Archived Content

This document is provided online as a historical record for the time that it was published. It has since been superseded by more recent documents.

Please check our website www.selwyn.govt.nz for the latest documents of this type, for any current information.

Appendix 1: Amendment to Revenue & Financing Policy in the Long Term Plan 2012/22 in respect of Transportation

Introduction

The Council has amended its Revenue and Financing Policy to allow it to introduce a new targeted rate for transportation.

Road maintenance and renewal is funded by a mix of the rates paid by ratepayers and subsidy from the New Zealand Transport Agency (NZTA) funded by petrol tax and road user charges. Historically the Council has only undertaken road maintenance and renewal to the extent that the work is subsidised by NZTA. However, it has become clear over the past two years that the cost of maintaining and renewing the Council's road network now exceeds the level that NZTA is able to subsidise. An increasing amount of traffic is placing ever greater demands on the road network and without additional funding road users in the district will notice deterioration in the quality of the roads. There will be more pot holes, edge breaks and other defects that make the roads less safe and less satisfactory to travel along.

The Council signalled in its 2014/15 Annual Plan that it needed to increase rates to help fund road maintenance and renewal and the submissions it received were generally supportive of the Council's desire to maintain the road network to a high standard, although different views were expressed on how this should be achieved. In its 2013 resident's survey the Council also asked how it should respond to the shortfall in NZTA funding and 83% of those surveyed supported spending more ratepayer sourced funding rather than allowing the standard of roads to decline.

The Council identified the need to spend an extra $1 million per year more on road maintenance and renewal than is currently subsidised by NZTA and has introduced a new targeted rate of $60 (including GST) per rating unit from 1 July 2014 to fund this additional work.

Amendment to the Revenue and Financing Policy

The Council's previous policy was to fund its share of road maintenance and renewal costs from the general rate (set on the basis of capital value) and the Uniform Annual General Charge (set as a fixed amount per rating unit) and this was reflected in its Revenue and Financing Policy. The new rate to fund the additional road maintenance and renewal work is set as a targeted rate set as a fixed amount per rating unit and required an amendment to the Revenue and Financing Policy.

Assessment of options

The Council assessed the options of using different rating mechanisms to fund the additional road maintenance and renewal expenditure. The main options considered were:

- Option 1: Rate for the additional expenditure in line with the existing Revenue and Financing policy. This is to fund the expenditure from the general rate (set on the basis of capital value rating) and the uniform annual general charge (set as fixed amount per rating unit).
- Option 2: Rate for the additional expenditure based on a new targeted rate set as a fixed amount per rating unit. (This is the option selected after consultation on the proposal.)
- Option 3: Rate for the additional expenditure on a differential basis for different categories of rateable land.

An assessment of the options is set out below.

Option	Assessment
Option 1 – Rate for the additional expenditure using the general rate and Uniform Annual General Charge.	**Advantages** This is the funding mechanism that the Council usually applies where the activity brings benefit across the community and where it does not have the ability to charge users of the activity directly. The Council raises rates for such activities through the general rate that reflects the capital value of the rating unit and the Uniform Annual General Charge set as a fixed amount per rating unit. This mix of rating bases means that those with higher value property pay a greater amount than those with a lower value property, but the use of Uniform Annual General Charge means that the amount paid by individual rate payers does not solely depend on the value of the property. The proportion of rates raised through the general rate and the Uniform Annual General Charge reflects the Council's assessment of a fair balance between rates set on the basis of capital value and rates set as a fixed amount per rating unit.
	Disadvantages The main beneficiaries of the transport activity are road users. The use of a rating mechanism based on capital value to fund the increasing road maintenance and renewal costs puts a disproportionately greater burden on owners of higher value properties, without a clear link to any additional benefit gained by those ratepayers.

Option	Assessment
Option 2 – Rate for the additional expenditure based on a uniform targeted rate (the Council's proposed option).	**Advantages** Funding additional road maintenance and renewal expenditure from a rate set at a uniform amount per rating unit means that all ratepayers contribute equally towards the additional costs. It means that all ratepayers pay a moderate amount towards the cost of the activity whereas a rate based on capital value rate means that some ratepayers pay a very much larger amount. A separate targeted rate means that there is a clear focus on additional costs and means that the Council will consider explicitly the amount of the rate each year.
	Disadvantages A rate set as a uniform charge means that all rate payers pay the same amount and this may not reflect their ability to pay or the extent to which they benefit from the activity.
Option 3 – Rate for the additional expenditure based on a targeted rate set on a differential basis.	**Advantages** Funding additional road maintenance and renewal expenditure from a rate set on a differential basis would allow the Council to rate those that benefit more or create more of the need for the expenditure. Such a targeted rate would mean those that make most use on the road network and have most impact on the need for more maintenance and renewal work would fund a greater proportion of costs through higher rates.
	Disadvantages It is challenging and potentially expensive to devise an equitable basis for differentiating the extent to which groups of ratepayers benefit from the road network and create the need for more maintenance and renewal.

The impact of the different options on individual ratepayers depends on the capital value of their property. A summary for options 1 and 2 is set out below. No figures are included for option 3 as the Council has not undertaken the detailed work that would be required to establish a differential rate. The figures are based on the need to fund an extra $1,000,000 unsubsidised road maintenance and renewal expenditure and both options raise a similar amount of rates income.

Impact of options 1 and 2 on individual ratepayers:

Capital value	Option 1: General Rate and Uniform Annual General Charge increase per rating unit	Option 2: Uniform targeted rate per rating unit
$400,000	$38	$60
$600,000	$50	$60
$750,000	$60	$60
$1,000,000	$75	$60
$2,000,000	$137	$60

The Council decided that Option 2 (uniform targeted rate) was the best option because it means that the additional cost is transparent to all ratepayers and funded equally by all ratepayers by each ratepayer paying the same amount.

Impact on the Long Term Plan 2012-22

The amendment to the Revenue and Financing policy in respect of Transportation has allowed the Council to introduce a new targeted rate to fund additional road maintenance and renewal costs. The amount of expenditure and therefore the level of the rate may vary from year. The additional expenditure planned for the 2014/15 year is $1,000,000 and the uniform targeted rate required to fund this is $60 (including GST) per rating unit. The impact of the additional expenditure and additional rate income is to increase income and expenditure by these amounts each year. As the income and expenditure will offset each other the net impact on the Council's prospective funding impact statements, prospective statement of financial performance and prospective cash flow statement is not material. As a result the Council has not restated the prospective financial statements shown in the Long Term Plan 2012-22.

Consequential amendment to the Rate Remission Policy Including Maori Freehold Land

The Council's rate remission policy provides remissions in respect of certain targeted rates and uniform general charges. The intent of the policy is provide remission from certain rates where the ratepayers own more than one rating unit and one of the rating units is vacant land or a commercial property. The new targeted rate for transportation is included in the remission policy so that the rate is applied in the same way as the policy is applied to the existing Uniform Annual General Charge.

Amended Revenue and Financing Policy in respect of Transportation

Activity	Function	Primary community outcome	Operating expenses (excluding depreciation)	Reason for operating funding source	Capital expenses	Reason for capital funding source
Transportation	Road and land transport network, excluding State Highways (provided by NZ Transport Agency) and public transport services (provided by Environment Canterbury).	Effective and accessible transport system.	Funded from general rates (by a combination of capital value rating and uniform annual general charges), general funds, a uniform targeted rate and NZ Transport Agency subsidies.	The main beneficiaries of this activity are road and land transport users, however all residents benefit from the accessibility allowed by the transport system and the economic activity that it allows. The Council does not have an ability to charge users directly and considers that the transportation network is of benefit to all of the community and accordingly its net costs are recovered as a public good through the general rate, uniform annual general charge, general funds and a uniform targeted rate. The uniform targeted rate will fund the road maintenance and renewal expenditure that is over and above such expenditure subsidized by the NZ Transport Agency. The Council considers that all ratepayers will benefit from its decision to fund road maintenance and renewal above the level subsidised by the NZ Transport Agency and should therefore all contribute the same amount through a uniform targeted rate. Transportation is one of the Council's most expensive activities and increasing costs have an impact on the Council's financial strategy. It is therefore appropriate to separately identify the area of increased cost and to set a targeted rate to fund the additional expenditure. By funding this activity from a range of sources including a general rate set on the basis of capital, the Uniform Annual	100% funded from general rates (by a combination of capital value rating and uniform annual general charges), a uniform targeted rate the Council's capital reserves or development contributions from Subdividers, and NZ Transport Agency subsidies. The Council will consider investing general reserves where an appropriate return on funds can be generated. The Council may use borrowing to fund capital expenditure with repayments of principal repayments and interest funded from general rates, general funds and development contributions from Subdividers.	The main beneficiaries of this activity are road and land transport users, however all residents benefit from the accessibility allowed by the transport system and the economic activity that it allows. The Council does not have an ability to charge users directly and considers that the transportation network is of benefit to all of the community and accordingly its net costs are recovered as a public good through the general rate, uniform annual general charge, general funds and a uniform targeted rate. The uniform targeted rate will fund the road maintenance and renewal expenditure that is over and above such expenditure subsidised by the NZ Transport Agency. The Council considers that all ratepayers will benefit from its decision to fund road maintenance and renewal above the level subsidised by the NZ Transport Agency and should therefore all contribute the same amount through a uniform targeted rate. Transportation is one of the Council's most expensive activities and increasing costs have an impact on the Council's financial strategy. It is therefore appropriate to separately identify the area of increased cost and to set a targeted rate to fund the additional expenditure. There are some charges applied to Subdividers for roading and transport upgrades. New houses in subdivisions create increased traffic in the District and therefore land developers are assessed and charged a share of the upgrade costs. Benefits of transportation capital

				General Charge and a uniform targeted rate the Council has balanced its consideration of affordability and equity for all ratepayers so that all contribute to funding the activity. Benefits of this activity are on-going and all ratepayers benefit from the activity as the expenditure is incurred.		expenditure last for a number of years and benefit both current and future ratepayers. The council considers that current ratepayers should contribute to capital expenditure as such expenditure is incurred each year and therefore current ratepayers are benefiting from expenditure in previous years. Borrowing may be used to spread the cost of some capital expenditure to future ratepayers so that the amount paid in any one year is maintained at what the Council considers to be an affordable level.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Statement to the readers of

Selwyn District Council's
adopted amendment on 25 June 2014 to the long term plan, for the ten years commencing 1 July 2012

Purpose of Statement

The primary purpose of this statement is to inform readers that we have no role to report, and do not give an opinion, on Selwyn District Council's (the District Council's) adopted amendment to enable the District Council to change its Revenue and Finance Policy so that the District Council can charge a targeted rate for transportation works that are above those subsidised by the New Zealand Transport Agency (NZTA).

This statement informs readers about the District Council's process of amending its long-term plan (LTP) for the ten years commencing 1 July 2012 and the extent, and limit, of our involvement in that process.

The District Council's process of amending its LTP commencing 1 July 2012 and our involvement

The District Council adopted its LTP for the ten years commencing 1 July 2012 on 27 June 2012. The Auditor General appointed Ian Lothian, using the staff and resources of Audit New Zealand, to report on her behalf on the LTP adopted on that date.

We expressed an unqualified opinion on the District Council's LTP for the ten years commencing 1 July 2012 in our report dated 27 June 2012. We considered that the LTP adopted on 27 June 2012 provided a reasonable basis for long term integrated decision making by the District Council and for participation in decision making by the public and subsequent accountability to the community about the activities of the District Council.

In forming our overall opinion, we reported on specific matters required by section 94(1) of the Local Government Act 2002 (the Act).

In a Statement of Proposal, dated 31 March 2014, the District Council proposed an amendment to its LTP for the ten years commencing 1 July 2012 to enable District Council to change its Revenue and Finance Policy so that the District Council can charge a targeted rate for transportation works that are above those subsidised by NZTA.

We expressed an unqualified opinion on this Statement of Proposal in our audit report dated 31 March 2014.

We considered that the information within the Statement of Proposal, about the proposed amendment to the LTP and any consequential amendments to the LTP that would be required if it was amended in the manner proposed, was fairly presented, and that the District Council had complied with the applicable requirements of the Act in preparing the Statement of Proposal.

In forming our overall opinion, we reported on specific matters required by section 84(4) of the Act.

On 25 June 2014 the District Council adopted the proposed amendment to its LTP for the ten years commencing 1 July 2012 as described in the Statement of Proposal mentioned above. The District Council has prepared the adopted amendment to reflect the amendments to the LTP adopted by the District Council on 25 June 2014, and any consequential amendments. The District Council has not prepared an amended LTP that incorporates the amendment adopted on 25 June 2014. Consequently, to form a view of the LTP of the District Council, for the ten years commencing 1 July 2012, the content of the adopted amendment should be considered in conjunction with the LTP of the District Council adopted on 27 June 2012.

We do not give an opinion on the District Council's adopted amendment. There is no legislative requirement for us to report on the adopted amendment by the District Council and we have not performed an audit of the adopted amendment. Consequently we have not updated our audit report that was attached to the LTP adopted on 27 June 2012.

John Mackey
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand