REPORT 2
(1215/52/IM)

REPORT OF THE FUNDING AND ACTIVITY REVENUE POLICY WORKING PARTY

2006 DRAFT REVENUE AND FINANCING POLICY

1. Purpose of Report

This report presents the recommendations of the Funding and Activity Review Working Party on the Council's Draft Revenue and Financing Policy.

2. Background

2.1 Why is a review of the existing policy required?

In 2004 the Council adopted its first Revenue and Financing Policy in compliance with the Local Government Act 2002. This policy superseded the 2001-2004 Funding Policy from 1 July 2004, which while fulfilling a similar purpose was prepared using a different process and under previous legislation.

While the principles and processes on which the 2004 Revenue and Financing Policy was formulated are in the main still relevant and appropriate, the Local Government Act dictates that any amendments to the Revenue and Financing Policy must be reflected as an amendment to the Long Term Council Community Plan (LTCCP).

The Council is preparing a new LTCCP for the period beginning 1 July 2006. The LTCCP will cover the next three years in detail and provides projections for the following seven years which must be consulted on through the special consultative procedure. It is necessary that the Revenue and Financing Policy is reviewed and consulted upon as part of this process.

2.2 The Working Party

At its meeting on 13 October 2005 the Strategy and Policy Committee agreed to the establishment of a working party to:

i) Guide officers in the review of the Revenue and Financing Policy as it applies to all activities and recommend any changes to the Strategy and Policy Committee.
ii) Provide a strategic overview to officers as they undertake 'year one' of the detailed activity review process.

This report relates to part (i) of the Working Party terms of reference, a copy of which is attached to this report as Appendix 1.

3. Recommendations

It is recommended that the Committee:

1. *Receive the information.*

2. *Adopt the "Guiding Principles" as contained in Appendix 2 as the fundamental principles on which the Revenue and Financing Policy be based.*

3. *Note that adopting these guiding principles results in two changes to the 'business as usual budgets' to be presented in Report 5.4. These changes (which have no effect on total rates) are:*
   - *i) An increase in the cost of the CBD weekend parking project(C105B) to reflect the true value of the free weekend parking subsidy from $0.45 million to $1.21million,(offset by an increase in Parking project revenue).*
   - *ii) The inclusion of a cost of capital charge on the City Housing project to reflect the true cost of the activity (offset by notional income in the Other Income section of the Council operating statement).*

4. *(a) Resolve that the General Rate differential to be reached by 2009/10 remains at 2.8:1, noting that the impact of the move from a differential of 4.9:1 to 4.4:1 for 2006/07 is likely to be offset by the greater proportional increase in the value of the commercial sector over the residential sector.*
   (b) Affirm that the shift to this target should be managed to ensure that a smooth transition is achieved.

5. *Adopt the activity funding changes incorporated in section 4.2 C of this report.*

6. *Note that changes to fees and charges resulting from Revenue and Financing Policy decisions will be addressed in Report 5.3.*

7. *Recommend to Council that it revise the minimum qualifying criteria for its Open Space Rates Remission Policy from 40 hectares to 30 hectares.*

8. *(a) Recommend to Council that the Draft Revenue and Financing Policy, attached as Appendix 3 be adopted as part of the Draft Long Term Council Community Plan 2006 -16; and*

   (b) Authorises the Chief Executive to make any minor editorial changes that are required as part of the preparation of the publication.

4. Executive Summary

4.1 Overview

In 2004 the Council adopted its first Revenue and Financing Policy under the Local Government Act. The Council has made some minor revisions to this policy in the last two years (for example the inclusion of Development Contributions).

While the existing policy remains compliant with the Local Government Act it is appropriate to review the existing policy and incorporate any changes into the Council's draft 2006 LTCCP.

In recognition of the fact that the foundations on which the existing Policy is based remain sound and in recognising the need for balance in regard to impact on ratepayers the Working Party has taken a moderate approach to the review of the policy. As a result any changes recommended have a relatively minor effect on the distribution of rates across the community.

The Working Party consisting of Councillors Alick Shaw (Chair), Robert Armstrong, Andy Foster and Celia Wade-Brown and officers met on nine occasions between October 2005 and February 2006 to review the existing Revenue and Financing Policy and recommend any changes to the Strategy and Policy Committee.

4.2 Process & Review Findings

In reviewing the existing Revenue and Financing Policy the Working Party has followed the four stage process as used in preparing the 2004 policy and prescribed within the Local Government *Know how* guidelines.

The Working Party report traverses the issues and makes recommendations in relation to each stage of the process as follows:

A. Establishing the guiding principles

These principles set the framework by which the Working Party has made its funding recommendations. They have played an important part in ensuring consistency in the way the Working Party has determined who benefits from, and who should pay for a particular Council activity. The *'guiding principles'* are attached as Appendix 2 to this report.

Key changes/additions recommended to guiding principles include:

- Having first considered issues of affordability and 'ability to pay', where the market dictates, policy user charge targets for a particular activity may be set at a level exceeding 100% of the cost of the activity. *This has been included to align the Policy with the practice of market pricing e.g. in Quarry and Parking activities.*

- Where an equivalent service to that incorporated in a Council activity is provided by the private sector a full cost of capital will be charged against that activity to reflect the opportunity cost of the investment (e.g. City Housing). *Note that this has no rates impact as offsetting income foregone is reflected in Council corporate income.*

- Each year the Council receives funding from Land Transport New Zealand as part of the overall replacement and renewal programme for the City's roading infrastructure. The Council recognises the subsidies as income in accordance with GAAP. As the subsidies are received for capital purposes, they cannot be used to offset the rates requirement. Therefore the Council shall recognise a surplus equivalent to the amount of LTNZ subsidies for capital purposes, to be applied against funding the depreciation expense that results on completion of the associated asset.

- Recognising that the Council is now required to inflation adjust all income and expenditure beyond year one of its LTCCP, where appropriate and with consideration to 'ability to pay' principals, user charges will be increased by the rate of inflation to achieve continued alignment with the proposed funding policy targets.

B. Confirming activities

Before assessing the funding rationale of each activity it was necessary to ensure that the *strategy tree* linkages between outcomes, activities and projects were robust.

This work was primarily undertaken through the strategy reviews with revisions following the completion of internal business planning and the identification of priority responses. As a result only minor adjustments in the alignment of projects to activities were required through this review. These were in instances where the funding rationales between projects within the same activity were inconsistent.

Strategy trees are contained in the body of report 5.4 of this agenda.

C. Establishing the funding sources for each activity

The Working Party has reviewed each of the Council's activities based on the foundations contained in the *guiding principles*. The proposed funding for the majority of the Council's activities is unchanged from that reflected in the existing Revenue and Financing Policy.

The reasons that under pin the changes the Working Party has recommended can be divided in four categories:

i) Changes to reflect consistency with the funding philosophy contained in the revised *'Guiding Principles'*

There are a small number of activities for which the Working Party recommends the funding rationale be revised on the basis of achieving consistency with other like activities and with the '*Guiding Principles'*. The policy changes recommended on this basis are as follows:

Activity	Existing policy	Proposed policy	Comment
2.4.1 Vehicle network	70% other revenue 30% general rates	5% other revenue 95%general rates	Adjusted to reflect removal of LTNZ transport capex funding from operating project revenue.
2.4.2 Cycle network	70% other revenue 30% general rates	15% other revenue 85% general rates	
2.4.5 Network control and management	50% other revenue 50% general rates	25% other revenue 75% general rates	
2.5.1 Road safety facilitation	80% other revenue 20% general rates	25% other revenue 75% general rates	
3.2.1 Suburban & city centre vitality	100% downtown levy	100% downtown levy	No change in policy, however recommend that the true opportunity cost of free weekend parking be reflected in the project at approx. $1.21m
6.1.1 Community Housing	100% general rate Activity shows a surplus of approx. $2.51m because the true cost of the activity (i.e. inclusive of cost of capital) is not shown.	100% general rate Activity shows a deficit of approx. $4.38m due to the inclusion of rental foregone as a proxy for cost of capital. Note – no impact on rates.	Guiding Principle – where an equivalent service is provided in the private sector a full cost of capital will charged against the project.

ii) Changes resulting from the realignment of strategy trees and project components

The changes to activity linkages have resulted in some projects which were originally under separate activities being combined into a common activity (e.g. Te Papa funding and Wellington Convention Centre into the Visitor and Convention Attractions activity).

In other cases re-coding has occurred. For instance the Town Belt activity now reflects the modest rentals that are received from Scout Halls etc that are on or adjacent to Town belt land. These are not new or additional charges – they were previously accounted for through ground leases.

The policy changes recommended based on these considerations are as follows:

Activity	Existing policy	Proposed policy	Comment
3.1.2 Visitor attractions	Te Papa: 80% targeted commercial 20% targeted downtown Convention Centre: 55% user charges 45% general rates	45% user charges 20% targeted downtown 35% general rate	User charge revenue to remain constant - % recovered is diluted by inclusion of fully rates funded projects. Proposed funding represents an aggregation of separate existing funding basis.
4.2.2 Beaches and coast	100% general rate	95% general rate 5% other income	Revised to reflect a small amount of rental revenue now recorded within this activity.
4.2.3 Town belts	100% general rate	95% general rate 5% other income	Revised to reflect a small amount of rental revenue now recorded within this activity.
6.3.3 Recreation programmes	100% general rate	75% general rate 25% other income	Revised to reflect revenue stream from ‘push-play’ programmes.
6.4.6 Community centres and halls	95% targeted residential 5% user charges	80% targeted residential 10% user charges 10% other income	Revised to reflect the inclusion of rental income streams within this activity.

iii) Changes to reflect the reality of market conditions and ‘ability to pay’

There are a number of Council activities where the individual beneficiary can be readily and cost effectively identified. However when it comes to assessing who should pay for these activities, market conditions, the ability of certain sectors of the community to pay and consideration of social, cultural, economic and environmental well-beings all have an impact on the level of user charges that can be imposed.

A small number of activities do not currently meet the user charge levels defined in the current Revenue and Financing Policy or could potentially contain a user charge component not reflected in the current policy. In some situations the Working Party has received sufficient evidence to suggest that increasing user fees to meet these parameters is neither practical nor realistic. Minor policy changes have been recommended to the funding of these activities as follows:

Activity	Existing policy	Proposed policy	Comment
4.5.3 Recycling	100% user charges Forecast to achieve 77% user charges recovery in 2006/07.	No change – recommend Council review subsidy levels in 2007 once impact of closure of Northern Landfill evident.	The $20 per tonne recycling subsidy paid on all land-filled waste is insufficient to meet rising costs of recycling and decreasing volumes through Council landfills.
4.5.4 Waste minimisation and disposal management	Landfills: 100% user charges Solid waste collection 95% user charges 5% general rates Forecast to achieve 90% user charges across activity in 2006/07.	90% user charges 10% general rates	General rate funding portion equates to closed landfill aftercare not able to be recovered from current users. Note - intention to review rubbish bag and landfill fees be reviewed in 2006/07 dependent on impact of Northern Landfill closure.

For some other activities the Working Party has recommended that the existing funding targets remain in place despite 2006/07 draft budgets and market/ability to pay assessments suggesting that existing user charge targets can not currently be met. In these situations the inclusion of “stretch targets” has been deemed appropriate to indicate an expectation that either expenditure efficiencies, and/or income related volume/price increases are anticipated in the future.

Activity	Existing policy	Proposed policy	Comment
5.2.1 Promoting and hosting cultural events	40% user charges 60% general rates Forecast to achieve 27% user charges across activity in 2006/07.	35% user charges 55% general rates	Revenue target revised to reflect that external user charge / subsidy pool is limited. ‘Stretch’ target retained, with expectation that 30% user charges will be achieved in 2006/07 increasing to 35% in following year.
6.4.1 Provision of swimming pools	50% user charges 50% rates Forecast to achieve 40% user charge recovery in 2006/07.	45% user charges 55% rates	Policy increase from 45% to 50% user charges in 2005 has not been sustainable. 45% maintains a ‘stretch target’ to signal intention to increase user charges following WRAC redevelopment.
6.4.3 Provision of recreation centres	30% user charges 70% rates Forecast to achieve 24% user charge recovery in 2006/07.	25% user charges 75% rates	Policy increase from 25% to 30% user charges in 2005 has not been sustainable. Limited ability to increase charges without impacting on facility utilisation.

iv) Increases in fees and charges

For some activities with a user charge component, inflationary pressures, increases in service levels or changes in volume/visitor numbers has meant that the activity no longer meets the user funding targets set under the existing Revenue and Financing Policy. For those activities where market/ability to pay assessments have indicated that price increases are sustainable the Working Party has recommended a revision to user charges or fees relating to that activity.

Activity	Existing policy	Proposed policy	Comment
1.3.1 Development regulation and facilitation	60% general rates 40% user charges Forecast to achieve 27% user charges in 2006/07.	No change - retain funding split and increase fees / improve efficiency with aim of reaching 40% user charge target.	Fee increase recommendations in separate report.
1.4.2 Building control and facilitation	40% general rates 60% user charges Forecast to achieve 56% user charges in 2006/07.	No change - retain funding split and increase fees / improve efficiency with aim of reaching 60% user charge target.	Fee increase recommendations in separate report.
6.4.5 Provision of marinas	100% user charges Forecast to achieve 81% user charges in 2006/07.	No change – fee increase plus ‘stretch target’ if required.	Fee increase recommendations in separate report.
6.5.1 Burials and cremations	45% user charges 55% general rates Forecast to achieve 35% user charges in 2006/07	No change – fee increases plus ‘stretch target’.	Fee increase recommendations in separate report. Future consideration also recommended on viability of publicly funded cremations.

D. Determining the overall funding mechanism for Council

The final stage towards formulating a draft Revenue and Financing Policy is to consider the overall funding mechanism for Council. Put simply, this involves combining the impact of all decisions made at an activity level to determine the rates liability for each rating sector and for individual ratepayers within these sectors.

The Working Party has conducted an in-depth review into the principles around which the general rate differential transition programme agreed by Council in 2000 was put in place. Its conclusions are summarised as follows:-

- The fundamental principles on which the differential target of 2.8:1 was set in 2000 remain valid.

- There has been no significant change in the proportion of the commercial (approx. 21%) and residential (approx. 79%) share of the city’s capital value since the differential transition was put in place.

- Despite the introduction of additional targeted rates since 2000, the share of total rates to be paid by each sector throughout the transition period (both actual and forecast) remains consistent with that anticipated when the differential transition was put in place.

- Given the increased ability under the Local Government (Rating) Act 2002 to apply targeted rates to any sector or subgroup of ratepayers, more precise funding decisions are now able to be made at activity level. It follows that the extent of overall funding adjustment (differential) required should be lower than under the previous legislation which limited targeted rating to the provision of sewerage and water services.

- All professional advice received by the Council confirms that the perceived ability of commercial sector ratepayers to reduce the impact of the rates burden via GST or income tax deductions is not a valid reason for maintaining a general rate differential.[1] Substantiating a differential on this basis would be no more viable than rating residential rental property at a rate equivalent to the commercial properties.

- The Council's general rate differential target of 2.8 :1, and the overall rates differential of rates paid on a commercial property compared to a residential property is in line with that of other comparable Councils (refer to section 5 detailed comparison).

- The Working Party has also noted that from 1 July 2006 a change to the central government rates rebate scheme will increase the income abatement level from $7,400 to $20,000 and the maximum rebate from $200 to $500. In practical terms this means that a couple where both partners qualify for NZ Superannuation and have no other income would be eligible for a rebate of $234 on a rates bill of $1500. This change potentially addresses the concerns often expressed as to the impact of the differential shift on the elderly and low income earners. The Council also has in place a rates postponement policy which also provides temporary rates relief to ratepayers with low disposal incomes.

On the basis of its review the Working Party could find nothing to substantiate why the differential target at the conclusion of the proposed transition period in 2009/10 should be any greater than the 2:8:1 agreed in 2000 and reconfirmed most recently in 2005.

It is therefore recommended that the General Rate differential transition and target is maintained as per the existing Revenue and Financing Policy as follows:

1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
7.1 : 1	6.2 : 1	5.6 : 1	5.3 : 1	4.8 : 1	5.5 : 1	4.9 : 1	4.4 : 1	3.8 : 1	3.3 : 1	2.8 : 1

4.3 Impact of Revenue and Financing Policy Recommendations

As indicated previously the Working Party has recommended only minor changes to the existing Revenue and Financing Policy.

[1] Legal opinion Simpson Grierson – October 1999
Taxation opinion Offen Chartered Accountants – August 1999
Audit New Zealand opinion – September 1999

Indicative modelling based on the combined impact of these changes, the proposed shift in the differential from 4.9:1 to 4.4:1 and revised property valuations has been completed.

Note that the indicative rates increases summarised below are subject to change through the draft LTCCP deliberations process.

Indicative rates increases based on an overall rates increase of 6.85% (5.15% after growth) are as follows:

<table>
<tr><td colspan="2"></td><td colspan="2">Base (residential)</td><td>Commercial</td></tr>
<tr><td colspan="2">Share of total rates</td><td colspan="2">49.5%</td><td>50.5%</td></tr>
<tr><td colspan="2">Sector rates increase</td><td colspan="2">6.94%</td><td>6.76%</td></tr>
<tr><td colspan="5">Average residential property</td></tr>
<tr><td>Average CV 2005/06</td><td>Average rates 2005/06</td><td>Average CV (indicative) 2006/07</td><td>Average rates (indicative) 2006/07</td><td>Increase in rates (indicative)</td></tr>
<tr><td>$383,000</td><td>$1,516</td><td>$423,000</td><td>$1,604</td><td>5.7%</td></tr>
</table>

Comparable Commercial downtown property (incl. of water rates)				
Average CV 2005/06	Average rates 2005/06	Average CV (draft) 2006/07	Average rates 2006/07	Increase in rates (indicative)
$383,000	$5,833	$423,000	$6,253	7.1%

The above tables indicate that despite the proposed movement in the general rate differential from 4.9:1 to 4.4:1 the impact of greater increases in property values in the commercial (16%) sector compared to the residential sector (10%) and the impact of policy changes more than offset of the impact of the differential shift.

While further changes in to the project mix may impact on the relative rates increases to a degree, it is evident that in terms of overall rates increase the residential sector is likely to incur lower rates increases than the commercial sector in 2006/07, despite the movement in the general rate differential.

4.4 Other considerations

In addition to the activity by activity analysis summarised in the previous section the Working Party also considered a number of funding options and tools.

- **Uniform Annual General Charge (UAGC)**

  Under the Local Government Rating Act the Council has an option of setting a Uniform Annual General Charge (UAGC) to fund some of its activities. A UAGC must be set consistently for all rateable land within the City at either a fixed amount per rating unit or a fixed amount per separately used or inhabited part of a rating unit. Note that the UAGC does not incorporate the fixed charge portion of Council sewerage and water rates that have previously been referred to as a UAC. These are uniform targeted rates.

The Working Party has investigated the options and implications for incorporating a Uniform Annual General Charge as part of its overall rates funding mechanism (with an equivalent reduction in the general rate). It has concluded that given the recommended continuation of the general rate differential, the introduction of a UAGC would pervert the intention of a measured transition of the differential, as it would place an additional (and sudden) rates burden particularly on residential ratepayers. The Working Party recommends that this option be revisited should the Council choose to revise the general rate differential transition or target.

- **Additional targeted rates**

The Working Party has investigated the possibility of further increasing the range of activities funded through targeted rates. While a level of uniform targeted rates could potentially be substantiated on activities such as the Libraries Network, Swimming Pools and other community related activities, impact modelling has indicated that this would result in potentially unsustainable 'ability to pay' issues for the residential sector.

The Working Party is not recommending the introduction of any additional targeted rates at this time. However it has noted that should the Council decide to revise the target for the general rates differential, then the introduction of additional targeted rates should also be considered.

- **Refining the rating basis for sewerage and water targeted rates.**

The Working Party has acknowledged that the existing methodology for rating sewerage and water services (partly) on a rate per dollar of capital value basis results in some anomalies. While most commercial properties have water meters and are rated based on actual consumption, all sewerage rates are charged on a rate per dollar of capital value basis.

With the exception of a "water in - water out" assessment which would require water meters to be installed on all properties, other available options including pan charges or increased uniform targeted rates are similarly 'blunt' funding tools and create their own anomalies.

The Working Party recommends that water metering options and the ability to charge for sewerage on a water-in water-out basis be further assessed over the next year.

A review of the basis for splitting the residential sector rates for provision of sewerage and water services has also been conducted. The review has confirmed that the $100 / rating unit fixed charge for each of these services is generally consistent with the proportion of the fixed costs for this activity. Given the limited alternatives available, the Working Party recommends the balance (i.e. the variable cost of these activities) continues to be charged on a rate per dollar of capital value basis.

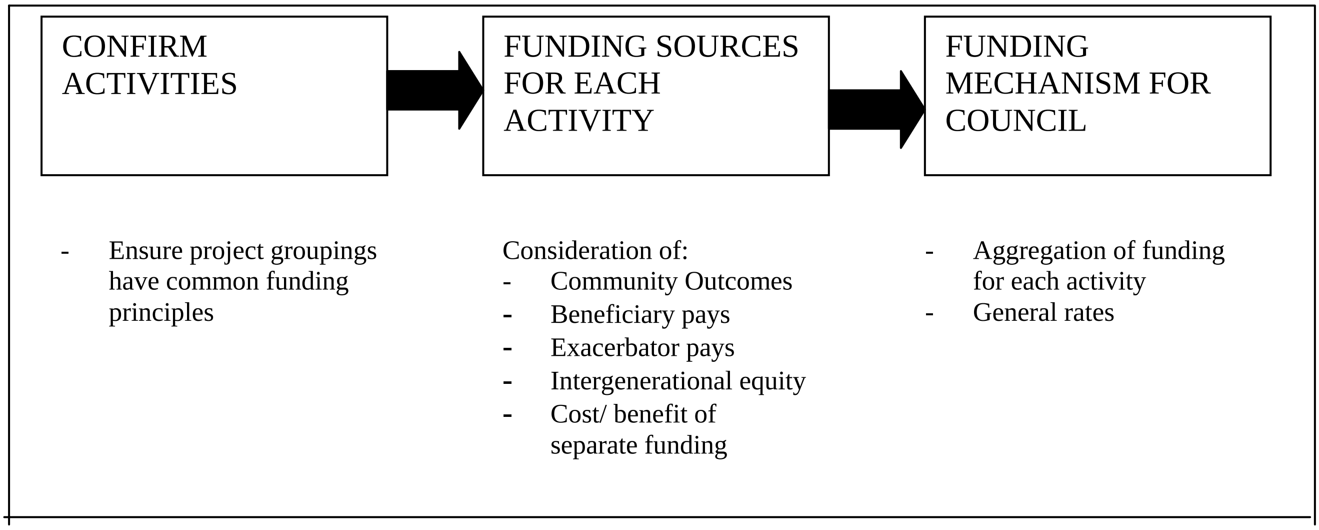
5. Discussion

5.1 The Working Party Methodology

The Working Party's methodology for this review is consistent with that used when the Council's inaugural Revenue and Financing Policy was prepared in 2004. It has been based around the Local Government "*Know how*" series documents, which are provided by the Department of Internal Affairs to support the 2002 Local Government Act.

The methodology involves three clearly defined stages, as outlined in the diagram below.

Figure 1. Working Party methodology



- **Confirming Activities**

Having established its Guiding Principles the first step in the Working Party's methodology was to review the revised Strategy Tree. This sets out the Outcomes, Activities and Projects which the Council uses to differentiate between the services it provides for the city. The Working Party confirmed that the project groups under each activity were likely to have similar funding rationale.

- **Establishing the funding sources for each Activity**

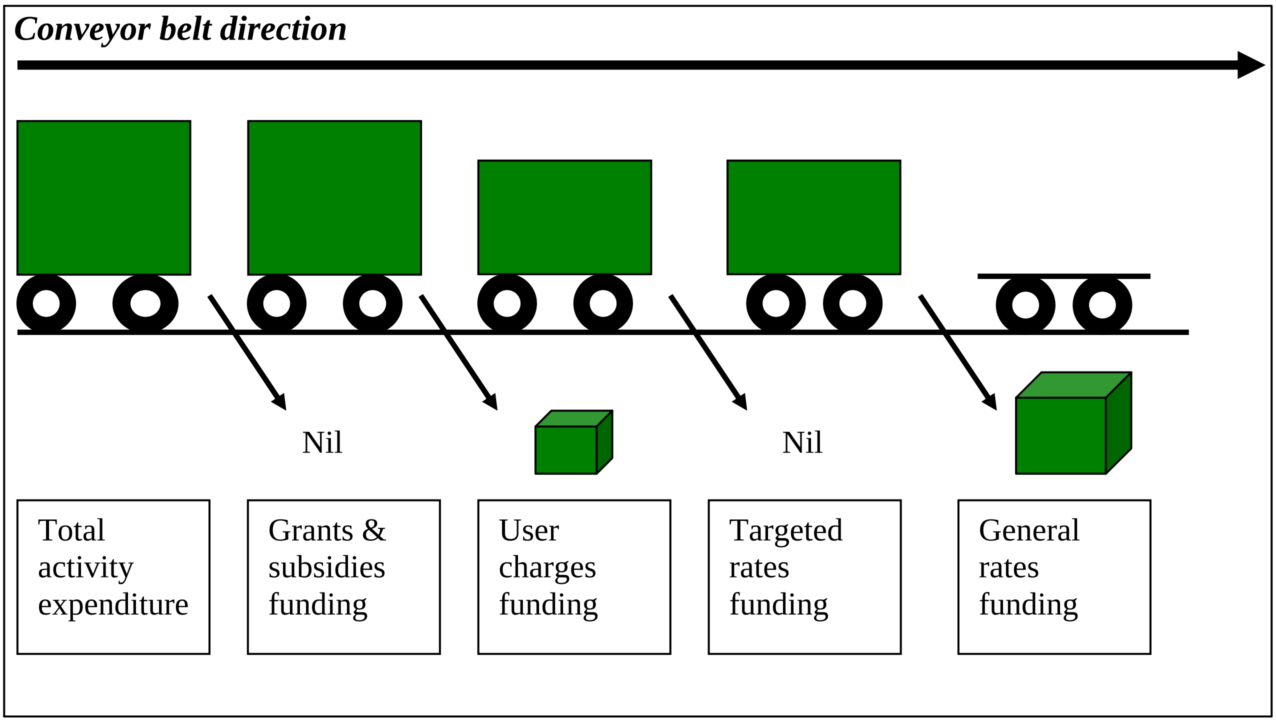
The most time-consuming and complex part of the review has involved establishing the basis for the funding of each activity.

The fundamental principle in this case is that of “beneficiary pays”. This means that where the beneficiary of a service can be readily and cost efficiently identified, that beneficiary should pay for the service provided (subject to consideration of factors such as market and commercial conditions, the costs of collection, the ability to pay and the four wellbeings – cultural, economic, environmental and social). Generally this will mean:

- Individual benefits = user pays
- Identifiable parts of the community benefits = targeted rate
- The whole community benefits = general rate

The general process can be likened to that of a conveyor belt, with recommendations being made at each funding step along the conveyor belt, until the Working Party reached a stage where all the remaining funding is applied to the General Rate.

Figure 2: Activity funding decision process



The results of this part of the review are contained in section 6 of this report.

- **Determining the overall funding mechanisms for Council**

The third stage of the review process involved aggregating the impact of all the individual activity funding recommendations to formulate a “rating model”. The rating model allowed the Working Party to assess the impact on individual ratepayers and to give due consideration to “ability to pay” issues.

This part of the process has involved a detailed review of the existing General Rates differential and the transition modifier put in place in 2000/01. A summary of this review is contained section 5.4.

5.2 Review of key principles

The key principles which formed the foundations of the 2004 Revenue and Financing Policy have been generally retained.

These principles set the framework by which the Working Party has made its funding recommendations. They have played an important part in ensuring consistency in the way the Working Party has determined who benefits from, and who should pay for a particular Council activity. The *'guiding principles'* are attached as Appendix 2 to this report.

5.3 Review of activities

The Working Party has conducted an extensive review of the funding mechanisms for all Council Activities.

The detailed recommendation and substantiation for the funding for each of the Council's activities is incorporated into the draft policy attached as Appendix 3. A summary of these changes is outlined in section 4.2 C above.

5.4 Review of the overall funding mechanism

5.4.1 The general rates differential

Having established the funding basis for each of its activities local authorities have the ability to modify their funding mechanism through the method by which it distributes its balance of non-targeted rates. The two primary mechanisms available are the general rate and uniform annual general charges (UAGC). The Council does not currently rate a UAGC. As a result the non-targeted rates requirement is subject to Council's general rates differential.

5.4.2 What is the "differential and why is it in place?

Pre 1987 — The value of the Commercial sector had grown to a stage where it accounted for approximately 75% of the valuation. After taking into account sewerage and water rates (carried 60% by the residential sector) the commercial sector bore approximately 55 % of the total rates burden.

1990's — Following the 1987 share-market crash the value of the city's commercial sector plummeted. To avoid a significant shift in the rates burden from the commercial sector to residential ratepayers (i.e. retain the Commercial sectors share at around 55%) the Council introduced a Rates Differential. To maintain the share of the rates burden at a similar split as pre-stock market crash, a General Rate differential of 7.1:1 was introduced.

1999 A Councillor Rates Working Party was formed to examine whether the existing rating differential was appropriate with particular consideration to the 1996 LGA No.3 Act.

2000 The Rates Working Party concluded and subsequently recommended to Council that the existing differential was not appropriate having given consideration to factors such as fairness and equity, ability to pay and the ability of the commercial sector to pass on costs. It was acknowledged that the commercial sector had a higher ability to pay and on that basis could warrant the Commercial sector bearing in the range of 30% - 50% more costs than indicated through Step 1 of the Funding Policy process. This equated to a General Rate differential of between 2.8 and 3.7 to 1.

The Council subsequently agreed to a 10 year transition process starting in 2000/01 to reach a target General Rate differential of 2.8:1 by 2009/10 i.e. a point where the commercial sector would pay 2.8 times more general rate per dollar of capital value than residential ratepayers.

2004 The Council revised its Funding Policy in compliance with the 2002 LGA and LG (Rating) Act. This legislation allowed greater use of targeted rates than was previously permitted. In response to the increased use of targeted rates agreed under this policy (which would have increased the rates burden for the residential sector significantly in one year) the Council agreed to re-calibrate the differential transition to reduce the 2004/05 impact, whilst maintaining the 2.8:1 target for 2009/10.

2005 The General Rate differential for the 2005/06 year was 4.9:1. The actual transition to date and that forecast through to 2009/10 is as follows::

1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
7.1 : 1	6.2 : 1	5.6 : 1	5.3 : 1	4.8 : 1	5.5 : 1	4.9 : 1	4.4 : 1	3.8 : 1	3.3 : 1	2.8 : 1

5.4.3 Key differential assumptions

The original differential of 7.1:1 was derived as a result of a Council decision to maintain the share of rates between the Commercial and Residential sectors at similar proportions as existed prior to the significant decrease in the capital value of the commercial sector following the 1987 stock market and related property crash.

The subsequent introduction of the modifier in 1999/2000 followed a comprehensive review of rates policy by a Councillor Rates Working Party.

The decision to gradually adjust the differential over a number of years was reflective of the Council’s view that the move from a differential of 7:1 to 2.8:1 in one year would create an excessive burden on the residential sector; but that an increase in residential rates of approximately $30 /year per ratepayer over 10 years was reasonable and appropriate. To achieve the differential a proportion of rates that, based on the Revenue and Financing Policy activity funding assumptions, would otherwise be met by the Residential sector is transferred to the Commercial sector.

For the 2005/06 year the general rate differential is 4.9:1. This means that $35m of the residential sector's share of the general rate is transferred to the commercial sector. This is equivalent to 178% of the general rates the commercial sector would incur without the differential.

The overall rates impact of the general rate differential transition from 7.1 to 2.8 is to shift the share of rates borne by the commercial sector from 54% in 2000 to 45% in 2009/10 (payable on 21% of the cities capital value), while the residential (base) sector's share of total rates increases from 46% in 2000 to 55% in 2009/10 (payable on 79% if the city's capital value).

5.4.4 Are the assumptions for the differential and modifier still valid?

The table below shows the percentage and dollar value of general rates that will be transferred from the residential sector to the commercial sector based on a continuation of the differential transition to a point where it reaches 2.8:1 in 2009/10.

	2005/06		2006/07		2007/08		2008/09		2009/10	
	Res GR	Comm GR	Res GR	Comm GR	Res GR	Comm GR	Res GR	Comm GR	Res GR	Comm GR
Differential transitoin	1	4.9	1	4.4	1	3.9	1	3.3	1	2.8
Prior to differential	$ 73.26	$ 19.59	$ 77.98	$ 20.85	$ 80.04	$ 21.40	$ 83.05	$ 22.21	$ 85.46	$ 22.85
Differential impact	-$ 34.86	$ 34.86	-$ 34.49	$ 34.49	-$ 32.19	$ 32.19	-$ 29.47	$ 29.47	-$ 25.68	$ 25.68
After differential	$ 38.39	$ 54.45	$ 43.49	$ 55.34	$ 47.85	$ 53.59	$ 53.58	$ 51.67	$ 59.77	$ 48.53
% increase in Comm GR		178%		165%		150%		133%		112%

To achieve a general rate differential in 2005/06 where commercial ratepayers pay 4.9 times the general rate that residential ratepayers pay on each dollar of capital value requires $34.8m to be transferred from the residential ratepayer general rate pool to commercial ratepayers. The outcome being that commercial ratepayers pay 0.872 cents per dollar of capital value, 4.9 times the 0.178 cents per dollar of capital value paid by residential ratepayers – and the commercial sector contribute 59% of general rate while accounting for 21% of the city's capital value.

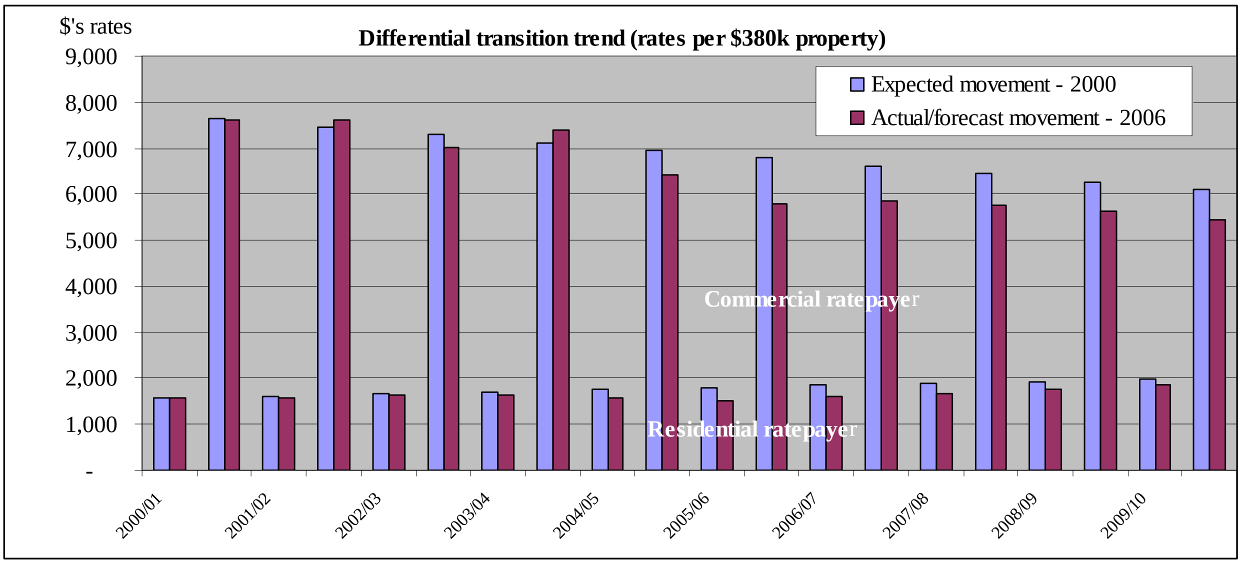
The original differential target was designed so that at the end of the transition (2009/10) a point would be reached where the commercial sector bore approximately 30% ($7m) more general rate than it would incur based on its capital value share of the general rate (although it should be noted that in 2000 the commercial sectors, CV portion of general rates actually included an element of sector allocation (similar to a targeted rate).

Based on 2005/06 forecasts, when the 2.8:1 target is reached in 2009/10 the Commercial sector will pay an additional 112% ($26m) of general rate than it would otherwise pay on a straight CV basis.

The question has often been raised whether changes in targeted rates, mix of projects or capital values of the relative sectors has had any impact on the intended impact of the differential transition since it was adopted in 2000.

The 2005 valuation of all properties in the city, shows that the 78% proportion of capital value that constitutes the residential (base) sector is comparable to the 79% on which the original differential target was based. This confirms that the movement in capital values has had a negligible impact on the original differential transition assumptions.

The graph below illustrates that the expected movement in rates between the two sectors, has, and is forecast to continue to be very much in line with the transitional movement proposed in 2006. While the graph shows that both residential and commercial rates are slightly lower than the original expectation, this is primarily due to a fixed property value being used in the comparison for reason of simplicity. The comparative movement is consistent with original differential transition expectations.



It can therefore be concluded that with the exception of the value of rates that will be transferred from the residential sector to the commercial sector when the 2.8:1 differential target is met in 2009/10 (i.e. $7m forecast in 2000, $25m forecast in 2006), the assumptions on which the differential transition was based remain valid.

5.4.5 The role of differential rating under the 2002 Local Government and (Rating) Acts

While the 2002 LGA and LGRA continues to allow Councils to use general rate differentials as part of their rating policy, the range of rates funding mechanisms available to Councils has increased significantly over the previous legislation. A range of issues and constraints that had previously been addressed by rating differentials were alleviated.

The key change was that prior to 2002, and with the exception of sewerage and water (for which targeted rates were permitted), the only rating tools available to Council's were general rates of uniform annual general charges (UAGC's). Under the 2002 legislation targeted rates can be used to fund any Council activity.

This significantly increases the options available to allocate rates to sectors or specified parts of the community at an activity level through the Revenue and Financing Policy process which theoretically removes the need for a general rate differential. If all activities where it was deemed appropriate for rates to be funded by a specified part of the community were funded through targeted rates, the remaining General should be split based on either on a non-differentiated capital value basis or in part through a uniform annual general charge.

5.4.6 Do other Councils have differentials?

Like Wellington, most Councils have not yet achieved a point where a general rates differential has been completely eliminated.

However as the table below shows, Wellington's current commercial differential at 4.9: 1 is significantly higher than other comparable councils (i.e. those with a low or no UAGC) - given that the imposition of a UAGC significantly increases the residential rates burden.

Council	Residential	Commercial	UAGC	Comments
Wellington	1	4.9	$0	
Auckland	1	2	$95	Target 1.8:1 in 2013
Hamilton	1	2	$0	
Dunedin	1	2	$0	
Christchurch	1	1.46	$15	
Hutt City	1	3	$30	
Porirua	1	2.7	$323	
North Shore	1	6.7	$597	High UAGC and other fixed targeted rates.
Manukau	1	7.4	$481	High UAGC and other fixed targeted rates.

Other differences in rating policies increases the gap between average rates paid by Wellington commercial ratepayers compared to residential ratepayers and those of other councils. These differences include:

- Wellington has a Downtown levy. In other councils these activities are usually funded by the general rate and partially paid for by the residential sector.

- As indicated above Wellington does not rate a uniform annual general charge (UAGC). Those Council's with a high general rate differential also tend to have a high UAGC which decreases the differential impact due the higher number of properties in the residential sector.

5.4.7 Impact of introducing a Uniform Annual General Charge

Most other metropolitan councils use a Uniform Annual General Charge as a rating tool to fund activities from which all ratepayers are considered to benefit equally. The introduction of a UAGC for Wellington City ratepayers would reduce the proportion of rates allocated through the general rate and therefore the impact of the rates differential. However, as over 90% of the city's properties are residential and the introduction of a UAGC would result in a reduction in general rates (and reduce the amount of rates transferred to the commercial sector) residential ratepayers would incur an increase in overall rates by the introduction of UAGC. As an example the introduction of a UAGC of $100 would result in an increase in rates of 3.6%, or $55 for the average residential ratepayer and a reduction of 4.4% for a downtown commercial ratepayer.

Recognising that the introduction of a UAGC would result in a significant rates increase for residential ratepayers and potentially hinder the progress of the differential transition, the working party is recommending the Councils existing policy of not rating a UAGC continue..

5.4.8 Overall funding mechanism conclusion and recommendations

The following conclusions were drawn from the Working Party investigation into the appropriateness of the general rates differential transition and target.

- The fundamental principles on which the differential target of 2.8:1 was set in 2000 remain valid.
- There has been no significant change in the proportion of the commercial (approx. 21%) and residential (approx. 79%) share of the city's capital value since the differential transition was put in place.
- Despite the introduction of additional targeted rates since 2000, the share of total rates to be paid by each sector throughout the transition period (both actual and forecast) remains consistent with that anticipated when the differential transition was put in place.
- Given the increased ability under the Local Government (Rating) Act 2002 to apply targeted rates to any sector or subgroup of ratepayers, more precise funding decisions are now able to be made at activity level. It follows that the extent of overall funding adjustment (differential) required should be lower than under the previous legislation which limited targeted rating to the provision of sewerage and water services.
- All professional advice received by the Council confirms that the perceived ability of commercial sector ratepayers to reduce the impact of the rates burden via GST or income tax deductions is not a valid reason for maintaining a general rate differential.[2] Substantiating a differential on this basis would be no more viable than rating residential rental property at a rate equivalent to the commercial properties.
- The Council's general rate differential target of 2.8 :1, and the overall rates differential of rates paid on a commercial property compared to a residential property is in line with that of other comparable Councils (refer to section 5 detailed comparison).

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[2] Legal opinion Simpson Grierson – October 1999
Taxation opinion Offen Chartered Accountants – August 1999
Audit New Zealand opinion – September 1999

- The Working Party has also noted that from 1 July 2006 a change to the central government rates rebate scheme will increase the income abatement level from $7,400 to $20,000 and the maximum rebate from $200 to $500. In practical terms this means that a couple where both partners qualify for NZ Superannuation and had no other income would be eligible for a rebate of $234 on a rates bill of $1500. This change potentially addresses the concerns often expressed as to the impact of the differential shift on the elderly and low income earners. The Council also has in place a rates postponement policy which also provides temporary rates relief to ratepayers with low disposal incomes.

On the basis of its review the Working Party could find nothing to substantiate why the differential target at the conclusion of the proposed transition period in 2009/10 should be any greater than the 2:8:1 agreed in 2000 and reconfirmed as recently as 2005.

5.5 Rates differentials and remissions

The working party has recommended that no changes be made to the existing differential categories of qualifying criteria.

Rates remission and postponement policies are detailed in a separate report to this Committee. The Working Party has recommended no changes to the rates remission and postponement policies with the following exception:

- That the minimum qualifying property size for the Open Space remission be reduced from 40 hectares to 30 hectares to achieve consistency with the minimum subdivisable parcel size under District Plan change 33.

Qualifying ratepayers receive a 50% remission on the general rate. This change is anticipated to result in less than ten additional properties qualifying for the remission.

6. Conclusion

The Funding and Activity Review Working Party has conducted an extensive review of the Council's existing Revenue and Financing Policy.

In recognition of the fact that the foundations on which the existing Policy is based remain sound and mindful of the need for balance in regard to impact on ratepayers the Working Party has taken a moderate approach to the review of the policy. As a result any changes recommended have a relatively minor effect on the distribution of rates across the community.

The Working Party has however signalled that the ability to better direct the burden of rates onto those who benefit most from a service should be considered through the increased use and /or refinement of targeted rating mechanisms prior to the next formal review of this policy.

FUNDING AND ACTIVITY REVIEW WORKING PARTY TERMS OF REFERENCE

Purpose of the Working Party

The Working Party has two distinct purposes. These are for elected members to:
i) Guide officers in the review of the Revenue and Financing Policy as it applies to all activities and recommend any changes to the policy to the Strategy and Policy committee.

ii) Provide a strategic overview to officers as they undertake 'year one'[3]of the detailed activity reviews.

Membership
Up to four elected members will be members of the Working Party.

Chair
The chair and deputy chair shall be appointed by Council.

Parent Committee
The Working Party will report to the Strategy and Policy committee.

Terms of Reference
1. The Working Party has specific responsibilities to prepare a report that recommends a revised <u>Draft</u> Revenue and Financing Policy (that will apply from 1 July 2006).

In its review the Working Party will give consideration to:
- how each Council activity is funded after consideration of s101(3)(a) and (b) of the Local Government Act 2002
- the appropriate level for the commercial/ residential rates differential, and if different to the present level, how and over what period should the position be corrected
- the possible impact on rates following any decision to change the way Council funds activities
- the application of targeted rates
- how capital funding should be reflected in the policy (including Development Contributions)
- the appropriate level of user charges (including the results of benchmarking exercises where applicable)
- a review of performance against current Revenue and Financing Policy targets
- the need for any changes to the Council's financial policies as required by s102 of the Local Government Act 2002
- submissions that are received as part of the special consultative procedure.

[3] The schedule of activities to be reviewed in 'year one' are contained in the *Long Term Council Community Plan: Process* report of 13 October 2005.

2. The Working Party has specific responsibilities to receive and review reports from officers on their findings in relation to ‘year one’ of the detailed activity reviews.

In its review of officers’ reports the Working Party will provide guidance on:

- the strategic alignment of activities
- the appropriateness of alternative service delivery options
- the appropriateness of service level options
- the results of asset management plan reviews.

Delegation
The Working Party has the authority to carry out its activities in line with its terms of reference.

Frequency of Meetings
A schedule of meetings will be agreed by the working party with the chair having the discretion to call additional meetings as required.[4]
(Note that the meetings are tentatively scheduled to occur weekly between 11am – 1pm on Wednesday.)

Duration/Sunset
The Funding and Activity Review Working Party will first convene in late October 2005 and discontinue on 30 June 2006 following the adoption of the Long Term Council Community Plan.[5]

[4] The working party will have a comparatively high workload. Meetings are tentatively scheduled to occur weekly between 11am – 1pm but are expected to run longer on occasions. The workload will be concentrated in November and December with a final paper prepared in early February

[5] It is expected that the working party will be reconstituted with amended terms of reference to guide years two and three of the activity review.[5]

APPENDIX 2

REVENUE AND FINANCING POLICY WORKING PARTY

2006 GUIDING PRINCIPLES

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1. GENERAL PRINCIPLES

1.1 Rates and general funding principles

- It is accepted that rates (in particular the General Rate) are a relatively “blunt” instrument for achieving equity in who pays for the services provided by local authorities. However the Local Government Rating Act (LGRA) restricts Councils to the choice of setting the non-targeted portion of rates via either a Uniform Annual General Charge and/or a General Rate per dollar of either Capital Value, Land Value or Annual Value as the basis for levying general rates. Note that the LGRA prevents local authorities from levying a poll tax or any income-based mechanism in place of the General Rate.

- Following the consideration the four wellbeings, and where practical to do so, the impact of the General Rate will be reduced through the use of User Charges and Targeted Rates, which reflect benefits received. However it is recognised that in terms of the General Rate the benefit cannot be aligned to a particular individual / rating unit or group.

- Income received from non-activity-related sources (e.g. dividends, ground lease rentals) will also be used to reduce the General Rate requirement.

- Having first considered issues of affordability and ‘ability to pay’, where the market dictates, policy user charge targets for a particular activity may be set at a level exceeding 100% of the cost of the activity.

- Unless specifically identified, within this Policy, net operating surpluses created by a specific Activity (e.g. Quarry operations) are used to offset the General Rate.

- Where the Council has recorded a surplus in a previous financial period, due to the recognition of additional income or through savings or underspends, it may pass this benefit on to ratepayers in a subsequent period through a reduction in the General Rate.

- Generally, the Council will set its projected revenue at a level sufficient to meet the current year’s projected operating expenditure. However, the estimated expenses of achieving and maintaining the predicted level of service provision set out in the Long Term Council Community Plan, and of achieving a satisfactory return on the capital invested in an activity, will also be taken into account.

- Where it is considered financially prudent, the Council may choose not to fund the depreciation on specific assets. This will reduce the level of funding for that particular activity required from other sources (i.e. user charges, targeted rates, and general rates). Examples include where there is a third party obligation to maintain the service potential of the asset, where the replacement of an asset will be funded by way of a grant or subsidy, or where an asset will not be replaced at the end of its useful life.

- Certain operating and capital expenditure may be funded from restricted or special Council funds that are subject to special conditions of use, whether under statute or considered binding by Council. Examples include trust and bequest funds, the self-insurance reserve and sinking funds.

1.2 FAIRNESS AND EQUITY

- *Affordability* – where a service is deemed to be essential or very important in terms of contributing to health or wellbeing, consideration will be given to ensuring that people are not excluded from using a service because they cannot afford to pay.

- *Market neutrality* – the impact of the Council's funding mechanisms on the operation of markets will be neutral where possible.

- *Transparency* – all funding mechanisms will go through the public consultation process before being adopted into the Revenue and Financing Policy.

1.3 RATING PRINCIPLES

1.3.1 Rating Basis

- Where a rate is to be based on the value of a property the Capital Value of the property will be used. This will apply for the General Rate.

- It is accepted, that in general, where uneven access to services exists this is reflected in the Capital Value of the property *(for example, if a property is located further away from a service this will be reflected in its value and therefore its rates - which are generally based on capital value).*

- Access to and availability of a service are considered key criteria in determining benefit *(for example stormwater rates are not borne by rural ratepayers, and sewerage and water rates are not borne by those not connected to the network).*

- Where a service is provided at one, or at a few, locations and there is no exclusivity of use, the geographic location of the service does not affect the degree of benefit received by ratepayers *(for example all properties contribute to the cost of libraries irrespective of their relative location to a library).*

- Where: (i) a service is provided in specific areas, and
  (ii) the fixed nature of the investment provides a service only in that area,
  then these factors, along with whether the service is part of a city-wide investment programme will be considered in determining the degree of benefit received and whether a targeted rate should be applied *(for example Marsden Village levy).*

- The Local Government Rating Act states that the following factors may be used in establishing a targeted rate:
  - The use to which land is put
  - Activities permitted on the land per the District Plan or RMA
  - The area (size) of the property
  - The provision of service
  - Where the land is situated
  - The (comparative) value of the land

  and that the following rating mechanisms may be used:
  - Rate per dollar of Capital Value
  - Rate per dollar of Land Value
  - Rate per ha. of land area
  - Rate per m2 of land that is sealed, paved or built on
  - Rate per separately inhabited part of a rating unit
  - Rate per water closet or urinal within a rating unit (for sewerage)
  - Fixed charge (uniform annual charge) per rating unit

1.3.2 General Rate Rating differentials

Rating differentials for the purposes of the General Rate will be restricted to the existing two differentials:

“Base”, incorporating:
- Separately rateable land used solely for one or more household units, excluding those properties that provide short-stay (28 days or less) commercial accommodation for which a tariff is charged.
- Vacant land zoned residential
- Land zoned rural under the District Plan, excluding rural industrial land
- Land occupied by an organisation used principally for sporting, recreation or community purposes and which does not generate any private pecuniary benefit.

“Commercial, industrial and business”, incorporating:
- Land used for commercial or industrial purposes
- Vacant land zoned commercial, industrial or rural industrial
- Land used for offices, administrative or associated functions
- Land used principally for commercial short stay accommodation
- Business related premises used for private pecuniary benefit
- Utility networks

1.3.2 Division of a rating unit

It is noted that the Council’s Rating Policy states that:
The separate parts of a rating unit may be differentially rated where the Council deems that a part of the property is non-rateable or the property fits under more than one rating differential and either:
a) the total rateable capital value of the rating unit is above $500,000, *or*
b) the minority use(s) account for more than 30 percent of the total rateable capital value of the rating unit.

In any other case, or where the Council, in particular circumstances considers it appropriate, the General rate differential is determined by principal use.

2. COMMUNITY OUTCOMES

- The Community Outcomes upon which this review will be based are those set by the public review panel in September 2005 .

- Each Outcome was considered in the context of the four wellbeings (social, economic, environmental and cultural) as required by the Local Government Act.

- Activities and projects will exist only for genuine Council outputs. Where a Council function does not contribute directly to an outcome the cost of the function will be allocated across those activities that do contribute directly to outcomes. *For example, Council IT costs will be treated as allocated costs.*

- The funding of each activity will be considered on a fully allocated cost basis (i.e. all input / overhead costs will be allocated to activities).

3. ACTIVITY FUNDING DECISIONS

3.1 Distribution of benefits among the community

- The distribution of benefit for goods or services provided under an Activity can be placed on a continuum. At one end of the continuum are so called “public goods” and at the other are “private goods”. The position of a particular Activity depends on the degree to which it possesses the following two characteristics:

  - *Rivalry in consumption* – a good or service is rival in consumption if one person’s consumption of it prevents another from using it e.g. if a person uses a particular rubbish bag no one else can use it.

  - *Excludability* – a good or service is excludable if a person can be prevented from using it e.g. if a person doesn’t pay they can be refused entry into a fitness centre.

- If the goods and services provided under an activity are both “rival in consumption” and “excludable”, their funding is likely to be via User Charges or Targeted Rates. “Non-rival” and “non excludable” activities and those deemed to be of “club good” nature will tend to be towards the “public goods” end of the continuum and more likely to be suited to General Rates funding.

3.2 BENEFICIARY PAYS

- Where the beneficiary of a service can be readily and cost effectively identified, that beneficiary should pay for the service provided (subject to consideration of factors such as market and commercial conditions, the costs of collection, the ability to pay and the four wellbeings). Generally this will mean:
  - Individual benefit = user pays
  - Identifiable parts of the community = targeted rate
  - The whole community = general rate

- Primary, secondary and tertiary beneficiaries will be considered in that order to determine benefit.
  (e.g. Free weekend parking: primary beneficiary = parking users, secondary beneficiary = retailers, tertiary beneficiary = city as a whole).

- For the purpose of this policy, where an activity involves a programmed investment over a number years, which impacts on the distribution of benefit, the beneficiary will not be differentially rated just because the benefit accrues to a particular community in a particular year.
  (For example - the town centre upgrade of a particular community will not be required to be funded specifically by that community, as it is assumed upgrades will be conducted on a cyclical basis across the city). However, the funding of "new" assets for a particular community (and the timing of construction) will be considered in the context of efficiency of the investment i.e. where there is a particular community desire for a new asset they should not be prevented from being able to fund it through "distinct funding" means such as a targeted rate.

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3.3 Intergenerational equity/ Capex funding

- Capital projects may be funded by:
  - Depreciation - via rates (projects where Council is renewing an existing asset).
  - Targeted rates
  - Borrowings
  - Trust and bequest reserves
  - Development contributions
  - External subsidies (e.g. Land Transport New Zealand)

- For the purposes of this policy the use of proceeds from asset sales to fund capital expenditure is deemed to be "borrowings" funding. This reflects the fact that proceeds from asset sales are used to repay borrowings and the decision to invest in a new asset is treated independently.

- The replacement of existing assets will be funded by depreciation, except where the depreciation provision is insufficient to cover to the cost of replacement (calculated on a rolling 10-year basis). In this scenario the difference between the annual depreciation provision and the annual Capex expenditure will be funded through rates.

- Where an asset is replaced by another that provides an enhanced level of service, consideration will taken of the “new” component. Where appropriate this will be funded through borrowings.

- The purchase of new assets will be funded through borrowings. This supports the concept of intergenerational equity – ratepayers fund the asset’s purchase through interest on borrowings and depreciation. Theoretically, by the end of the asset’s life a sufficient cash-funded depreciation provision exists to either repay the original debt or rebuild the asset.

- Generally, current ratepayers should not be expected to fund the benefits that future ratepayers will receive. However, where a community want or need demands the investment in an asset that (due to competing funding priorities) would not otherwise be completed in the desired timeframes, the Council may consider funding a portion of the asset purchase through distinct funding (e.g. a targeted rate).

- Each year, the Council receives funding from Land Transport New Zealand (LTNZ) as part of the overall replacement and renewal programme for the city’s roading infrastructure. The Council recognises the subsidies as income in accordance with GAAP. As the subsidies are received for capital purposes, they cannot be used to offset the rates requirement. Therefore the Council shall recognise a surplus equivalent to the amount of LTNZ subsidies for capital purposes, to be applied against funding the depreciation expense that results on completion of the associated asset.

- Where an equivalent service to that incorporated in a Council activity is provided by the private sector a full cost of capital will be charged against that activity to reflect the opportunity cost of the investment (e.g. City Housing). *Note that this has no rates impact as offsetting income foregone is reflected in Council corporate income.*

3.4 Exacerbator pays

- In situations where the action or inaction of an individual or identifiable part of the community causes the Council to incur expenditure or a negative impact on the community is incurred that individual or group should fund this expenditure.

3.5 Consideration of “Wellbeing principles”

- At each stage of the funding decision process (i.e. decisions to fund through user charges or targeted rates or general rates) the Working Party will consider the impact of these decisions on the four wellbeing principles, (cultural, economic environmental and social wellbeing) as required under the LGA.

3.6 Use of User charges and other Activity related income

- Where the individual beneficiaries of a service can be readily identified the Activity should be funded through a User Charge (e.g. fees) or an exchange for goods/service (e.g. rent). The level to which an Activity is funded through this mechanism will be subject to factors such as intergenerational equity, market and commercial factors, ability to pay and the cost and benefit (efficiency) of using separate funding mechanism.

- Recognising that the Council is now required to inflation adjust all income and expenditure beyond year one of its LTCCP, where appropriate and with consideration to 'ability to pay' principals, user charges will be increased by the rate of inflation to achieve continued alignment with the proposed funding policy targets.

3.7 Use of targeted rates

- Where the individual beneficiaries of a service cannot be readily identified, but an identifiable part of the community can, the Activity should be funded through a Targeted Rate. The level to which an Activity is funded through this mechanism will be subject to factors such as intergenerational equity, ability to pay, market and commercial factors and the cost and benefit (efficiency) of using a separate funding mechanism.

The liability for a Targeted Rate levied for an activity or range of activities will not be differentiated on the basis of variability in the quality or standard of service provided. If it is not possible to identify those rating units that receive a service from those that do not, then the activity should be funded through the General Rate.

3.8 Use of General Rate

- Where all or part of an activity cannot practically or efficiently be funded by individual beneficiaries (user charges or an identifiable group of beneficiaries (targeted rates), or is deemed to be for the general good of the community, the activity (or part thereof) will be funded by the General Rate.

- The share of the general rate to be funded by each differential (Base vs. Commercial) will be set on a Council-wide basis, having consideration for the existing differential, the differential "modifier" and factors such as ability to pay that result from changes to User Charges and Targeted Rates.

3.9 Use of Uniform Annual General Charges (UAGC)

- The Council has the choice of levying its General Rate requirement through either a rate per dollar of Capital Value and/or a Uniform Annual General Charge (UAGC)
- A UAGC must be set for all rateable land within the City at either:
  - a fixed amount per rating unit
  - a fixed amount per separately used or inhabited part of a rating unit.
- The LGRA restricts the UAGC portion of total rates to 30%.

APPENDIX 2

4. PROCESS PRINCIPLES AND ASSUMPTIONS

- Unless otherwise stated in Activity Reports, the Revenue and Financing Policy review process assumes the continuation of current service levels i.e. decisions about whether or not the Council should provide a service do not form part of this review. These decisions take place as part of the LTCCP process.