

SECTION 2: Amendment to LTCCP 2006-2016

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Overview of submissions on the Amendments to the LTCCP

Introduction

The Council adopted its Long Term Council Community Plan (LTCCP) 2006-2016 in June 2006. The long term plan is produced every three years with an Annual Plan produced in the interim years to outline any variations to the LTCCP for that particular year. Significant variations to the LTCCP require the Council to amend its LTCCP.

Scope of the Amendments

The amendment relates to two changes to the Revenue and Financing Policy as follows and will be effective from 1 July 2008:

- Roading: Targeted differential rate to be calculated based on capital value⁸
- Development and Promotions: Development and Promotions Rate to be fully recovered from a uniform annual charge

Consultation

The community must be consulted when amending the Long Term Council Community Plan. This was done at the same time as consulting over the Draft Annual Plan 2008/2009. Some additional consultation was also undertaken after the adoption of the draft amended LTCCP, namely public meetings on the proposed changes to the roading rate which were held on 22 April in Te Anau and 23 April in Invercargill.

A Statement of Proposal (incorporating Southland District Council's Draft Annual Plan 2008/2009 and proposed amendments to the Long Term Council Community Plan 2006 – 2016) was considered and adopted by Council at an extraordinary meeting on 9 April 2008. It was then made available for public consultation during the period 17 April to 21 May 2008. The draft document was advertised by newspaper and radio and a summary distributed to all households in the District and posted to non-resident ratepayers. Around 200 copies of the full Draft Annual plan and proposed amendment to the LTCCP were also distributed to other local authorities, public libraries, and interested organisations and individuals. Both the summary and full draft document contained a freepost submission form.

Responses to the proposed LTCCP amendment

Council received 17 submissions on the draft plan about the proposed changes to the roading rate. A number of these provided suggestions for changing the consultant's model and the mining and forestry sectors were particularly concerned about the large increases on their roading rates.

The Council also received three submissions on the proposed changes to how the Development and Promotions rate is collected. Two of these were in support as believed it is a fairer way of distributing the cost and one submitter was unhappy that the policy still allows for some of the rate to be collected by capital value if the UAC cap is reached.

Hearings were held in Invercargill on 10 June 2008 and the submissions were considered at an extraordinary meeting on 11 June 2008. At this meeting Council decided to implement the targeted differential rate to be calculated based on capital value as outlined in the draft plan, however Council believes that the submissions raised some very good points and as a result has also resolved to work with affected groups over the next year to go through some of these issues. Council also resolved to have the Development and Promotions Rate to be fully recovered from a uniform annual charge. The amendments to the LTCCP were adopted on 25 June 2008.

⁸ In addition to the change to capital value for the targeted differential rate, the Council has changed how the differential is determined and the way the differential is applied. While this is not considered to be an amendment, it will be dealt with at the same time as both issues have commonalities and are best explained together.

AMENDMENT 1: Revenue and Financing Policy - Targeted differential rate to be calculated based on Capital Value

ASSOCIATED CHANGE: Change to the differential model based on tonnage

Summary

The Council has changed the way it collects the roading rate from a uniform annual charge (UAC) and a targeted differential rate based on the land value of a property to a uniform annual charge and a targeted differential rate based on the capital value of a property.

This change forms an amendment to the Council's Revenue and Financing Policy which is set out in the Long Term Council Community Plan 2006-2016. The Revenue and Financing Policy sets out how the Council intends to fund its activities.

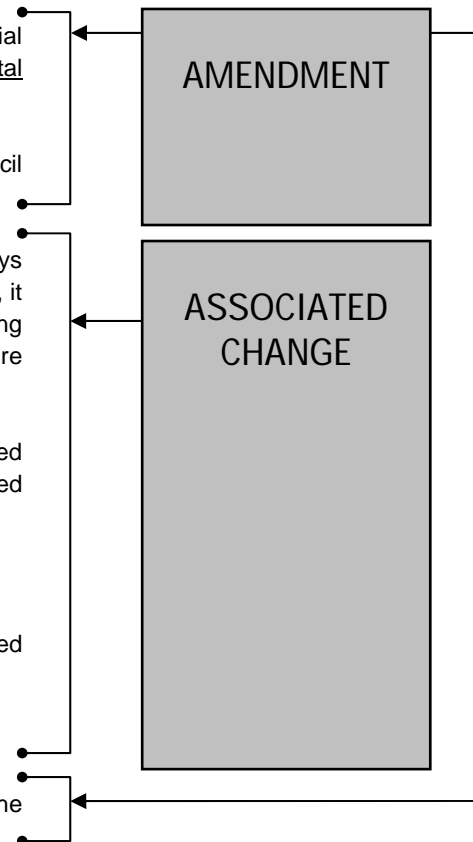
The Council has also used a revised methodology to derive the percentage share of costs that each land use sector pays towards roads. While the methodology for calculating the share of costs is not a Revenue and Financing Policy amendment, it does change the amount of total rates each sector will contribute. The revised methodology allocates the costs of roading rates to those sectors that create the costs through their use of the network. There are three key parts of the model which are used to derive the percentage share of costs to be collected from the various land use sectors:

1. Heavy vehicle costs are identified and then allocated between the rural⁹ and urban¹⁰ sectors. A simplified tonnage-based formula is then used to calculate the distribution of costs within the rural sector while the urban sector costs are distributed by property numbers.
2. General vehicle costs are identified and allocated to all sectors based on capital value.
3. As most aggregates are sourced from non-rateable land such as rivers, these costs are allocated across all sectors based on land value.

These three steps determine the percentage share of costs to be applied to each land use sector.

Once this is completed, the percentage share is then applied to the total amount of roading rates required for the year with the amount calculated for each sector collected by a combination of **uniform annual charge** and **capital value**.

The changes are explained further below, and the amended pages of the LTCCP 2006-2016 are included from page 184. It is important to note that the changes do not relate to an increase in roading costs, only to how these costs are shared out amongst ratepayers.



⁹ The rural sector includes dairy, non-dairy farming, forestry and mining/aggregates properties.

¹⁰ The urban sector includes commercial and industrial properties.

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Background to the Model

Maintaining and enhancing the roading network is a major activity of the Southland District Council which has the largest road network, totalling nearly 5000km, of any territorial authority in New Zealand. Projected operating costs budgeted for the 2007/2008 year totalled just under \$22 million, including depreciation, with an additional \$22.5 million identified for capital works. Operating expenditure for roading accounts for 42% of the total cost of all the services provided by the Council. Roading expenditure is currently funded by a mix of rates collected at a District level, Land Transport New Zealand subsidy, petroleum tax, general recoveries and interest.

When considering the question of who benefits from roads and therefore who (and how) they should pay, the Council believes that while a portion of roading costs should be paid by all ratepayers to reflect users' access to the roading network (assessed at 10% of costs), the remainder should be paid by the users. While the Council believes that the funds collected by the Government (largely petrol tax and road user charges) would be the best form of user pays for roading (as it is directly proportional to usage), it is clear that the Government would be unlikely to provide assistance at the required 90% of roading costs (currently the Funding Assistance Rate sits around 54%).

Prior to 2004, the roading rate was based on a 10% uniform annual charge with the balance of funding coming a rate based on the land value of a property. This method of funding would have resulted in the farming sector (dairy and non-dairy farming) paying around 80% of the roading rate in 2007/2008. When reviewing its Revenue and Financing Policy for inclusion in the Long Term Council Community Plan 2004-2014, the Council decided to look further at the concept of user pays because it recognised that land value did not best reflect which properties were causing damage (and therefore costs) on roads. As a result, Council began looking at ways of aligning the costs to rating contributions from various land sectors through a differential rate (form of user pays). The differential was based around the concept that heavy vehicles caused more damage to roads and therefore those sectors (from which heavy vehicles are originating) should contribute a higher share towards the cost of maintaining roads. As a result, in 2004/2005 the Council introduced a mix of a uniform annual charge (set fee for all properties to reflect access) and a targeted differential rate based on land value to recover roading costs.

To establish the differentials, Council commissioned Price Waterhouse Coopers and Montgomery Watson (PWC/MWH) to develop a model on which these could be calculated. The model was based on a mix of information including details of what portion of Council's roading expenditure was related to heavy vehicle use and what portion was related to light vehicles and general traffic. It also considered what type of vehicles were on the road, their weight, size and axle loading and their use of roads by detailing the length and number of trips for each land use activity (dairy, non-dairy farming, forestry industrial, commercial and residential). This information was used to calculate a differential factor for each land use category. Various sector groups were involved in discussions and provided details of their industry and traffic information. The Council considered the resulting model and modified it to take into account the wider community wellbeing as well as the restrictions of its rating area. The modified differential was used for the first time in 2004/2005 to collect part of the roading rate. The model was subsequently reviewed and refined by GHD consultants and additional sub-categories for industrial, commercial and mining land-use were established. As a result the Council adopted a further modified differential in 2006/2007 which reflected some of the output of the model.

The Council had some reservations about the model including:

- The model allocated the cost of each trip equally between the origin and destination and as many of these are outside of the District's rating area, they were unable to be rated.
- Actual road construction/expenditure was occurring to a larger extent on the rural network than as proposed in the rating model;
- The model was complicated and difficult to interpret and relied on data which was difficult to obtain, to verify, and was of varying quality.

In addition, revaluations resulted in significant changes to land values which affected the distribution of roading costs between the sectors. As a result, the Council further modified the differential to partially offset the revaluation effects.

Given these issues, Council engaged Morrison Low to review the methodology. As a result, Morrison Low came up with a revised model (which is explained below).

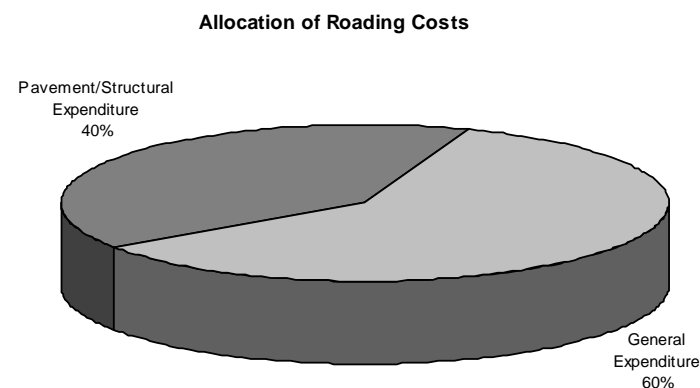
MODEL'S APPROACH TO ESTABLISHING SHARE OF COSTS (DESCRIBING THE ASSOCIATED CHANGES)

The model has two main parts:

1. Allocation of Expenditure

This part of the model takes the costs associated with the road network by work categories (e.g. road pavement maintenance, bridge maintenance) and then allocates these into two types of expenditure. The approach used is based around the Ministry of Transport's Road Cost Allocation Model (2001). The two expenditure types are:

- **General expenditure:** This makes up around 60% of total roading costs and is allocated to all road users including general residual traffic and light vehicles. This expenditure includes traffic costs such as road signage, road markings, general operations, drainage control, lighting and minor maintenance.
- **Pavement/structural expenditure:** This makes up around 40% of total roading costs and is allocated to land use sectors associated with heavy vehicles. This expenditure includes costs to upgrade and maintain roads largely related to heavy vehicle usage. Pavement/structural expenditure is then broken into rural and urban using information about the length of each and in some instances historical spending in each of these areas. Based on this, 92% of structural/pavement costs are allocated to the rural sector and 8% to the urban sector.



2. Allocation of Costs to Sectors

Once the costs have been allocated, the model then uses different approaches to allocate the types of expenditure amongst land use sectors:

- **General Expenditure (60% of total costs)** – allocates costs across all land-use sectors based on capital value.
- **Pavement/Structural Expenditure (40% of total costs)** – allocates costs to rural and urban as well as re-distributing aggregate costs. The rural sector share is based on tonnage and the urban sector share is based on the number of properties and both use capital value to allocate the costs within the individual land use sectors. The cost of aggregates is shared out to all properties based on land value.

The rural sector includes dairy, non-dairy farming, forestry and mining properties. Their portion of pavement/structural costs are allocated on tonnage (weight). The model assumes that the weight generated by any sector damages the pavement the same as an identical weight in any other sector and that all vehicles are loaded to their weight limit at some part of each trip. It also assumes that the major generators of weight are reasonably uniformly distributed across the Southland District road network. The Southland tonnage information has been sourced from a variety of publicly available and published statistics. The total weight estimated to be transported on Southland roads is 2,590,277 tonnes per annum and this is allocated to the rural land use sectors as shown in the table below.

The urban sector to which pavement/structural costs are allocated for heavy vehicles includes industrial and commercial properties. Their portion of pavement/structural costs are allocated on the number of properties in each sector as shown in the methodology below.

As the majority of aggregates are taken out of river reserves (and therefore are unable to be rated for), this tonnage has been allocated to all sectors and shared out according to land value.

Methodology¹

Step 1: Allocation of Costs

ROADING EXPENDITURE	
Operating Costs	\$21,095,825
Renewal and Capital Costs	\$22,588,106
Non Cash Expenditure	(\$12,061,109)
	\$31,622,822

ROADING INCOME	
Land Transport New Zealand subsidy	\$13,397,856
Other Revenue	\$10,137,371
	\$23,535,227

REMAINDER FUNDED BY RATES	
Total Expenditure	\$31,622,822
Less Total Income	\$23,535,227
	\$8,087,595
ALLOCATED TO:	
General Costs	\$4,792,834
Pavement/Structural Costs	\$3,294,761

Step 2: Sharing out Costs

GENERAL COSTS		
General Residual Vehicles		\$2,738,611
Light Vehicles		\$2,054,223
		\$4,792,834
ALLOCATED TO:	SHARED OUT BY:	AMOUNT \$:
All Land Use Sectors	Capital Value	\$4,792,834
Residential (8,752 properties)	11.1% ^{**} (\$1,316,214,900)	\$533,680
Lifestyle (2,930 properties)	6.1% ^{**} (\$724,548,594)	\$293,780
Commercial (571 properties)*	2.0% ^{**} (\$240,840,600)	\$97,652
Industrial (416 properties)*	1.8% ^{**} (\$212,205,200)	\$86,042
Dairy (1,069 properties)	16.5% ^{**} (\$1,944,646,000)	\$788,488
Forestry (330 properties)	1.0% ^{**} (\$117,106,750)	\$47,483
Farming Non-Dairy (5,297 properties)	55.4% ^{**} (\$6,547,569,500)	\$2,654,818
Mining (34 properties)*	0.1% ^{**} (\$12,953,400)	\$5,252
Other (653 properties)	6.0% ^{**} (\$704,467,800)	\$285,638

* Commercial, Industrial and mining subcategories which were previously used have been combined.
 ** The capital value percentages (%) above have been rounded to one decimal place.

PAVEMENT/STRUCTURAL COSTS		
Heavy Vehicles		\$3,294,761
		\$3,294,761
ALLOCATED TO:	SHARED OUT BY:	AMOUNT \$:
Urban Land Use Sectors	Number of Properties (By Total Costs to Capital Value)	\$271,048
Commercial*	58% (571)	\$156,807
Industrial*	42% (416)	\$114,241
Rural Land Use Sectors	Proportion of Tonnage (By Total Costs to Capital Value)	\$2,689,853
Dairy	43.5% (1,130,922)	\$1,316,097
Forestry	24.3% (631,430)	\$734,819
Farming Non-Dairy	10.1% (262,642)	\$305,646
Mining	11.1% (286,397)	\$333,291
Aggregates (All Sectors)	Land Value	\$333,859
Residential (8,752 properties)	6.8% (\$550,629,300)	\$22,655
Lifestyle (2,930 properties)	4.8% (\$386,548,800)	\$15,904
Commercial (571 properties)*	1% (\$84,469,600)	\$3,475
Industrial (416 properties)*	0.4% (\$31,361,250)	\$1,290
Dairy (1,069 properties)	18.4% (\$1,490,511,500)	\$61,324
Forestry (330 properties)	1.3% (\$106,492,750)	\$4,381
Farming Non-Dairy (5,297 properties)	66.7% (\$5,414,397,550)	\$222,765
Mining (34 properties)*	0.1% (\$6,478,200)	\$267
Other (653 properties)	0.5% (\$43,704,600)	\$1,798

Commercial, Industrial and mining subcategories which were previously used have been combined.

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¹ The methodology has been developed using 2007/2008 roading financial information as well the most recent tonnage data.

The Council believes that the Morrison Low approach is based on a logical methodology and with the separation of general and pavement/structural costs, allows Council to charge land-use sectors with heavy vehicles for the costs that they create. The table below shows the model's overall allocation calculations used to derive each sector's share of costs.

Land Use Sector	Number of Properties	General Roading Costs (on Capital Value)	Pavement/ Structural Costs – Rural (allocated on Tonnages)	Pavement / Structural Costs – Aggregates (allocated on Land Value)	Pavement / Structural Costs – Urban (Allocated on number of properties)	Total Costs Allocated	Morrison Low Model Percentage Share of Costs	Modified Percentage Share of Costs
Commercial	571	\$97,652		\$3,475	\$156,807	\$257,934	3.19%	3.00%
Dairy	1069	\$788,488	\$1,316,097	\$61,324		\$2,165,909	26.78%	25.00%
Farming	5296	\$2,654,818	\$305,646	\$222,765		\$3,183,229	39.36%	44.00%
Forestry	330	\$47,483	\$734,819	\$4,381		\$786,683	9.73%	7.00%
Industrial	416	\$86,042		\$1,290	\$114,241	\$201,573	2.49%	4.00%
Lifestyle	2930	\$293,780		\$15,904		\$309,684	3.83%	4.00%
Mining	34	\$5,252	\$333,291	\$267		\$338,810	4.19%	2.00%
Other	653	\$285,638		\$1,798		\$287,436	3.55%	1.00%
Residential	8752	\$533,680		\$22,655		\$556,335	6.88%	10.00%
TOTAL	20,051	\$4,792,833	\$2,689,853	\$333,859	\$271,048	\$8,087,595	100.00%	100.00%

Note the table above includes rounding errors.

The Council has introduced a slightly modified version of the Morrison Low approach (shaded in the table above) to fund the roading rate as follows:

- Residential has been adjusted to 10% of the total cost. While the model allocated a portion of heavy vehicle costs (via aggregates) to the residential sector, this sector also benefits from other miscellaneous heavy vehicle movements. The adjustment is intended to reflect this.
- The other sector has been adjusted to 1% of the total cost. This sector has a large number of community and non-profit organisations. Council is concerned that an increase from the current level would require additional fundraising and/or divert resources from existing activities.
- Industrial, dairying and mining have been adjusted after considering each sector's current share of costs. With mining, given the small number of properties in this sector, any changes to the share of costs have a significant effect on individual properties.
- Farming has been adjusted up to 44% of the total cost and Forestry down to 7% of the total cost to allow for forestry blocks on farm land which can not be directly rated for.
- Rounding the model's percentage share to whole numbers.

The Council intends to recalculate the share of costs every three years to take into account the effect of property revaluations, land use change and revised tonnage data.

Impact of the Changes

The table below uses 2007/2008 budget figures to show the current (07/08) share of costs (A) and compares this with the financial impact of both the Morrison Low Model share of costs (B) and the Council's Modified share of costs (C) on the sectors. These figures do not include GST.

Sector	Number of Properties	(A)		(B)		(C)	
		Current (07/08) Allocation Method	Percentage Share of Costs*	Morrison Low Model	Percentage Share of Costs*	Modified	Percentage Share of Costs
Commercial	571	2.89%	\$233,591	3.19%	\$257,994	3%	\$242,628
Dairy	1,069	21.08%	\$1,704,901	26.78%	\$2,165,858	25%	\$2,021,899
Farming	5,296	53.39%	\$4,317,725	39.36%	\$3,183,277	44%	\$3,558,541
Forestry	330	2.84%	\$230,007	9.73%	\$786,923	7%	\$566,132
Industrial	416	4.16%	\$336,121	2.49%	\$201,381	4%	\$323,504
Lifestyle	2,930	4.84%	\$391,586	3.83%	\$309,755	4%	\$323,504
Mining	34	0.25%	\$20,957	4.19%	\$338,870	2%	\$161,752
Other	653	0.51%	\$41,007	3.55%	\$287,110	1%	\$80,876
Residential	8,752	10.04%	\$811,700	6.88%	\$556,427	10%	\$808,759
Total	20,051	100%	\$8,087,595	100%	\$8,087,595	100%	\$8,087,595

* The table includes rounding errors in column (A) and (B) as percentages (%) have been rounded to two decimal places. The figures in the table do not include GST.

Calculating the Share of Costs - Options

After having decided that the principle of user pays should be applied to a large percentage of road funding, the Council decided how this will be determined. The Council reviewed the various methods summarised in the table below.

Method	Description	Considerations	
07/08 Allocation Method (UAC and Differential based on Land Value)	The current differentials used are derived from variations of both the Price Waterhouse and GHD models.	Costs are moving towards being allocated to those that receive the benefits and there is some recognition that the sectors using the roads are being charged a fairer proportion of the costs of the roading network.	There is differing perceptions on whether this reflects the reality of where the costs are created.
Allocation based on the PWC/GHD model (Differential based on Land Value)	This model provides a tool for assessing the allocation of road costs to various sectors using the network. The model allocates costs to light and heavy vehicles broken down into vehicle weight, size and axle configuration. It looked at the extent to which the sectors used the roads by the number of trips that were undertaken. Land values were then used to assess the relative	Provides transparency as the sector understands the costs of using the network that are charged to that sector. Rates contributions are more aligned with those using the road network i.e. those who benefit contribute to the cost.	Southland ratepayers were not the only exacerbators, in that many vehicles from outside the district used the roading network but were not able to be rated for. The model allocates the cost of each trip equally to the destination and origin and many of these are outside of the district. Actual road construction/expenditure occurs to a larger extent on the rural network than as proposed in the model.

Method	Description	Considerations	
<p><i>Continued</i></p> <p>Allocation based on the PWC/GHD model (Differential based on Land Value)</p>	<p>contributions of each sector.</p>		<p>Revaluations create anomalies in contributions with significant differences in land values across the district.</p> <p>The model is complicated and difficult to interpret and relies on data which was difficult to obtain, to verify, and was of varying quality.</p> <p>The model does not best allocate costs within each sector as the land value doesn't directly reflect road usage.</p> <p>The model is sensitive to volume/data changes.</p>
<p>Modified Morrison Low Method (UAC and Differential based on Capital Value)</p>	<p>This model provides a tool for allocating road costs to various sectors using the network. The model identifies the portion of costs that each sector should pay related to heavy traffic use and general traffic use. Within those sectors, individual property contributions are allocated with a UAC and then according to the capital value of the property.</p>	<p>Better targets the patterns of actual expenditure. Provides a fairer distribution within land use sectors. Is easier to understand and data is publicly available. Rationale is reasonable and understandable. Use of capital value to allocate within sectors better reflects demand for services, is more stable over time and less likely to have large differences in value for similar properties in different areas of the District.</p>	<p>Tonnage data not available for all types of heavy vehicle movements. May take time for land use change to be reflected in the data and therefore the allocation of cost. The Ministry of Transport's Road Cost Allocation Model which allocates expenditure may not completely reflect the Southland situation.</p>

As the Morrison Low method shares out the costs of roading in a way which reflects the impact of heavy vehicles on the roads, the Council believed it to be the next best form of user pays besides petrol tax. As a result, Council decided that the Modified Percentage Share of Costs (Option C) is its preferred method.

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DETERMINING THE FUNDING METHOD (DESCRIBING THE AMENDMENT)

With the model deriving the share of costs to be allocated to each sector, Council then established how these costs will be spread amongst the properties in each sector. Council's current Revenue and Financing Policy shows that this will be done via by a uniform annual charge to collect 10% of roading costs with the balance payable by a differential rate in the dollar applied to land value. The Council amended its policy so that this will be done via a uniform annual charge to collect 10% of roading costs with the balance payable by a differential rate in the dollar established within each land use sector applied to capital value.

In considering its options for funding (detailed in the table), the Council believed that capital value better reflects:

- The presence and activities of people and therefore their demand for services.
- The total investment that has been made in a property.
- Growth, as it is more likely to pick up changes in the scale of operations.
- The ability to pay.

Capital value was also seen as more equitable as:

- Valuations are more consistent between different geographic areas. The value of improvements (buildings) in one area of the District is more likely to be the same as those in another area of the District which means that similar properties in different parts of the District are more likely to be treated similarly.
- Capital value tends to be more stable over time.

Determining the Funding Method - Options

The total costs or amount of rates required do not change with any of the following funding methods. The change only affects the way the costs are shared between properties within the various land use sectors. In determining how to make the allocation within each sector, the Council considered a number of options which are summarised in the table.

Method	Description	Considerations	
Allocation based on Land Value	This method allocates all roading costs based on the land value of a property. <i>The effect of this is to move costs onto properties within each sector with the highest land value.</i>	There is some link between the land value and the use of the roading network. For example, generally vehicles from farming properties (who tend to have higher land values) take longer trips on the network. It is simple to calculate.	Land value is a blunt tool and while it is one way of sharing costs, it doesn't best reflect the impact that the various sectors have on the network. Many factors, other than land use, affect land value. This can result in distortions to the costs attributed to ratepayers; in particular large variations in land value in different areas of the district mean similar sized properties make significantly different contributions.
Allocation based on Capital Value	This method allocates all roading costs based on the capital value of a property. <i>The effect of this is to move costs onto properties within each sector with the highest capital value (likely to be properties which</i>	Capital value better reflects demand for services, is more stable over time and less likely to have large differences in value for similar properties in different areas of the District, when compared to land value. Increased investment (higher capital value) could	Capital value alone does not reflect the costs being generated by those sectors with heavy vehicles using the roads. For example, while the forestry sector accounts for a significant portion of the District's heavy vehicles, forests have a

Method	Description	Considerations	
	<i>have significant capital improvements).</i>	be said to reflect likely increased use of the roading network. It is simple to calculate.	relatively low capital value.
Allocation based on Uniform Annual Charge	This method allocates all roading costs as a set amount for all properties (non-contiguous). <i>The effect of this is to share costs evenly amongst all properties in each sector.</i>	It is simple to calculate. Treats all properties the same. Reflects that everyone has access to the roading network.	A UAC doesn't reflect the impact that the different sorts of properties within each sector have on the network. This would breach the 30% maximum UAC limit. Does not best reflect the principle of user pays.

Overall Assessment of Wellbeing

Southland covers a wide area and has a diverse mix of land use, property values, size and type of businesses as well as social and economic conditions. No single property value system could capture all these complexities, and have a clear positive impact simultaneously on all four elements of wellbeing. The overall potential impacts of alternative rating systems on the social, economic, environmental and cultural wellbeing of the community are mixed. Each option has slightly different strengths and weaknesses.

Rating is primarily a revenue tool to raise funds to finance Council services. As a form of tax, it has to be efficient and fair. It can be if the rates levied attempt to reflect who benefits from the activity and the demand placed on the activity.

Whatever method is chosen, the efficiency, fairness and other effects will depend on the two modifications introduced:

- a) The percentage share of costs which determines the costs that each sector are responsible for; and
- b) The uniform annual charge and capital value which better share out these costs within each sector.

It is noted that while both land value and capital value would not be inappropriate for the purpose of rating, on balance, capital value has some merit over land value for a number of reasons. It is a better approximation of the benefits of public good provided in different locations and the demand placed on such public good by the intensity of developments. It may better reflect the market value of properties than land value and it is more stable over time.

All of the methods that have been identified to share out the costs (current method, PWC/GHD and Modified Morrison Low) aim to link sector contributions with cost impact that these have on the roads. Overall, the Council believed that the Modified Morrison Low model best links the actual costs of the Council's roading expenditure to the various land use sectors that are generating these costs.

AMENDMENT 2: Revenue and Financing Policy – Development and Promotions Rate to be fully recovered from a uniform annual charge

The Council has also changed the way it collects the Development and Promotions rate which funds the Grants and Donations activity (which includes the grant made to Venture Southland). This change is considered to be an amendment to the Council's Revenue and Financing Policy which is set out in the Long Term Council Community Plan 2006-2016. The Revenue and Financing Policy sets out how the Council allocates the cost of its activities against available sources of funds.

In the past the Revenue and Financing Policy stated that this would be recovered from a District-wide rate based on a uniform annual charge with the balance coming from a capital value rate. The Council has changed this to a District-wide rate based solely on a uniform annual charge.

For some time the Council has believed that the activities funded by the Development and Promotions rate provide benefits for the whole Southland community, however it has been unable to fully fund these from a uniform annual charge as the legislation sets a limit on the amount of funding which can be collected this way (30% of the total rate).

If the Council is unable to fully fund the Development and Promotions rate by uniform annual charge in the future (due to the 30% limit), it will collect any balance required from a capital value rate.

The amended page of the LTCCP 2006-2016 regarding the funding change is also included from page 184. It is important to note that the changes do not relate to an increase in costs, only to how these costs are shared out amongst Southland ratepayers.

Determining the Funding Method – Options / Wellbeing

As mentioned, no single property value system is able to capture all the complexities of the Southland District and best impact on all four elements of wellbeing. The overall potential impacts of alternative rating systems on the social, economic, environmental and cultural wellbeing of the community are mixed. Each option has slightly different strengths and weaknesses.

The Council has the option of using a variety of rating tools to fund this rate (land value, capital value and UAC as explained in the roading funding method table above). Again, as rating is primarily a revenue tool to raise funds to finance Council services (form of tax), it has to be efficient and fair by reflecting who benefits from the activity.

The Council believes that these services benefit the Southland community as a whole through increased employment opportunities, business development, community pride, coordination of opportunities and approach, recreational opportunities for local people, realising the potential of community attractions, enhanced quality of life in local communities, better community facilities, community self help and encouragement of young people. Overall, it is appropriate that all properties should share this cost equally and that a uniform annual charge be used if possible.

The effect of the change will be to remove the rate on capital value and increase the uniform annual charge from \$150.28 to \$156.00.

What is a Uniform Annual Charge (UAC)?

A Uniform Annual Charge (UAC) is a flat charge which is set on each property so that everyone pays the same fixed amount per property. A number of the Council's district-wide rates are paid fully or partly by UAC. Generally a UAC reflects that the use of these services is people based, i.e. generally a rural property with a family does not draw any more service than an urban property with a family.

The Local Government (Rating) Act 2002 sets a limit on the amount of funding that the Council can collect using UACs. This limit is set at 30% of the Council's total rate take. The Council aims to maintain the overall collection of rates collected from UACs at 29%, leaving 1% available for any special projects.

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Revenue and Financing policy (Amended Parts)

The wording in ***bold italics underlined*** reflects the actual amendments.

Introduction

The purpose of Council's Revenue and Financing Policy is to explain how the Council allocates the costs of its activities against available sources of funds. The policy is a requirement of Section 103 of the Local Government Act 2002. The Council is permitted to fund its activities from the following sources:

- | | |
|---|--|
| (i) General rates (District, Local) | (vi) Proceeds from asset sales; |
| (ii) Targeted rates; | (vii) Development contributions; |
| (iii) Fees and charges; | (viii) Financial contributions under the Resource Management Act 1991; |
| (iv) Interest and dividends from investments; | (ix) Grants and subsidies; |
| (v) Borrowing; | (x) Any other source as appropriate. |

The Council's Long Term Council Community Plan provides for seven community outcomes and the activities that Council is involved in that contribute towards those outcomes. The Revenue and Financing Policy has been formed on the basis of these activities. Allocation of costs and sources of funding have been established for each activity. Please refer to the activity section of the plan to see the specific funding policies for each activity under the heading "Who benefits for the activity and how should it be funded?" The graph on the following page summarises the targeted funding sources and mechanisms for each activity.

Funding Operating Expenses

The Council's policies and practices for funding of its operational expenditure are set to ensure compliance with applicable legislation and generally accepted accounting practice (GAAP). The Council's Long Term Council Community Plan, Annual Plan and Annual Report set out Council's comprehensive and detailed statements of accounting policies. These reports also identify "Cost of Service Statements" that in turn show operational sources of funds.

Funding Capital Expenditure

The Council's policies and practices for funding of its capital expenditure are set to ensure compliance with applicable legislation and generally accepted accounting practice (GAAP). The Council's Long Term Council Community Plan, Annual Plan and Annual Report set out Council's comprehensive and detailed statements of accounting policies. These reports also identify "Cost of Service Statements" that in turn show capital sources of funds.

In general terms the Council uses a mix of funding sources as appropriate to fund capital expenditure. Renewal of existing assets is generally provided for

from rates, reserves, borrowing or a combination of these three sources. New assets are generally provided from borrowing to recognise intergenerational equities, subsidies and development contributions. It may also be appropriate to apply the proceeds of asset sales to providing new assets.

Investment Interest

Each year Council allocates interest earned on its general investments towards subsidising general rates.

Subsidies

Council's roading activity receives a ***Land Transport New Zealand*** subsidy each year. This is in addition to general rates and other revenue.

User Fees and Charges

Fees and charges are collected annually to fund a wide range of Council services.

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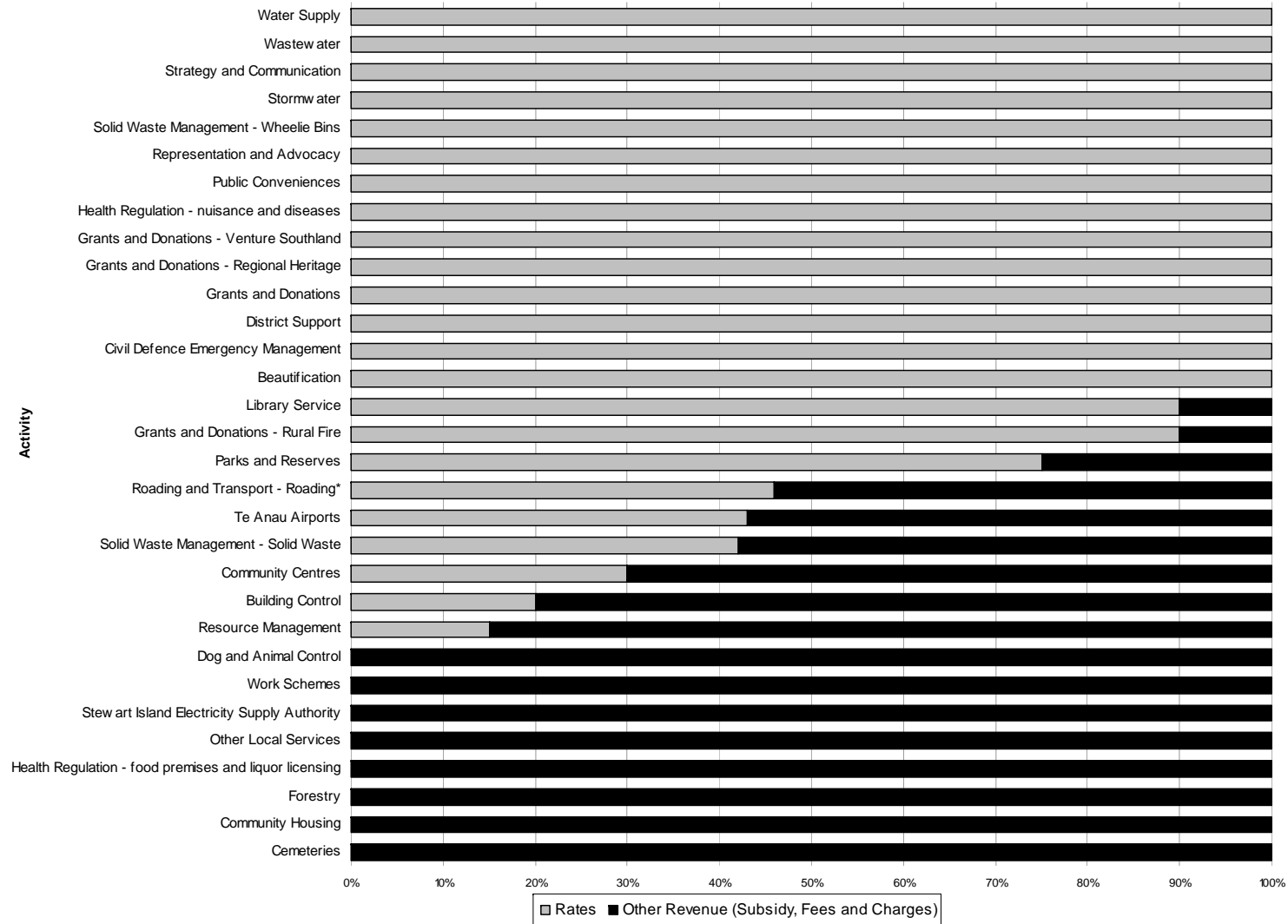
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Summary of Revenue and Financing Policy – rates funding and other funding



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Funding mechanisms

- Indicates the Policy source of revenue expected
- Indicates another source of revenue used

Activity

	District General Rates - Valuation	Local Rates - Valuation	District General Rates – Differential	Local Rates - Differential	District General Rates - UAC	Local Rates - UAC	Targeted Rates - Valuation	Targeted Rates - Differential	Targeted Rates - UAC	Fees and Charges	Investment Interest / Dividends	Borrowing	Proceeds from Asset Sales	Development Contributions	Financial Contributions	Grants and Subsidies	Any Other Source (inc reserves)
Beautification		●				●				●							
Building Control	●									●							
Cemeteries		●								●							
Civil Defence Emergency Management	●									●	○	○				○	
Community Centres										●							
Community Housing	○									●		○					
District Support	●									●		○					
Dog and Animal Control	●									●		○					
Forestry										●							
Grants and Donations (includes Regional Heritage, Rural Fire and Venture Southland)	●				●					○	○					○	○
Health Regulation (includes food premises, liquor licensing, nuisance and disease complaints)	●									●	○						○
Library Service					●					●	○	○					○
Other Local Services (includes Buildings/Property and Riverton Harbour)	●									●							
Parks and Reserves	●									●		○		●			○
Public Conveniences	●	●			●	●				○		○					○
Representation and Advocacy					●	●				○	○						○
Resource Management - Resource Consent Processing	●									●	○						○
Roading and Transport (includes Streetworks and Roadside Pest Plants)		●	●		●					○	○	○				●	○
Solid Waste Management (includes Solid Waste and Wheelie Bins)							●			●	○						○
Stewart Island Electricity Supply Authority									●	●	○						○
Stormwater		●								●		○				○	○
Strategy and Communication	●				●					○	○						○
Te Anau Airports									●	●		○	○				○
Wastewater									●	●		○	○	●			○
Water Supply									●	●		○	○	●			○
Work Schemes	○									●	○						○

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Roading –

Roading

The benefits of providing the service are that it allows people access to their land, homes, schools, social centres and recreational centres and the movement of goods and services. The activity is essential for economic development and sustainability of other activities. These benefits are distributed between the community as a whole, utility companies, commercial enterprises and individuals. Further roads and bridges are essential for growth and expansion of the economy. Council wants Central Government to become a more active partner in the funding and management of public roads. Council wants Central Government to return all money allocated from taxes. User-pays is an appropriate method to fund roading.

Therefore, after maximising Government funding assistance (54% in 08/09) the Council considers that costs should be recovered 10% from a Uniform Annual Charge (UAC) to reflect user access to the Council's roading network, a differential roading rate levied District-wide on land use based on **capital value** and borrowing. In addition, the Council may require subdividers and developers to pay a financial contribution under the Resource Management Act 1991 towards the capital cost of upgrading works caused by growth. The amount of the contribution is assessed on a case-by-case basis, up to 50% of the cost of improving roads to cater for additional traffic generated by the development.

Funding	0%	20%	40%	60%	80%	100%
Rates						
Other						

Differential and UAC
LTNZ subsidy - 54% base rate

Development and Promotions –

Venture Southland (Economic, Tourism and Community Development)

The benefits of providing this service are the wider economic benefits to the Southland community as a whole. These benefits include increased employment opportunities, business development, community pride, coordination of opportunities and approach, recreational opportunities for local people, realising the potential of community attractions and enhanced quality of life in local communities. These benefits are distributed between individuals, businesses and the general community.

The Council believes that the costs should be recovered from a District-wide rate based on a **Uniform Annual Charge**.

Funding	0%	20%	40%	60%	80%	100%
Rates						
Other						

Other Council Sponsorships, Grants and Donations

The benefits of providing this service are better community facilities, community self help and encouragement of young people. These benefits are distributed between the community at large, sports, recreational and other groups and individuals (sponsorship recipients). Further, the overall benefit is to the wider community, and grants policies generally require applicants to have raised a "local share".

The Council believes that the costs should be recovered from a development and promotions rate levied District-wide based on a **Uniform Annual Charge** and by using council Reserves where appropriate.

Funding	0%	20%	40%	60%	80%	100%
Rates						
Other						

STATEMENT TO THE READERS OF SOUTHLAND DISTRICT COUNCIL'S
LONG-TERM COUNCIL COMMUNITY PLAN AS AMENDED ON 25 JUNE 2008
FOR THE TEN YEARS COMMENCING 1 JULY 2006

Purpose of Statement

The purpose of this statement is to inform readers of the potential impact of the Southland District Council's (the District Council's) process of amending its Long-Term Council Community Plan (LTCCP) for the ten years commencing 1 July 2006.

This statement outlines the extent, and limit, of our involvement in the District Council's process of amending its LTCCP commencing 1 July 2006. In particular we would note that we have no role to report on the adopted amendment or the LTCCP, as amended.

The District Council's process of amending its LTCCP commencing 1 July 2006 and our role

The District Council adopted its LTCCP for the ten years commencing 1 July 2006 on 28 June 2006. The Auditor-General appointed me, Julian Tan, using the staff and resources of Audit New Zealand, to report on his behalf on the LTCCP adopted on that date.

We expressed an unqualified opinion on the District Council's LTCCP for the ten years commencing 1 July 2006 in our audit report dated 28 June 2006. We considered that the LTCCP 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 Act.

In a Statement of Proposal dated 9 April 2008 the District Council proposed an amendment to its LTCCP for the ten years commencing 1 July 2006 to amend its Revenue and Financing Policy to:

- Amend the targeted differential rate component funding the roading activity from one calculated based on land value to one based on capital value; and
- Recover the development and promotions rates fully from a uniform annual charge.

We expressed an unqualified opinion on this Statement of Proposal in our audit report dated 9 April 2008. We considered that the information within the Statement of Proposal, about the proposed amendment to the LTCCP and any consequential amendments to the LTCCP 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 2008 the District Council adopted the proposed amendments to its LTCCP for the ten years commencing 1 July 2006 as described in the Statement of Proposal mentioned above.

We note that the District Council prepared the LTCCP, as amended, to reflect its LTCCP after incorporating the amendments adopted by the District Council on 25 June 2008, and any consequential amendments.

There is no legislative requirement for us to report on the adopted amendment or the LTCCP, as amended by the District Council on 25 June 2008 and we have not performed an audit of either the adopted amendment or the LTCCP as amended. Consequently we have not updated our audit report that was attached to the LTCCP adopted on 28 June 2006.



Julian Tan
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

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