# ATTACHMENTS

## Ordinary Council Meeting
## Under Separate Cover

## Wednesday, 13 November 2024

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# REVENUE AND FINANCING POLICY

DRAFT NOVEMBER 2024

TE KAUNIHERA Ā-ROHE O WHAKAORIORI
MASTERTON

## Contents

| POLICY NUMBER: MDC003 | |
|---|---|
| **First Adopted** | The policy was first adopted (as the Funding Policy) following public consultation in 1997. It has been reviewed, refined and revised by the Council every three years since then (apart from in 2021). |
| **Latest Version** | Adopted March 2024<br>Draft for consultation November 2024 (yellow highlighted additions) |
| **Adopted by:** | Masterton District Council |
| **Review Date** | March 2027<br>The impacts of changes to funding of the urban water supply activity commencing from 1 July 2025 will be reviewed annually as part of the Annual Plan or Long-Term Plan processes and adjusted as needed by resolution of Council. |

## Purpose

This policy outlines the revenue sources used to fund the range of services the Council provides. It also sets out the factors that Council must consider when determining its funding sources in accordance with section 101(3) of the Local Government Act 2002.

This policy has been developed pursuant to the requirements of sections 101, 102 and 103 of the Local Government Act 2002.

## Scope

This policy covers sources of funding for the operating and capital expenditure of Masterton District Council. The funding sources include, but are not limited to, external revenue, including NZ Transport Agency Waka Kotahi roading subsidies, user fees and charges, financial contributions and local authority rating.

The policy outlines where the revenue will come from to pay for services but does not determine the costs of providing each service. Council budgets for the costs of the services it provides in the Long Term and Annual Plans.

## Principles

In making this policy, the Council must consider the funding of each of its sub-activities in the context of the requirements of sections 101(3) of the Local Government Act 2020. The requirements are a two-step process, as outlined below.

### First Step Considerations

The first step requires consideration of the following principles at each activity level:

- the community outcomes to which the activity primarily contributes;
- the distribution of benefits between the community as a whole and individuals or groups (user pays principle);
- the period of time in which benefits are expected to occur (intergenerational equity principle);
- the extent to which the actions or inactions of particular individuals or a group contribute to the need to undertake the activity (exacerbator pays principle);
- and the costs and benefits of funding the activity distinctly.

### Second Step Considerations

A second step is then applied. This involves the Council considering the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural wellbeing of the community.

The Council completes this step by considering the effects of applying the theoretical funding principles of step one, with the ability to modify for reasons of fairness, legality and practicality. The process seeks to match the costs of a service with the beneficiaries of a service, then modifies the allocation where appropriate, choosing the most appropriate funding mechanism based on Council's analysis. Where services can be identified as having a direct benefit to individual users and there is the ability to recover all or some of the costs, user charges have been set to recover the value of that benefit.

A summary of Council's section 101(3) analysis is available in Schedule 4.

## Policy Statement

**External Revenue**

Wherever feasible and appropriate, the Council seeks to recover costs from users of a service via user charges. The Council also seeks to maximise its external revenue including from central Government funding such as NZ Transport Agency Waka Kotahi subsidies, local petrol tax and the waste levy. After external revenue, Council uses borrowing to fund specific capital projects and Council reserves/depreciation funding.

***User Pays***

Where the activity benefits an individual (or group of individuals) then user-pays is the initial funding source (i.e. requiring those individuals who receive a service, pay directly for all or some portion of the service). Council seeks to maximise the portion of the service paid for through user fees and charges wherever feasible and appropriate.

The following areas are the key sources of user charges and external revenue:

- Resource consent fees
- Building consent fees (including plumbing & drainage fees)
- Sports field charges and rents
- Property rents
- Mawley Holiday Park revenue
- Airport landing fees and leases
- Parking meter fees and fines
- Dog registration fees
- Refuse transfer station & composting user charges
- Waste levy
- Refuse collection recoveries (via bag sales)
- Hall hireage income
- Water & sewer connection recoveries
- Water meter charges
- Trade waste charges
- Roading subsidies (from NZ Transport Agency Waka Kotahi)
- Local Petrol Tax
- Cost recovery charges (e.g. GWRC rates collection, CDC & SWDC shared services).

**Rating Policy**

After external revenue and user pays, the balance of the funding comes from the ability for Council under the Local Government (Rating) Act 2002 to charge property rates to recover the costs of services. This includes for the many Council services that have a wider community benefit where no equitable charge can be made based on usage.

The rating policy is based on the following principles:

- The rates required for each service are first allocated between urban and rural rating areas using a range of allocation bases;
- Targeted rates are set in the urban and rural areas. No 'General Rate' is applied across all properties in the district;
- For those costs that are charged across the whole district, an effective differential is achieved using the urban/rural allocations;
- Allocation bases include the current population split, the targeted area in which the service is available and (for subsidised roading) the locality of programmed expenditure.

Schedule 3 sets out the Rating Base used. It includes population (urban and rural), property and valuation figures of the Masterton district. These are key to the way the rates required are divided up amongst properties.

***Urban/Rural Allocation Basis***

As outlined above, the rates required for each service are first allocated between urban and rural areas. Schedule 1 summarises both the urban/rural split of the rating incidence and the rate types to fund each activity.

The allocation between urban and rural rating areas is set to 100 per cent / 0 per cent where the area of benefit for a service is confined to one rating area (either urban or rural). Examples of these services are water supplies, wastewater systems and recycling collection. Other services that benefit the whole district have been split between urban and rural areas based on either a population criterion, a valuation criterion or an estimate of where the benefit falls.

The allocation of rates between the two rating areas has been modified by the Council from that of a pure number of properties approach or a pure valuation-based approach. The relationships between the urban and rural areas are relevant where there is an overlap in the areas of benefit, or where the use of the service cannot be limited to specific areas. The Council's intention is to allocate costs based on reflecting usage of, or access to, Council services.

The Council has taken into account the following ratios:

**Population based criterion**: For services where the funding policy suggests the areas of benefit relate to significant levels of individual benefit but are not met by user charges or are services with the demands being relevant to people-based services, rather than property-based services, the population ratio has been selected as the most appropriate method of allocation between properties. The Council has taken into account the population ratio set out in Schedule 3.

Services allocated via population include:

- Regulatory services
- Emergency management/civil defence
- Archive, airport, forestry
- Waste minimisation
- Community development
- Economic development
- District building & other property
- Representation
- Cemeteries
- Public conveniences
- Refuse transfer station & recycling
- Parks & recreation
- Library
- Sports fields
- Arts & culture

**Land Value – 44 : 56 (urban:rural) & Capital Value – 53 : 47 (urban:rural)** While no district-wide services are allocated between the urban and rural rating areas on the basis of district wide land or capital value, the ratios are shown for comparison purposes.

**Subsidised Roading – 30 : 70 (urban:rural)** This reflects where the subsidised roading programme expenditure is expected to be spent in the coming three years, split between areas. This ratio may be subject to change outside of the LTP years, if roading expenditure varies from the LTP in any subsequent Annual Plan.

**Solid Waste – 79 : 21 (urban:rural)** Used for the allocation of the residual cost of solid waste management (after user pays income) - Nursery Road transfer station, recycling and composting. This allocation recognises that all residents have equal access to the solid waste services that are being funded by way of general rates, and that rural people will use and therefore benefit from the services at Nursery Road.

**Solid Waste (rural) – 10 : 90 (urban:rural)** For the allocation of rural waste management costs (rural transfer stations) recognising that rural ratepayers will be paying a share of Nursery Road operating costs, so urban carries a share of rural costs. A targeted rate on beach properties recovering a proportion of waste collection costs reduces the share carried by all other rural properties.

**Rural Halls – 5 : 95 (urban:rural)** For the allocation of the costs of rural halls and holding paddocks, recognising some 'district benefit' in the Council supplying these facilities.

***Targeted Rates, Uniform and Services Charges***

The Council has no 'General Rate.' Instead, the Council uses targeted rates and targeted uniform charges for urban and rural properties to fund the costs of services allocated to those areas. In addition, targeted services charges are used to charge properties connected or able to receive a specific service.

| Table 1: Targeted Rates, Uniform and Service Charges | | |
|---|---|---|
| | Urban | Rural |
| **Targeted Rates** (differentiated between urban/rural properties based on cost allocations) | | |
| Targeted Land Value (roading) rate | ✓ | ✓ |
| Targeted Land Value water races rates | | ✓ |
| Targeted Capital Value rates | ✓ | ✓ |
| **Targeted Uniform Charges** (differentiated between urban/rural properties based on cost allocations) | | |
| Targeted Uniform Charge | ✓ | ✓ |
| Targeted Roading Charge | ✓ | ✓ |
| **Other Targeted Services Charges** | | |
| Urban Water Supply Charge | ✓ | |
| Urban Wastewater System Charge | ✓ | |
| Recycling Collection Charge | ✓ | ✓* |
| Wastewater Treatment Charge** | | ✓ |
| Castlepoint Sewerage Charge | | ✓ |
| Riversdale Beach Sewerage Charge (connected) | | ✓ |
| Riversdale Beach Sewerage Charge (serviceable) | | ✓ |
| Beach (Refuse & Recycling) Collections Charge | | ✓ |
| Tinui Water Supply Charge | | ✓ |
| Tinui Sewerage Charge | | ✓ |

** Charged in the rural periphery where the Council is prepared to offer the collection service.*

*** This charge will apply to those properties, particularly on the urban periphery, where septic tank overflow is piped into the urban sewer network. It is applied on a 'residential equivalents (RE)' basis where one RE equals 600 cubic metres of liquid effluent per day.*

The general effect of the targeted charges is to reduce the component of either land or capital value rates on the higher value properties and raise the minimum level of rates for lower value properties. The Local Government (Rating) Act 2002 places a restriction of 30 per cent maximum of Uniform General Charges to total rates income. Although there are no Uniform Annual General Charges in Masterton's rating policy, the targeted uniform and roading charges (levied in both rural and urban areas) can be considered equivalent.

***Urban Differential – Non-Residential***

The Council has determined that, in general, public services provide more benefits to the urban non-residential sector (i.e. commercial) than to residential. The effect of the high percentage of uniform and services charges is recognised as regressive - it reduces the impact on higher valued properties. A multiplier of 2.0 is then applied on each of the separate and targeted rates assessed on land and capital values.

**Rating Valuations**

The rating policy includes a large share the rates required being allocated based on property values (land value and capital value). The values are assessed by Quotable Value NZ Ltd and a revaluation process is completed every three years. The revaluation process is subject to audit by the Office of the Valuer General. The balance of the rates are allocated via targeted charges.

When a revaluation is completed, the Council applies the new values to its rating. This results in a greater share of rates being paid by those properties that have had valuation changes above the average change. There is often a large amount of variability in the valuations and it is difficult to generalise the outcome.

**Funding of Capital Expenditure**

The Council's policy with regard to the funding of capital expenditure is to:

- Fund roading network renewal expenditure from Waka Kotahi (NZTA) subsidies (currently 56% on subsidised work) and the balance from annual rates;
- There are exceptions to the above:
  - bridges – Council's share is from depreciation reserves
  - non-subsidised asset renewals (e.g. footbridges, street furniture) funded from depreciation reserves that are built up from annual rates
- Fund other replacement assets from depreciation reserve funds to the extent that those funds are available. Where depreciation reserves are insufficient, loan funding may be used
- Fund assets which increase levels of service by borrowing/loans
- Fund assets needed because of growth, from developers, either by the developer providing the infrastructure or by them making financial contributions t the outset of the development.

## Review of Policy

This policy will be reviewed every three years as part of the Long-Term Plan process, unless a change is prompted earlier. A summary of changes from the last review is incorporated as Schedule 5.

The impacts of changes to funding of the urban water supply activity commencing from 1 July 2025 will be reviewed annually as part of the Annual Plan or Long-Term Plan processes and adjusted as needed by Council resolution.

## Related Documents

Masterton District Council Long-Term and Annual Plans

Funding and Financial Policies

- Development and Contributions Policy
- Treasury Management Policy
- Rates Remission Policy
- Rates Postponement Policy
- Rates Remission and Postponement on Māori Freehold Land Policy

## References

Local Government Act 2002

Local Government (Rating) Act 2002

Te Ture Whenua Māori Act 1993

## Version Control

| Version | Date | Summary of Amendments | Approved By |
|---|---|---|---|
| 1.0 | 03/04/2024 | Reviewed as part of 2024-34 LTP. Refer to Schedule 5. | Masterton District Council |
| 1.1 | 13/11/2024 | Draft for consultation - proposed changes to funding of the urban water supply activity to support the introduction of water meter charging. | |

## Schedules

Schedule 1 – Masterton District Council Activity Funding Allocations

Schedule 2 – Sub-Activity Funding Analysis and 2024/25 Allocation Table

Schedule 3 – Rating Base

Schedule 4 – Section 101(3) Analysis

Schedule 5 – Summary of changes from the 2023/24 Revenue and Financing Policy Review

Note: Only the excerpts relevant to the urban water supply activity are presented in the Schedules. This includes updates to Schedules 1 and 4. The remaining Schedules and remaining sections of Schedules 1 and 4 are unchanged and available in the Revenue and Financing Policy on the Council website at: www.mstn.govt.nz/council/policies-and-bylaws/policies

## Schedule 1 – Masterton District Council Activity Funding Allocations

| # | Activity | User Pays Allocation | | Urban/Rural Allocation | | Funding Source | |
|---|---|---|---|---|---|---|---|
| | | Community | User | Urban | Rural | Urban | Rural |

#40 Water Supply – Urban

User Pays Allocation: 34% Community: 66% Users (2025/26)

Urban/Rural Allocation: 100% Urban

The Council is transitioning to a new funding policy approach over a three year period as follows:

Funding Source:

2025/26: 34% TSC, 40% CV, 26% User (volume charges)

2026/27: 45% TSC, 27% CV, 28% User (volume charges)

2027/28: 50% TSC, 0% CV, 50% User (volume charges)

For unmetered properties:

TSC (as above) ; balance on CV

## Schedule 4 – Section 101(3) Analysis

**Consideration of Appropriate Funding Sources**

The following analysis has been prepared as summary record of the consideration given by the Council while reviewing the Revenue & Financing Policy for inclusion with the 2024-34 Long Term Plan.

| # | Activity | Who Benefits and how should it be funded | Allocation of Cost |
|---|---|---|---|
| 40 | Urban Water Supply | A treated and reticulated water supply contributes to public health and fire safety. It is one of the core services that ensure the local community and economy are sustainable.<br>Private benefits arise to the consumers of the water. Council has water meters installed for the majority of urban properties connected to the water supply network. Water meters are currently being used to detect and remedy leaks and charging for water use (using the water meters) will be introduced from 1 July 2025.<br>Many commercial properties utilise larger lateral connections in order to service sprinkler systems and reduce insurance premiums. Their usage may not reflect the benefit that the fire fighting capacity provides.<br><br>Those connected properties outside the urban area have water meters or restrictor valves and are charged based on usage. Properties connected in the Waingawa area of Carterton are metered and charged via CDC (who pass on the revenue to MDC).<br>External (non-rates) revenue is 10 per cent.<br>Renewal of the infrastructure is undertaken with a mixture of loan funding and use of depreciation reserves. | The Council has installed water meters for the majority of connected properties, and will implement a regime for charging for water use based on the meter readings from 1 July 2025. The intention is to transition to a new charging regime over a three-year period. This will see the phasing out of the CV rate and introduction of volume charges. The Targeted Service Charge (TSC) portion will remain and increase over the transition period to recognise the public interest component (e.g. fire fighting protection) and to fulfil Council's revenue needs to provide the service. The option to differentially set this charge will be considered to recognise the benefit for firefighting systems in large buildings.<br><br>The funding requirement, after deducting income from rural metered properties and properties in the Waingawa industrial area (in Carterton District), will be allocated differently over each year of the transition by way of TSC, volume charge and/or CV rate.<br><br>The TSC component for water is levied on each connected and separately used or inhabited portion of a property. This has the effect of spreading a portion the cost of the service evenly across all properties.<br><br>The CV component is by way of a differential targeted Water Supply Rate charged on the capital value of serviceable properties in the urban area. The capital value rate has the effect of charging higher value properties more for the water supply – this having previously being a rough proxy for usage and value protected for fire fighting. All properties within the supply area are charged this rate to recognise the ability to access the infrastructure. |

| # | Activity | Who Benefits and how should it be funded | Allocation of Cost |
|---|---|---|---|
| | | Financial contributions are required from developers (per the District Plan) to fund upgrading of the infrastructure and expansion of the area serviced. | The volume charge component for water will be introduced to replace the CV component and is based on actual water usage measured by the water meter. There will be a set bulk allocation before a per cubic metre charge applies which will be lowered over the course of the transition to account for expected behaviour change (reduced water consumption and repair of previously undetected leaks).<br><br>In Year 1 (2025/26):<br>• 34 per cent as a TSC<br>• 40 per cent as CV<br>• 26 per cent as volume charges over an allocation of 1,600m³<br><br>In Year 2 (2026/27):<br>• 45 per cent as a TSC<br>• 27 per cent as CV<br>• 28 pr cent as volume charges over an allocation of 600m³<br><br>In Year 3 (2027/28):<br>• 50 per cent as a TSC<br>• 50 per cent as volume charges over an allocation of 225m³<br><br>The proposed starting price per cubic metre is $2.00 (excl GST) in 2025/26. This will be reviewed and the rate for future years will be set annually through the Council's Fees and Charges.<br><br>The effects of the charging approach will be monitored and adjustments may need to be made each year dependent on how people change their behaviour in response to volumetric charges.<br><br>Properties without a water meter installed will revert to a hybrid system that uses the same targeted charges as above and CV rates instead of metered charges.<br><br>Once a meter is installed, these properties will transition to the charging approach that is currently in place for the rest of metered properties from 1 July the following year. |