

Title: Revenue and Financing Policy Review

Section: Finance & Affordability

Prepared by: Fiona Scragg (Revenue Team Leader)

Meeting Date: 11 October 2018

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Legal Financial Significance = Medium

Report to FINANCE & AUDIT Committee for information

SUMMARY

The purpose of this report is to bring attention to the process and program of work for reviewing the Revenue and Financing policy and Rate Remission policies.

A review of the policies is essential to ensure Council's activities and revenue streams are funded in a fair and reasonable manner that ensures accountability, transparency, minimises risk and takes into account the current issues and circumstances within the Gisborne District.

The decisions or matters in this report are considered to be of **Medium** significance in accordance with the Council's Significance and Engagement Policy.

RECOMMENDATIONS

That the Finance & Audit Committee:

- 1. Notes the contents of this report.**

Authorised by:



Pauline Foreman
Chief Financial Officer

Keywords: Revenue and Financing policy, Financing, Rate Remission Policy principles, review

BACKGROUND

1. It was signalled in 2017 at the start of the 2018–2028 Long Term Plan (LTP) process that a full review of the Revenue and Financing Policy (RFP) would commence in year one of the 2018–2028 LTP.
2. As part of the review, the nature and rationale of why a rate should be applied needs to be considered. To support the decision-making process, up to date evidence-based studies will be researched and provided.
3. Any proposed changes made would need to be modelled as these may affect a targeted group of ratepayers as well as impacting on the rest of the rating system.
4. For these reasons the review is over a 2–3 year period in readiness for the next 2021–2031 LTP. Table 1 in the discussion and options outlines the programme of work and expected timelines.
5. The level of change made within an annual plan year will also have to be taken into account. While changes made to the RFP can be done within an annual plan year, significant departures which may arise when changes are made to our highly targeted rating base may invoke an amendment to the LTP and a special consultative procedure.
6. A background history of the rates changes from the last three previous RFP rating reviews is attached in Appendix 1.
7. Alongside the RFP, our rate remission policies will be reviewed and a debt recovery strategy will be developed.

DISCUSSION and OPTIONS

What is included in a Revenue and Financing Policy?

8. Financial policies should be clear, simple statements of how we intend to conduct our services, actions or business. These financial policies should reflect Council's values, approaches and commitment to our culture and provide a set of guiding principles to help decision-making.
9. Local authorities are required to review their RFP every three years. The overriding purpose of an RFP is to show who pays for what and why. This will provide predictability, certainty and transparency about sources and levels of funding for Council's various activities.

Proposed approach to Revenue and Financing policy review

10. There will be a holistic approach to the review of the RFP. We will revisit the principles, funding mechanisms and primary community outcomes as part of the review to ensure they are appropriate, fair and equitable, and fit for purpose in our district.
11. Workshops will be held to look at the rating principles, strategy and performance, burning issues and regression tax and how these factors are an issue for our community.
12. Council must act prudently and in the interests of the community. Any significant changes to the RFP would need to be consulted on with the community.
13. The RFP, rate remission policies review and debt recovery strategy will be a co-ordinated approach between Finance and the Strategic Planning team.

Financial Strategy: Affordability

14. We will examine if there is an imbalance of rates income and affordability in our district. This principle of affordability is the heart of our Financial Strategy.
15. The RFP review will examine if our over-arching principles contribute to community affordability issues. As part of this exercise, the fundamental affordability question and whether this impacts on the level and distribution of irrecoverable debt in our district will be assessed.
16. Leading into this review staff will provide statistics by area unit and mesh block on incomes, rates and rates affordability based on the demographics within our district (referred to as infometrics).
17. This will allow us to measure against the strategic objectives of keeping rates affordable as stated in the Financial Strategy. What is affordable needs to be tested against the whole region.

Consideration of regressive taxes such as the Uniform Annual General Charge

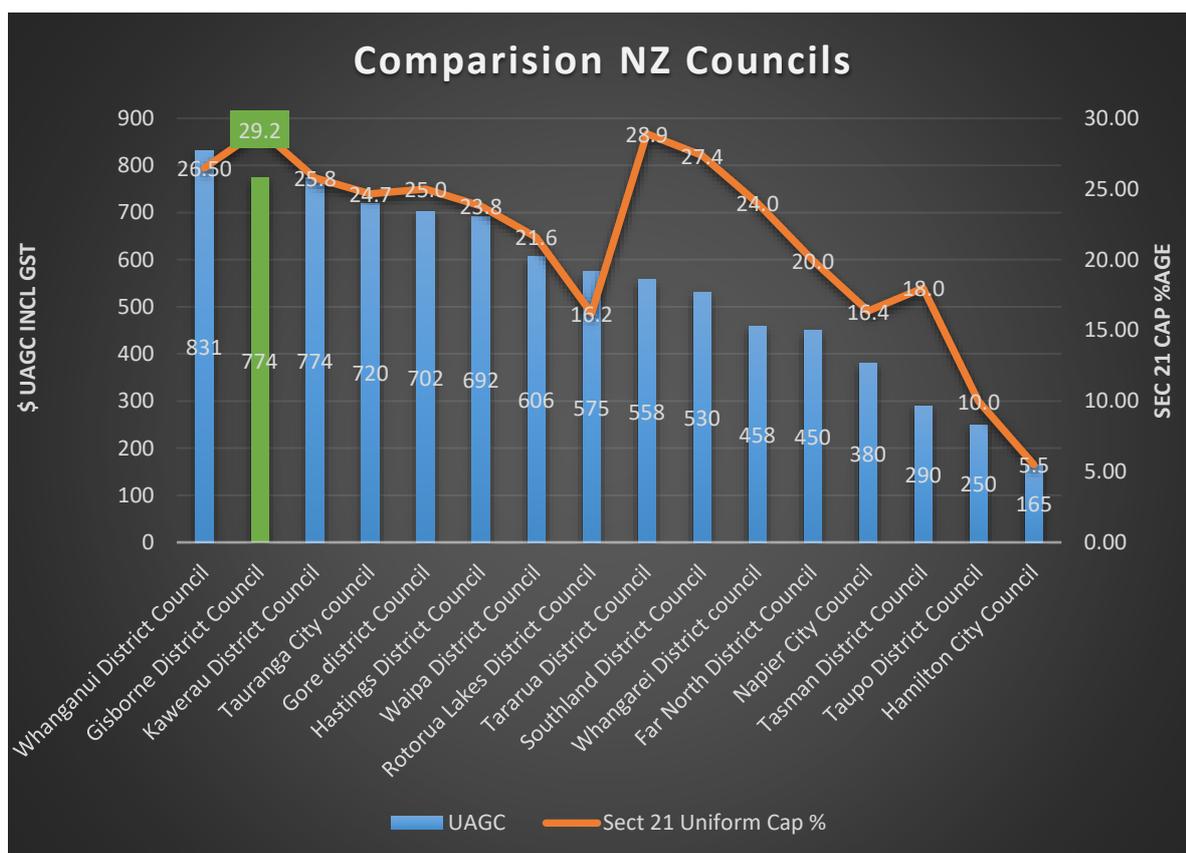
18. A regressive rate takes a decreasing proportion of income as income increases. In other words, regressive rates take a higher proportion of low incomes than high incomes. When considering affordability, it is prudent to consider reviewing the rates in our RFP that are of a regressive nature such as the Uniform Annual General Charge (UAGC) and other fixed rates.
19. Use of fixed targeted rates and flat rates like the UAGC can disadvantage specific ratepayers on low incomes or with low value properties.
20. In comparison with other councils, Gisborne District has a high UAGC (refer to the bar graph shown below).
21. Council currently collects \$17.2m of its \$65.6m in UAGC rates. Below is a breakdown by dollar and the percentage of our UAGC and each of the funded activities represented.

UAGC 2018-2019 Incl GST	UAGC 2018-19	Percentage of UAGC
Mayor and Councillor representation costs	\$ 124.94	16.2
Roading	\$ 112.61	14.6
Libraries	\$ 99.29	12.8
Managing solid waste and transfer stations	\$ 92.33	11.9
Environmental and Public health Protection	\$ 85.87	11.1
Public Toilets	\$ 73.89	9.6
Strategic Planning and engagement	\$ 61.51	8.0
Tairawhiti Museum	\$ 39.82	5.1
Civil defence	\$ 29.69	3.8
Litter bins and cleaning public areas	\$ 18.55	2.4
District Civil & Corporate expenses	\$ 16.82	2.2
Cemeteries	\$ 14.96	1.9
Economic Development & Tourism	\$ 3.21	0.4
	<u>773.50</u>	

22. The Local Government (Rating) Act 2002 (LGRA) section 21 has a 30% limitation (commonly referred to as the 30% cap) on local authorities ability to raise revenue from fixed rates including:

- Any Uniform Annual General Charge (UAGC)
- Any targeted rate calculated as a uniform fixed amount per rating unit or separately used or inhabited part (SUIP) of a rating unit excluding charges solely for water supply or sewage disposal.

23. The graph below shows a survey comparison of the UAGC and LGRA section 21 caps from 16 councils around the country. Gisborne District Council has both a high UAGC at \$773.50 and a high uniform cap level of 29.2%.



Review of Rate Remissions

24. These policies are highlighted for review alongside the RFP. Remissions shift the burden between rating units and address situations where there may have been unintended consequences of a particular rate.
25. Remission of rates involves Council permanently foregoing payment of all or part of any rates owed.
26. It is necessary when reviewing each rate, to review the remission that was implemented to address unintended consequences.
27. In most situations remissions should not be considered a permanent solution, but more a transitional tool. Where some of our remissions are needed to be applied over longer periods, the 'base' rate should ideally be reviewed to try and address unintended consequences.

Other issues for consideration during the Revenue and Financing policy review

28. Council may have some 'burning issues' for consideration as part of this RFP review. It is noted that the rating of roads throughout the district have been identified for review.

Debt Recovery Strategy

29. Alongside the review of the RFP and Rate Remission policies staff will develop a Debt Recovery Strategy. We try to offer our community options to fulfil their obligations to pay rates and other Council fees and charges while remaining mindful of their other financial commitments.
30. We will develop objectives and provide guidelines for how we will recover Council's outstanding debts. Our aim is a transparent practical policy with effective practices and procedures for the recovery of Council debt.

PROGRAMME OF WORK

31. This RFP review will take place over 2–3 years and will lead into community consultation for the 2021–2031 LTP.
32. Changes in how we rate will need to be modelled as changes can have a big effect on a targeted group of ratepayers and will also have an impact on the rest of the rating system.
33. While the RFP can be revised in any year such as in conjunction with an Annual Plan process, consultation would need to occur. Where significant departures to the 2018–2028 LTP affecting strategic assets or causing major changes to levels of service are proposed, a special consultation process requiring a wider and more in-depth consultation process may be necessary. We may need to consult with our external auditors to ensure an external audit would not be required, depending on the significance of the proposed changes.

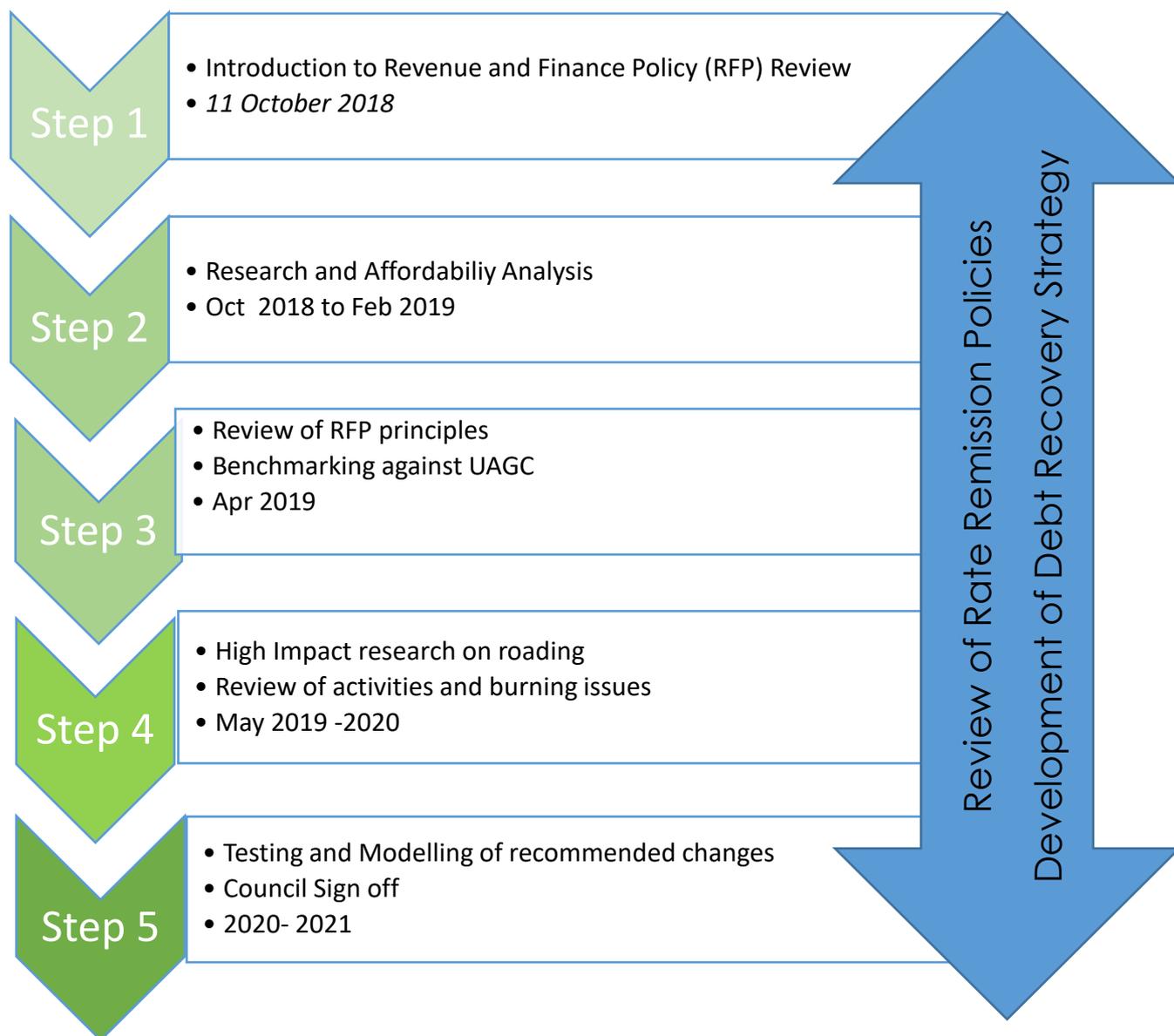


Table 1

ASSESSMENT of SIGNIFICANCE

Criteria	This Report	The Process Overall
The effects on all or a large part of the Gisborne district	Low	Medium
The effects on individuals or specific communities	Low	Medium
The level or history of public interest in the matter or issue	Low	Medium
Inconsistency with Council's current strategy and policy	Low	Medium
Impacts on Council's delivery of its Financial Strategy and Long Term Plan.	Low	High

34. This report is part of a process to arrive at a decision that will be of medium level in accordance with the Council's Significance and Engagement Policy.

COMMUNITY ENGAGEMENT

35. Feedback received on the 2018–2028 LTP raised concerns regarding rates affordability and the fair distribution of rates increase.
36. An intended outcome is to have a relevant, clear, transparent RFP for community consultation for the 2021–2031 LTP.
37. Any changes that are approved for an Annual Plan require community engagement and should not include significant or material differences from the content of the LTP.

CONSIDERATIONS

Financial/Budget

38. There is a cost of providing background information and carrying out studies. Information and expert analysis is be carried out in conjunction with other projects to minimise costs. A review of the RFP will help mitigate any financial risk to Council.
39. Council has a budget for rate remissions. It is appropriate to review the cost of these remissions to the community and consider whether distribution needs to be rebalanced.
40. Development of a debt recovery strategy will provide Council with an assurance that our debt recovery processes are transparent, effective and fair to all ratepayers and customers.

POLICY and PLANNING IMPLICATIONS

41. The review of the RFP, Rate Remission policies and development of a debt recovery strategy will be a co-ordinated approach between Finance and the Strategic Planning team.
42. The Local Government Act 2002 has specific requirements that must be adopted as part of an RFP.
43. Council has both statutory and legal responsibilities to review the RFP in the best interests of the community.

RISKS

44. Risk to Council and the community will be minimised by having a clear, comprehensive transparent RFP that has fully considered the principles and obligations in its funding outcomes.
45. No single criterion has greater weight in law than the others. Council may adopt a policy that assigns more weight to one than the other activities or funding streams but it must consider the criteria and be able to demonstrate the criteria to the public.
46. Having clear, easy to understand rate remission policies will provide fairness to all ratepayers eligible to apply for rate remissions thus reducing the risk of inequitable decisions.
47. A clear, transparent and effective debt recovery strategy will set out the process for collecting debts outstanding to Council and reduce risk of unreasonable action for both Council and the community.

NEXT STEPS

Date	Action/Milestone	Comments
11 October 2018	Initiate Revenue and Finance policy (RFP) review process.	Discuss background and high level strategy, set stage for the review.
February 2019	Present info metrics and modelling from income and affordability analysis.	For Council to consider as part of the decision making process.
April 2019 to 2020	Workshops to review RFP activities. Rate remission policies, present results of rate remissions survey in comparison to other councils.	For Council to consider as part of the decision making process. Copies of the current RFP and Rate Remission polices will be provided to Councillors as part of a workshop information package. Review UAGC, Roading, 'burning issues'.
2020–2021	Present testing and modelling.	Review recommended outcomes.
2021	Approval of any changes for the 2021–2031 LTP.	Community consultation and Council approval.

APPENDICES

- Appendix 1: History of Previous Revenue and Financing Policy Rating Review Changes (A1399327).