

# Changes proposed to Revenue and Financing Policy for inclusion in Long Term Plan

**Meeting:** Council Briefing  
**Date of meeting:** 9 December 2020  
**Reporting officer:** Sue Davidson, GM Sustainable Growth & Investment

## Purpose/Ngā whāinga

To discuss proposed changes to the draft Revenue and Financing Policy for inclusion in the Draft Long Term Plan which will go out for consultation

## Executive summary/Whakarāpopototanga

Councillors raised various issues at the previous meeting where we discussed the Revenue and Financing Policy that will be discussed further in the consultation document for the Draft Long Term Plan.

## Context/Horopaki

The Revenue and Financing Policy sets out how Council funds each activity it is involved in and why. Council is required to have this policy to provide predictability and certainty to customers about the sources and levels of funding. The Revenue and Financing Policy describes how Council funds its operating and capital expenses from the funding sources available to Council and why it chooses the various mechanisms to fund the operating and capital expenditure of Council.

For each of the activities, Council must consider the following steps:

- 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
- vi. The overall impact of any allocation of liability for revenue needs on the community.

Various issues were raised, and further information is now provided.

## Discussion/Ngā kōrerorero

1. New changes proposed specifically to be mentioned in the Consultation Document that if agreed would result in a change to the Final Revenue and Financing Policy adopted.

- a. Recycling Targeted Rate

It is proposed the recycling service will be changed so that yellow bags are no longer needed to be purchased for recycling. The Council will look to provide two crates to ratepayers, one for glass and the balance for other recycling. Any recycling taken to the transfer stations would not incur a charge. The recycling will be charged for by way of a targeted rate which is a same charge per property whereas currently it has been included in the general rate and rated by land value. There will be a

reduction in weekly costs for ratepayers as they will no longer have to purchase the yellow bags.

The analysis required as part of the proposed change to the Revenue and Financing policy is as follows:

<b>Council Service</b>	<b>Community Outcomes</b>	<b>Period of Benefit/ Distinct Funding</b>	<b>Distribution of Benefits / Exacerbator</b>	<b>Modification Funding Split</b>	<b>Funding Source Operating Capital</b>
Recycling/ waste minimisation	Healthy environment	Short & long term benefits  Distinct funding high benefit	Recycling helps sustainability  Recycling collection is of benefit to individuals as recycling disposed of  No charge at Transfer station for recycling has private benefit	Private 100%	Targeted rates  Grants & subsidies  Borrowing  Reserves  Development contributions

b. Safer Communities

It is proposed to collect rates on behalf of the Dargaville Community Development Board to support the Safer Dargaville campaign which includes the initial set up and ongoing management of CCTV, Dargaville Lighting project, and Community Patrols which would benefit the Dargaville, West Coast Central and Ruawai Tokatoka wards.

The analysis required as part of the proposed change to the Revenue and Financing policy is as follows:

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Safer communities	Prosperous economy  Trusted council	Short & long term benefits  Distinct funding high benefit	Safety benefits specific  Dargaville community  Wider rural community benefits as West Coast central ward and Ruawai adjacent to towns	Private 100%	Targeted rate

c. One Bucket System for Wastewater (Equalisation)

Currently Council operates a hybrid funding system for wastewater where operating costs are merged together, and capital costs are charged separately. Desludging is considered an operating cost even though it has longer term benefits. The current system is not being proposed as the rationale for the current system is not clear about sharing costs, not well understood and hasn't been applied uniformly.

The 2 options identified and being proposed for consultation are:

- i. Maintaining separate scheme rates for each of the water supply and wastewater schemes; or
- ii. Rating users across the district equally for each of water supply and wastewater activities

Scheme costs across the district vary as a result of relative age, size and technology used in each scheme. In the long run, all schemes will require large expenditure to renew aging componentry. Further, increasing environmental standards are continuing to place significant costs on individual schemes. The additional standards do not take cognisance of the ability of the respective community's affordability. The consequences are typically onerous and more so on the smaller schemes that do not have the ability to share the costs amongst a large number of users.

Councils preference is for having one bucket for all costs relating to wastewater. This is because each connection across the district receives the same (or very similar) service levels. That is, each connected user is able to flush their toilet, and dispose of wastewater, irrespective of the scheme they are connected to.

Unifying the cost of this service provision across the district therefore recognises the benefit received and enables:

- Expensive cyclical renewals or upgrades to be scheduled as required with costs being able to be distributed across a larger user base
- Spreading the risk associated with operating assets
- Avoiding any sudden changes in the level of funding required from specific groups of ratepayers
- Provide integrated management

The analysis required as part of the proposed change to the Revenue and Financing policy is as follows:

Council Service	Community Outcomes	Period of Benefit/ Distinct Funding	Distribution of Benefits / Exacerbator	Modification Funding Split	Funding Source Operating Capital
Wastewater	Prosperous economy  Climate smart	Short & long term benefits  Distinct funding high benefit	Public benefit is that harbours are kept clean  Public toilets  Private household benefits	Private 95%  Public 5%  Connectable - Council want sections in communities to be developed and connect	Targeted rates  Fees & charges  General rates  Financial & development contributions  Borrowing

				75% charge  Sections benefit in sale value so should be charges.  Note: 50% interest on Mangawhai outstanding development contributions included in general rates	Lump sum contributions Grants & subsidies
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The current wastewater connections compared with Option 1 charging the cost directly of each separate scheme is as follows:

	Connected charge 2020/21 \$	Option 2 Indicative 2021/22 LTP \$
Dargaville	920	621
Glinks Gully	1299	2859
Kaiwaka	1151	1560
Mangawhai	1357	1475
Maungaturoto	1259	1390
Te Kopuru	668	787

Indicative calculations of wastewater costs going forward under Option 2 equalised system

	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31
Option 1 Indicative	1035	1070	1112	1149	1169	1207	1261	1638	1682	1709

The benefits of charging one overall cost is that each household pays for the same service regardless of location and each community does not have a spike in costs when large capital or operating expenditure occurs in each area.

As examples there are planned wastewater capital projects in the LTP at these specific areas:

Te Kopuru	Treatment plant upgrade
Dargaville	Treatment plant and pump station upgrades
Kaiwaka	Wastewater renewals (higher than depreciation funded)
Maungaturoto	Connecting rail village

d. One Bucket System for Water (Equalisation)

Currently Council operates a hybrid funding system for water where operating costs are merged together, and capital costs are charged separately to each community as water by meter. There is a fixed charge component to each scheme. The current system is not being proposed as the rationale for the current system is not clear about sharing costs and is not well understood.

The 2 options identified and being proposed for consultation are:

- i. Maintaining separate scheme rates for each of the water supply and wastewater schemes; or
- ii. Rating users across the district equally for each of water supply and wastewater activities

Scheme costs across the district vary as a result of relative age, size and technology used in each scheme. In the long run, all schemes will require large expenditure to renew aging componentry. Further, increasing environmental standards are continuing to place significant costs on individual schemes. The additional standards do not take cognisance of the ability of the respective community's affordability. The consequences are typically onerous and more so on the smaller schemes that do not have the ability to share the costs amongst a large number of users.

Councils preference is for having one bucket for all costs relating to water. This is because each connection across the district receives the same (or very similar) service levels. That is, each connected user can turn on a tap for a potable water supply irrespective of the scheme they are connected to.

Unifying the cost of this service provision across the district therefore recognises the benefit received and enables:

- Expensive cyclical renewals or upgrades to be scheduled as required with costs being able to be distributed across a larger user base
- Spreading the risk associated with operating assets
- Avoiding any sudden changes in the level of funding required from specific groups of ratepayers
- Provide integrated management

The analysis required as part of the proposed change to the Revenue and Financing policy is as follows:

Council Service	Community Outcomes	Period of Benefit/ Distinct Funding	Distribution of Benefits / Exacerbator	Modification Funding Split	Funding Source Operating Capital
Water	Prosperous economy	Short & long term benefits  Distinct funding high benefit	Access to safe drinking water  Assured supply of fire fighting  Water for public toilets  Private household benefits	Private 100%  Connectable - want sections in communities to be developed and connect 75% charge  Sections benefit in sale value so should be charges	Fees & charges  Targeted rate  Financial & development contributions  Borrowing  Lump sum contributions

The current water by meter connections compared with Option 1 charging the cost directly of each separate scheme is as follows:

	Connections	20/21 First Then subsequent m3 \$	21/22 separate systems	21/22 equalised
Dargaville	2283	124 2.96	560 1.85	380 3.20
Glinks Gully	79	365 1.55	252 17.42	380 3.20
Mangawhai	20	124 3.67	964 11.99	380 3.20
Maungaturoto	455	285 4.24	916 4.24	380 3.20
Ruawai	242	228 5.45	461 7.11	380 3.20

Indicative calculations of water by meter costs going forward under Option 2 equalised system

	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31
Option 1 Indicative	2.83	3.01	3.33	3.37	3.47	3.59	3.66	3.74	4.03	4.12

The benefits of charging one overall cost is that each household pays for the same service regardless of location and each community does not have a spike in costs when large capital or operating expenditure occurs in each area.

As examples there are planned water capital projects in the LTP at these specific areas:

Dargaville	Water storage project
Dargaville, Maungaturoto, Ruawai, Glinks Gully	Watermain renewals (higher than depreciation funded)

## 2. Specific Queries Council asked of staff:

- **Septic Tanks** – Councillors wanted to understand where the able to be connected properties were within the District which got a 75% connection charge

Where 75% connectable charge	Number of Properties	
	Vacant	Developed
Mangawhai	400	96
Maungaturoto	28	9
Dargaville	135	18
Glinks Gully	1	
Kaiwaka	8	8
Te Kopuru	22	3

Data does not support changing the 75% in this current environment where sections can be sold quickly to be developed

- **Forestry Rate** – amount charged 2020/21 was \$407,349 The previous 5 years \$390,000 was charged.

Cost of maintenance of forestry roads:

Year	Heavy metalling Rehabilitation of Forestry roads (000s)
2013-14	625 (243) after subsidy
2014-15	1,080 (421)
2015-16	849 (331)
2016-17	1,545 (602)
2017-18	1,918 (748)
2018-19	534 (208)
2019-20	431 (168)

This data shows the correct impact has been charged to forestry owners using Council's current model. The figures support the claim that forestry harvesting has reduced and impact on the roads has been lowered and therefore support lowering the rate to \$250k targeted total rate take. This would shift the difference to general rates.

This rate is in place till 2027. I need Council to give guidance on this so I can prepare a resolution for the Council meeting.

- **Harmonising the rates for the revaluation** – this adds further complexity. Given that any harmonising would be based on location any properties that fall outside of the average valuation movement could see unexpected results. Responses received from other authorities indicated they made no provision for this

Key concept is that rates are a tax and if you have a higher value home then you pay more rates.

It is not recommended to introduce another rate which would be extremely difficult to administer at this time.

Guidance is sought on this. A proposed option could be to look at this and capital value as potential new introductions to the rating system for analysis at the next LTP.

### **Policy and planning implications**

This is a policy required to be reviewed by the Local Government Act 2002.

### **Financial implications**

The proposed changes to the Revenue and Financing policy will impact on the distribution of the rates across the community.

### **Risks and mitigations**

Council must ensure it follows the Local Government Act 2002 when it completes the analysis.

### **Significance and engagement/Hirahira me ngā whakapāpā**

The decisions or matters of this report do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda on the website.

Consultation will occur as part of the draft Long Term Plan consultation.

### **Next steps/E whaiake nei**

These changes and specific consultation issues will be included in the draft Long Term Plan.

Sue Davidson, 23 November 2020