service

In considering the Policy and how we propose to structure its rates, some useful economic concepts to keep in mind are:

- *incidence* – the distribution of the burden of rates. Two key things to distinguish are the legal incidence of the tax (who gets the bill) and the economic incidence (from whose pocket the money eventually comes)
- *the difference between income and wealth* – income is a flow concept. It measures the amount of money an individual receives from work or investment over a set period of time. Wealth, on the other hand is a stock concept and measures the level of financial and non-financial assets an individual has. Rates are a tax on one element of wealth
- *affordability, ability to pay, and willingness to pay* – this is the difference between ‘can’t pay’ and ‘don’t want to pay’. Affordability is a measure an individual’s true capacity to meet their contribution to community services. Willingness to pay relates more to the value an individual thinks they receive from council services
- *efficiency* – the degree to which local authority funding requirements affect production and consumption decisions
- *equity* – very much a subjective concept, equity relates to the ‘fairness’ of certain decisions

- *public/private goods* – a *public* good is an activity or service that is both non-rival (my consumption does not interfere with yours) and non-excludable (I cannot be prevented from consuming the service). Common examples in local government are civil defence and various planning functions. A private good is both rival and excludable.

Our Rating Structure

Legislation gives us four broad rating tools that can be used to set rates.

The General Rate

The general rate is a tool for funding those activities where we have decided that all or part of the cost of a particular activity should be funded by the community as a whole. We have the choice of one of three bases for setting a value-based general rate. These are land (unimproved value), capital value (land and improvements) or annual value (either rentable values or five percent of the capital value).

Capital and annual value tend to be better proxies for ability to pay and use of services than unimproved values. Capital and annual value are also thought to be less prone to sudden swings than unimproved values as location-based factors play a lesser role. On the other hand, to the extent that rates are a part of business cost structures, rating based on unimproved values can be more of an incentive for development. Annual value needs a large and active rental market to work effectively, and is not one of the more commonly used methods of apportioning the general rate.

We can use differential powers on our value-based rates i.e. charge one category of property a higher rate in the dollar than another. Differentials are a tool for altering the incidence of rates; they do not release new revenue in and of themselves. Use of differentials can create 'winners and losers' – it is therefore important that these policies are based on robust criteria.

We have in the past considered that general rates are the 'public good' component which is available to be enjoyed equally by the whole community. General rates also used to pick up short-falls in cost recovery. For example, using the libraries:

- the individual benefit is considered high,
- the community benefit considered medium
- general rate funds +80% as a significant increase in user fees will likely result in a drop-off in use

The Uniform Annual General Charge (UAGC)

The UAGC is a flat dollar charge per property, or separately used/inhabited part of a property. The UAGC is a device for mitigating the impact of high property values, it can also be used as a tool to shift the incidence of rates between groups of rate payers (for example rural vs. urban). It is a regressive tax (you pay the same amount regardless of income or wealth) – this is one reason why the legislation caps the use of this tool at 30%.

Targeted Rates

Targeted rates are devices for funding those activities where we have decided that:

- all or part of the cost of a particular activity should be met by particular groups of ratepayers; and/or
- there is some other advantage in funding the activity outside of the general rate.

We have access to a wide range of targeted rating powers including: property values (land value, capital value, annual value and the value of improvements). We can also set a targeted rate based on one or more of the following:

- a flat dollar charge;
- the number of separately used or inhabited parts of a rating unit;

- the number of water closets and urinals within the rating unit (pan charges);
- the number of connections the rating unit has to local authority reticulation;
- the extent of provision of any service to the rating unit by the local authority (where this is capable of objective measure and independent verification);
- the total land area of the rating unit;
- the total land area within the rating unit that is sealed, paved or built upon;
- the total area of land within the rating unit that is protected by any facility provided by a local authority; or
- the total area of floor space within the rating unit.

In addition to the above, we can set a targeted rate for water consumption based on the volume of water consumption (water metering).

We also can set:

- more than one targeted rate to fund a particular activity (for example, many rural local authorities with more than one water or sewage scheme set a rate for each scheme, some city councils charge a base water supply rate and an additional fire protection rate to fund water supply);
- a targeted rate to fund more than one activity (targeted works and services rates are a common example of this);
- a targeted rate over only some defined categories of property (such as a CBD rate for security patrols, street-cleaning or development or a tourism rate over commercial property). The bases for constructing the categories are defined in Schedule Two of the LGRA.
- a differential targeted rate – provided that the basis for constructing the categories is one of the matters listed in schedule two of the LGRA
- targeted rates using combinations of factors (a not uncommon use is to set a flat dollar charge and a value based rate)
- including a rate that uses different factors for different categories of property (so for example a targeted rate that is set on the basis of a flat dollar charge for residential property, a value based rate for commercial property and an area based rate for rural property)

Non-Rate Funding Tools

We also have the following non-rate funding tools available to us:

- user charges – a variety of powers exist, some set maxima on the levels of fees, others prescribe charging methods (for example dog registration fees);
- development contributions – a tool for recovering the capital costs that are imposed by growth from development;
- revenue from investments;
- asset sales – for example the sale of surplus land; and
- funding from third parties (including but not limited to central government – for example subsidies for roading).

Proposed Policy – from draft to adoption

The views of the community are vital to our success. Therefore, we would like to invite the community to provide submissions on the proposed amendments to the policies to assist us in the decision making process.

The submission process

Process	Date
Council approve statement of proposal and Revenue and Financing Policy for public consultation	2 December 2020
Consult the community (alongside the Long Term Plan 2021-31 and various policies)	16 March – 19 April 2021

Council hearing (volume of submitters will determine if the meeting is required to run for both days)	12 May & 13 May 2021 (if required)
Submitters to be advised of outcome of hearing	May/June
Adopt Policy	30 June 2021
Policy come into effect	1 July 2021

Where can I find more information?
You can download the Revenue and Financing Policy, Long Term Plan 2021-31 or any of the other documents at www.mpdc.govt.nz and you can view a copy of these documents at our offices or libraries.

How can I have my say?
We actively encourage the community to contribute to the formation of these important documents and it is easy to have your say. Simply make a submission on any/all draft documents (Policies on the Remission and Postponement of Rates, Long Term Plan 2021-31 or any of the other documents) and return it to us by 19 April 2021.

You can make a submission:

Online - through our website at www.mpdc.govt.nz
Email - submissions@mpdc.govt.nz
Fax - 07 884 8865
Written - you can simply write your submission as a letter and either drop if off at one of our offices or post it to: Submissions
PO Box 266
Te Aroha 3342

Note: Please be aware that submissions made to Council are public information. Your submission will be used and reproduced for purposes such as reports to Councillors, which are made available to the public and media.

If you advise in your submission that you wish to speak to your submission at the hearing on 12 May 2021, Council staff will contact you (please ensure to provide a day time contact) to arrange a time for you to speak at the meeting on 12 May 2021 (volume of submitters determines if the meeting will run 13 May also). If you advise on your submission that assistance is required Council is able to offer assistance with special requirements such as New Zealand sign language and audio visual mechanisms.

1. Office and library locations

- Te Aroha Council Office: Kenrick Street Te Aroha
- Te Aroha Library: Rewi Street, Te Aroha
- Morrinsville Area Office or Library: Canada Street, Morrinsville
- Matamata Area Office or Library: Tainui Street, Matamata

Any questions?
We are here to help - so if you have any questions about the Policies or the submission process please let us know. Just call us on 07 884 0060 and let our friendly Customer Services staff know you have a question about the Revenue and Financing Policy.

You must have your submission back to Council by 19 April 2021.