Review of revenue and financing policy

Otago Regional Council

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Contents/Agenda

- Background on revenue and financing policies
- Introduction to key considerations
- Results of a review of regional council revenue and financing policies
- Case studies
- Principles that may guide our application of legislative tests

What is a revenue and financing policy?

A revenue and financing policy is a policy, required under legislation, that sets out a council's approach to funding its capital and operating expenditure.

The policy outlines how funding tools such as targeted rates, general rates, user fees, reserves and debt will be used in relation to the activities carried out by the council.

It must show how the council has applied the statutory funding principles.

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Annual rates resolution

- A local authority's formal legal decision to impose specific rates on a community. Creates the obligation to pay.
- Each rate must be set in accordance with the relevant funding impact statement and long-term plan.
- Other detailed legal requirements concern process and content.

Annual funding impact statement

- Detailed explanation to the community of what rates will be charged, how they will be calculated, and what they will be used for. Ratepayers should be able to work out what they will pay from this document.
- Detailed legal requirements on content.

Long-term plan, including revenue and financing policy

- What council intends to do and how it will go about it for the next 10 years. Finalised after consulting the community.
- Revenue and financing policy states different sources of funding the council will use.
- Detailed legal requirements on process and content.

Section 101(3) of the Local Government Act

The outcomes contributed to	Whether benefits are distributed across the community or to identifiable parts	The timeframe over which benefits accrue
Whether the activity is caused by individuals or identifiable groups	Costs and benefits of funding separately	The overall impact on current and future wellbeing

Case law

- *Auckland Council v CP Group Limited (Supreme Court)*
- *NZ Forest Owners Association v Wairoa District Council*
- *Wellington City Council v Woolworths New Zealand Ltd*

- No one criteria is more important than the other
- Councils have broad discretion as to the rating system they apply
- There does not need to be an exact equivalence or close correlation between the benefit and the rate imposed
- It is important to have a clear process
- The rates decision making process is not a user-pays system

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What funding tools exist?

Operational

- Users fees and charges
- Grants and subsidies
- Investment income
- Reserves
- Rates
  - Targeted
  - General
  - Differentials, annual charges, different calculation bases

Capital

- Loans
- Reserves
- Depreciation
- Grants and subsidies
- Financial contributions
- Investment income

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What are the principles that should guide ORC's policy?

- Fairness
- Equity or equality?
- Sustainability
- Efficiency and simplicity
- Incentivized
- Consistency
- Affordability
- Accountability
- Community outcomes
- Transparency
- Exacerbator pays
- Beneficiary pays

General comments on revenue and financing policies

Length	Ranges from 3 pages through 49 pages in councils we reviewed
Complexity	Ranges from explicitly addressing each legislative criteria with detailed description through to summary of outcomes
Quality	Huge range, partially linked to length
Specificity	Range from broad “High medium low” type categories, to specific percentages

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Comparing outputs

Activity	Regional Councils	ORC
Biosecurity/pest management	From 100% general, to 55% targeted. Differentials and UACs also used to varying degrees	100% targeted rate based on land value
CDEM	Ranges from 100% targeted to 100% general rate. Geographic targeted, differentials and UACs used to varying degrees	100% targeted rates, uniform
Public Transport	Predominantly targeted rates, typically between 25 – 100%. User fees generally around 15 – 25% with some limited exceptions	Subsidies and fares. Targeted rate for remainder

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Comparing outputs

Activity	Regional Councils	ORC
Flood protection, rivers and drainage schemes	Ranges from up to 60% general rate through to up to 100% targeted Mixture of UACs and differential land value rates	Up to 17% general rates, with remainder typically targeted Varies between schemes
Harbour management	Ranges from 60 – 100% general rate Remainder mainly fees and charges Mixture of UAGC and land/capital value rates	100% General funds, with subregional differentials
Resource consents	Expectations range from 50% to 100% fees and charges May depend on how activity is broken up No targeted rates	100% user fees and charges for application processing (target of 50% from consents activity) Remainder general rates

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Reasons used for different funding approaches

- Targeted rates often used for “transparency and accountability” – is this the only way to achieve that?
- A lot of emphasis on beneficiary pays principles
- Consideration of timeframes generally appears tokenistic in most policies
- Consideration of alignment to outcomes typically not relied upon
- Grouping of activities with similar outcomes rare
- Exacerbator pays principle used, but less commonly than beneficiary
- 101(3)(b) test rarely results in a change in policy settings

Other key statistics

	Regional Councils	ORC
Number of rates (includes general and UAGC)	Average: 17 Range: 8 -32 – most near average	17
Number of individual rating codes/values	Average: 182 Range: 13 – 483 – largely driven by scheme rates	About 100
% of rates revenue from targeted rates	Average: 51% Range: 25% - 100%	51%
% of rates based on a per rating unit/SUIP basis	Average: 29% Range: 0 % - 74%	20%
% revenue from user fees	Average: 19% Range: 6% - 44%	8%
% of targeted rates that are not differentiated	Average: 10% Range: 0% - 42%	13%

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Ruapehu District Council

- Had a number of water and wastewater schemes that were charged individual targeted rates, based on the costs of each scheme
- Identified that required maintenance and upgrades of some schemes (particularly smaller schemes) would result in unaffordable rates increases
- In 2018 Council proposed a shift to a district wide rate for water and wastewater – this spread the costs and evened out the “lumpiness” of investment in water and wastewater services. The rate was levied on users of water and wastewater services only

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Ruapehu District Council impact of decision

Scheme	Rate per SUIP 2017/18	Rate per SUIP 2018/19
Ōhura	$1,494	$656
Taumarunui	$598	
Ōwhango	$593	
National Park	$883	
Raetihi	$703	
Ohakune	$473	
Waiouru	$732	

- These impacts are before any of the major future capital works costs had taken effect
- The 2018/19 rate also includes the impact of any increase in rates for the year (the average increase was 3.76%)

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What does the future for local government review say?

Council's see themselves supporting intergenerational wellbeing as much as providing physical infrastructure, and many are keen to grow their local role as an anchor institution in their communities.

The principles are that the local government revenue system should be:…workable… fair… sustainable… incentivized… consistent (DRAFT report)

Changes to funding, the structure of local government, and legislative frameworks is not enough to realise a new fit-for purpose system. There needs to be more innovation, experimentation and learning along with collaborative approaches.

The current funding and financing approach is not sustainable in the context of complex wellbeing challenges and increasing community expectations

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Local government is evolving

There is plenty from the future for local government draft report that we can just get on with

In order to support a wellbeing approach, we need to ensure our funding is fit for purpose

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What does it all mean?

There is no silver bullet or correct approach

Councils can apply a broad range of discretion in developing revenue and financing policies

No two councils are the same across the board

Decisions must be guided by some underlying principles

Community outcomes

- How would consideration of community outcomes alter our assessment of beneficiaries and exacerbators?

Activity	Community outcome/goal
Public transport	**Sustainable, safe and inclusive transport** *"Otago's people transition away from fossil-fuel private cars, and increasingly choose to travel by bus, on foot, or on a bike"*
Flood protection	**Communities that are resilient in the face of natural hazards & climate change and other risks** *"Otago's people and communities are well equipped to respond to emergency events…"*

What are the principles that should guide ORC's policy?

- Fairness
- Equity or equality?
- Sustainability
- Efficiency and simplicity
- Incentivized
- Consistency
- Accountability
- Affordability
- Transparency

Equity considerations

"the quality of being impartial"

- ***Vertical equity -*** *Those with greater means to pay, pay a greater share*
- ***Horizontal equity*** - *Those with similar circumstance contribute a similar amount*
- ***Intergenerational equity*** *– people that reap the benefits of investment/expenditure should be the people that pay*

Fairness

"the quality of being reasonable, right, and just"

What does a fair funding system look like?

Equitable ⟷ **Equal**

- Communities or people with higher need are supported by those with lower need (Vertical equity)
- People that have access to the same, pay the same (Horizontal equity)

- Everyone only pays for the service that benefits them?
- People that create the need for a service are the only people that pay?
- Everyone pays the same?

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Transparency

"quality of being easily understood or recognised"

What does a transparent funding system look like?

Transparent accounting ⟷ **Transparent communication**

Transparent accounting

- A separate targeted rate for every activity
- Every rate has a clear purpose

Transparent communication

- I can see where my money is spent
- I can understand how my rates are set

Accountability

"If you are accountable to someone for something that you do, you are responsible for it and must be prepared to justify your actions to that person"

What does an accountable funding system look like?

Direct accountability ⟷ **Indirect accountability**

- Every dollar is only used for the purpose it was collected for

- I have confidence that public money has been used responsibly

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Simplicity and efficiency

"to accomplish something with the least waste of time and effort; competency in performance"

What does a simple and efficient funding system look like?

- Easy to administer?
- Easy to understand?
- Fewer targeted rates?
- Fewer ways of calculating
  (e.g. Land value, capital value, fixed charge, land area)?

Sustainability

"the ability to be sustained, supported, upheld, or confirmed"

What does a sustainable funding system look like?

Affordability	Sustainability
• Meets the funding needs of today	• Is affordable for future generations • Intergenerational equity

What are the challenges that the residents of tomorrow will face?

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Consistency

"constantly adhering to the same principles, course, form, etc."

Does not mean "same amount"

What does a consistent funding system look like?

Regionally consistent ⟷ **Locally consistent**

Regionally consistent

- Activities are funded the same way across the region
- The amount of rates charged is consistent across the region

Locally consistent

- Different funding approaches may be adopted, but are consistent at a local level
- Amounts charged relate to service levels and may vary considerably

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Incentivised

"the system produces incentives to act one way or another"

What does an incentivised funding system look like?

Low incentives | **High incentives**

- Attaches financial penalty to actions or activities that can't be changed
- Assumes all owners of properties with same use or characteristics act the same way

- Rewards good behaviour
- Penalises bad behaviour
- Clear correlation between charges and behaviour

How do we use this?

This will help inform our approach when dealing with judgement calls, and the s101(3)(b) tests...

Targeted rates	• Could be used to achieve horizontal equity by ensuring only those with access to a service pay • Could be used to achieve transparency or accountability
General rates	• Could be used to support equality by ensuring all property owners are charged on same basis • Could be used to support vertical equity by spreading funding over a larger population
UAGC/Fixed charges	• Supports equality as everyone pays the same amount • Can be used to address affordability or fairness where the funded service has little relationship with property value
Debt/Reserves	• Could support intergenerational equity for long term expenditure • Can address immediate affordability issues at expense of sustainability
Fees/Charges	• May be used to create incentives to discourage (or encourage) certain behaviour • May be efficient for services with strong link between cost and demand/use

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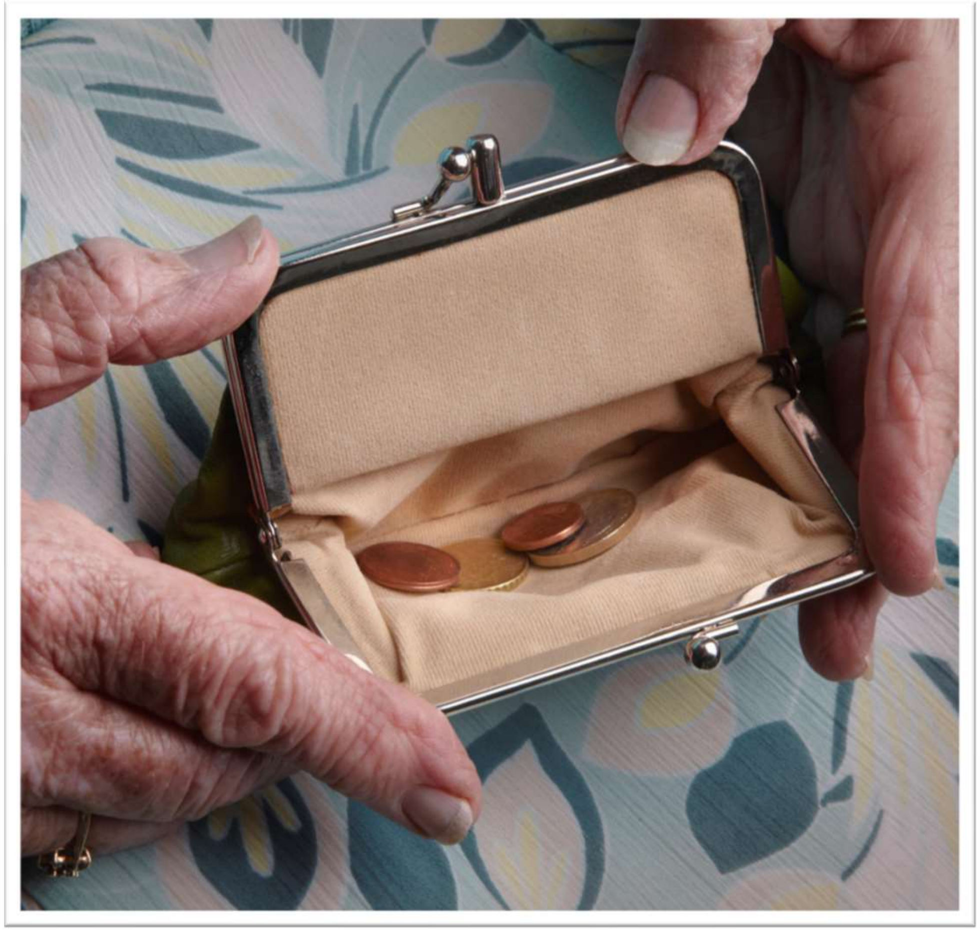
Affordability

The next step is determining affordability and impacts on the four wellbeings.

- How can we measure affordability?
- How do our funding settings influence wellbeing?
- What is relevant for s101(3)(b) and the preamble to Te Ture Whenua Māori?



Measures of cost

What are we measuring....

- Targeted rates, total rates, general rates?
- Level of granularity
  - Quartiles, Deciles, Percentiles?
  - Regional, Catchment, local?
  - Land use?
  - Time period – just next year, or in ten years time?
- Cost, percentage increase, or both?

What are we comparing with?

- Land value
- Capital value
- Improvement value
- Deprivation index
- Household income
- Household disposable income
- Pension, Jobseeker support, minimum wage
- Average weekly or annual rental
- Regional GDP

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Other relevant considerations

- How do the funding settings we have influence achievement of wellbeing?
  - Will they discourage or encourage behaviour?
  - Will they improve social or cultural outcomes?

- Our information sources are not always perfect...
  - Anything relying on census data is 5 years old, and the 2018 census was not reliable for some communities or demographics
  - Using property values as a measure of wealth is potentially flawed
  - Some of our data is not available at the level we need
  - Deprivation index is not perfect either – this looks at residents not ratepayers for example