

Appendix 3: Changes to Revenue and Financing Policy

MINOR VARIATIONS TO THE REVENUE AND FINANCING POLICY

Details of the Proposal

The Revenue and Financing Policy adopted by Council as part of its 2009-19 Long Term Council Community Plan (LTCCP) sets out how it intends to fund operating and capital expenditure. It is an important policy because it sets out who pays for Council services, and how those services will be paid for.

In setting out what funding sources Council has decided upon for each activity the Revenue and Financing Policy specified bands of funding sources. For example, the funding sources for Public Transport Infrastructure operational expenditure were set out as:

Funding sources	
	Operating cost
User charges	10-20 %
Other revenue	10-20 %
Targeted rate	
General rate and corporate revenues	70-80 %

This method of disclosing the funding sources used to meet the operating expenditure of each activity is both clear and informative. It is also very specific, and therefore changes in Council's circumstances from year to year, and the resulting budget amendments, can result in changes in the Revenue and Financing Policy.

For example, the indicative funding band for Energy Conservation, for the 'general rates and corporate revenues' funding source, was "0 – 10%". However, changes in the NZ dollar to Euro foreign exchange rate mean the contract for the sale of carbon credits is returning greater New Zealand dollar revenue than forecast during the LTCCP. This means that the activity is generating a surplus which now reduces the general rate requirement and means that "0 – 10%" funding from general rates and corporate revenues is no longer appropriate for 2011/12.

In this example, the minor variation to the Revenue and Financing Policy for the Energy Conservation activity would be:

Funding sources	
	Operating cost
User charges	90-100% 100-110%
Other revenue	
Targeted rate	
General rate and corporate revenues	0-10% -10 to 0%

Where, as a result of budget changes, the 2011/12 funding sources do not align with bands published in the 2009-19 LTCCP it is recommended that Council update the percentage funding bands for affected activities.

These changes are set out in the following table and do not reflect a change in the Council's determination of appropriate funding sources for each activity.

The proposed minor variations are:

LTCCP (Volume 2) as amended by the 2010/11 Annual Plan

Activity	User charges	Other revenue	Targeted rate	General rate and corporate revenues	Explanation
Heritage Protection	10-20% 0-10%			80-90% 90-100%	Earthquake damage to heritage sites has reduced the revenue able to be generated by this activity, increasing its reliance on rates revenue.
District Plan	5-15% 0-10%			85-95% 90-100%	Costs for the Central City Plan along with an expected reduction in the number of Private Plan Changes requests result in a change in the proportion of the District Plan activity that is funded from General Rates.
Energy Conservation	90-100% 100-110%			0-10% -10 - 0%	Changes in the NZ\$-Euro exchange rates mean the contract for the sale of carbon credits is returning greater NZ dollar revenue than forecast during the LTCCP.
Civil Defence Emergency Management	0-10%	80-90		00-100% 0-10%	Civil Defence expenditure includes \$18 million of welfare expenditure on the provision of temporary facilities such as portable/chemical toilets and individual septic tanks which is fully recoverable from the Ministry of Civil Defence. There is also reduced depreciation charges resulting from the delayed start in building the new Civil Defence Building. This has resulted in a change in the proportion of the District Plan activity that is funded from General Rates.
Early Learning Centres	10-20% 20-30%	70-80%		10-20% 0-10%	Expenditure and revenue has been reduced to reflect the closure of both the QEII and Tuam St Early learning centres during 2010/11 following the February earthquake. Also, changes to Government subsidies have resulted in a change in the proportion of the District Plan activity that is funded from General Rates.
Libraries	0-10%	0-10%		80-90% 90-100%	Libraries revenue is lower due to the Central Library being closed to the public. This has resulted in a change in the proportion of the District Plan activity that is funded from General Rates.
Public Participation in Democratic Processes	10-20% 0-10%			80-90% 90-100%	In local government election years Council receives funding from the Canterbury District Health Board to administer their Board elections. This funding was received in 2010/11, but will not be received in 2011/12, changing the percentage of funding required from General rate and corporate revenues.

Cemeteries	75-85% 50-60%	0-10%		15-25% 40-50%	A decline in the number of burials in the Council cemeteries means that a greater proportion of the costs of maintaining the Cemetery Parks will need to be funded by ratepayers.
Neighbourhood Parks	0-10% 0-10%	0-10%		90-100% 80-90%	Earthquake related insurance recoveries means that a portion of funding will be received through Other Revenue.
Waterways and Land Drainage		10-20%	100% 80-90%		Earthquake related insurance recoveries means that a portion of funding will be received through Other Revenue.
Recreation and Sports Services	40-50% 35-45%	0-10%		50-60%	Both the QEII Park Recreation and Sport Centre and the Centennial Recreation and Sport Centre are closed to the public. This has reduced the proportion of funding for this activity that comes from User Charges.
Events and Festivals	20-30% 10-20%	20-30% 10-20%		50-60% 60-70%	Costs have increased since the original LTCCP due to a one off cost in 2011/12 relating to the Rugby World Cup and Iconic events funded from the Capital Endowment Fund, an increase to the Events and Festival fund, and minor increases to funding for other in-house events and festivals to maintain the existing programme. This has changed the percentage of funding required from General rate and corporate revenues.
Recyclable Materials Collection and Processing	0-10% 10-20%		90-100% 80-90%		The uptake of enhanced bin services, which are funded through user charges rather than rates, has been higher than was originally modelled in the LTCCP.
Residual Waste Collection and Disposal	20-30% 10-20%			70-80% 80-90%	The council receives revenue through the Waste Minimisation Levy which is intended for the purpose of reducing waste disposed to landfill. In the LTCCP this was included under Residual Waste activity, but is now included under the Organics activity to better reflect the intent of the levy income.
Organic Material Collection and Composting Activity	10-20% 20-30%	0-10%	80-90% 70-80%		The council receives revenue through the Waste Minimisation Levy which is intended for the purpose of reducing waste disposed to landfill. In the LTCCP this was included under Residual Waste activity. Also, the uptake of enhanced bin services, which are funded through user charges rather than rates, has been higher than was originally modelled in the LTCCP.
Enforcement and Inspections	80-90% 40-60%			10-20% 40-50%	Activity expenditure is higher due to increases in staff and operational costs relating to cordon management, liquor licensing, health licensing and noise control. Also, revenue is lower than the LTCCP due to less parking infringement and court recoveries revenue. The net result is an increase in the proportion of activity costs that must be funded through rates.

Parking	150-160% 60-70%			-50--60% 30-40%	Parking revenue has been greatly reduced by the earthquake.
Public Transport Infrastructure	0-10%	10-20% 0-10%		70-80% 90-100%	Commercial rent revenue from temporary tenants of the site for the new Transport Interchange has been lost, along with NZTA subsidies for the Bus Exchange operation. This has increased the proportion of this activity is funded by ratepayers.
Road Network	0-10%	10-20% 20-30%		80-90% 70-80%	Earthquake related NZTA subsidies has increased the proportion of this activity funded through Other Revenue.
Wastewater Collection		40-50%	100% 50-60%		Earthquake related insurance recoveries means that a portion of funding will be received through Other Revenue.

AMENDMENT TO THE REVENUE AND FINANCING POLICY

Details of the Proposal

It is proposed that the Council amends its Rating Policy and Revenue and Financing Policy to set a fixed differential factor for the calculation of differential rates for business properties.

Reasons for the Proposal

In its Long Term Council Community Plan 2009-2019 the Council determined that all activities except for Streets activities should be funded from the General rate on a straight capital value basis. This means that, in general, the liability of a ratepayer for General rates to fund Council activities will be determined purely by the capital value of their property.

The exception to this is the Streets activity. Analysis by the Council shows that the majority of expenditure on maintaining the City's streets and roadways is incurred because of the movement of heavy vehicles. The movement of cars causes comparatively little damage. The business sector is the primary cause of, and beneficiary of, heavy traffic movements. Therefore, 55 per cent of the cost of maintaining streets and roads was allocated to the business sector. As a result the business sector pays more general rates per dollar of capital value than residential ratepayers.

For the 2010/11 Rating year the differential factor for business properties was 1.660, meaning that for every dollar of capital value a business ratepayer would pay 66% more general rates than a residential and other property (when all rates are included the difference between business and residential is 1.445:1).

The business differential factor changes each year as the cost of the Streets activity changes. In particular, the business differential factor is influenced by three yearly revaluations to Streets assets (carriageways, kerb and channel, bridges, and other roading structures). These revaluations can change the depreciation expense charged to the Streets activity. Depreciation is an accounting construct rather than a cash cost, but the current method of calculating the differential factor results in significant year on year movements in the factor being caused by asset revaluations. Additionally, for the 2011/12 financial year the budgeted cost of the Streets activity has been effected by the February earthquake.

It is proposed the Council fixes the business differential factor to ensure that the incidence of rates increases is approximately even across all types of ratepayers.

Over the long-term the Council will continue to allocate approximately 55 percent of Streets activity costs to business ratepayers, but the differential used will be set at a fixed factor for each three-yearly Long Term Plan period. For the 2011/12 rating year it is proposed that the differential factor be set at the same level as the differential factor used for 2010/11.

Setting a fixed differential in this manner will eliminate the year-on-year movements in the differential which can cause significant swings in the incidence of rates increases faced by business and residential and other ratepayers. A variable differential factor can also result in significant swings in the incidence of total rates each year. Ultimately, setting the differential in the manner proposed will make it simpler for ratepayers to plan ahead for rates increases and set their budgets accordingly.

Financial Considerations

The proposal to set a fixed general rate differential factor for business ratepayers will not change the total amount of rates collected by the Council.

There would be no additional costs incurred by the Council if it adopted this proposal.

Options

Two options were considered in developing this proposal:

1. Status Quo – maintaining the existing method of calculating the differential factor for business ratepayers

Continuing the status quo method of calculating the differential factor would result in a differential of 1.475 in 2011/12. This compares to 1.660 in 2010/11.

Based on this differential the impact of 2011/12 proposed rates on a range of example properties would be:

Rates Payable		2010/11	2011/12 Draft AP	
Capital Values		Rates (incl. GST 15%)	Rates (incl. GST 15%)	TOTAL
Residential		\$	\$	% change
300,000		1,261	1,367	8.4%
383,000	Average Capital Value	1,541	1,677	8.9%
400,000		1,598	1,741	8.9%
500,000		1,935	2,115	9.3%
1,000,000		3,618	3,985	10.2%
Business				
300,000		1,702	1,735	1.9%
400,000		2,185	2,231	2.1%
500,000		2,669	2,728	2.2%
1,000,000		5,087	5,212	2.5%
Rural				
(not water, sewerage, or drainage rates, but includes part waste minimisation rate)				
300,000		719	793	10.4%
400,000		886	987	11.4%
500,000		1,053	1,181	12.1%
1,000,000		1,888	2,148	13.8%

2. Fixed differential factor – retaining the 2010/11 differential factor for business ratepayers

Retaining the 2010/11 business differential factor would fix the factor at 1.660. This will ensure that the incidence of rates increases more evenly spread across all types of ratepayers, and based on this differential the impact of 2011/12 proposed rates on a range of example properties would be:

Rates Payable		2010/11	2011/12 Draft AP	
Capital Values		Rates (incl. GST 15%)	Rates (incl. GST 15%)	
			TOTAL	
Residential		\$	\$	% change
	300,000	1,261	1,342	6.4%
	383,000 Average Capital Value	1,541	1,645	6.8%
	400,000	1,598	1,707	6.8%
	500,000	1,935	2,073	7.1%
	1,000,000	3,618	3,901	7.8%
Business				
	300,000	1,702	1,836	7.9%
	400,000	2,185	2,366	8.3%
	500,000	2,669	2,897	8.5%
	1,000,000	5,087	5,548	9.1%
Rural				
(not water, sewerage, or drainage rates, but includes part waste minimisation rate)				
	300,000	719	774	7.7%
	400,000	886	962	8.5%
	500,000	1,053	1,149	9.1%
	1,000,000	1,888	2,085	10.4%