

In general, the South Waikato District Council supports the submissions made by the Local Government New Zealand and Society of Local Government Managers but would like some points on various questions below.

Question 1:

Each local authority is different but over recent years this has been accentuated by a number of external factors that means that differing funding models need to be considered:

1. The pressure of tourism on small communities without a revenue stream to help compensate for the infrastructure and service costs tourism brings.
2. Climate change has placed cost and social pressures on communities unevenly across the country and even within districts.
3. Population growth and associated pressures on infrastructure is uneven and often unpredicted and unpredictable, leaving councils with huge infrastructure and planning issues. Central government relief for this is not fairly distributed because 'growth councils' have access to infrastructure funds where Councils with lower growth (but still have a limited ability to cope with it) get no central government support.
4. Increasing infrastructure requirements places pressures on councils in different ways depending on where they are in the asset lifecycle for their infrastructure assets. Councils who have undertaken recent upgrades (and therefore incurred debt) may have to incur further costs to comply with new standards as opposed to Councils who have not upgraded and have a large increase in capex and debt looming but may have a larger capex requirement.
5. Deprivation levels in communities have a huge influence on service consumption and the ability to pay either user fees and/or rates.

Question 2:

Accounting depreciation has no direct correlation with capital expenditure for a number of reasons:

1. Accounting depreciation is the allocation of capital cost over the life of an asset. This is on a revalued asset basis but only annual depreciation is at current values so accumulation of depreciation will never be enough to replace assets in the future because historical depreciation has been at lower rates.
2. Future capex replacement cost may have no correlation to historical capex cost because of technology and service changes.
3. This is hugely dependent on where the Council is at in its infrastructure replacement lifecycle. For example, the bulk of our infrastructure (for which we are collecting funding for) is 30 years away from replacement so we are in the fund accumulation stage so if depreciation (or more importantly asset replacement funding) was equal to capex then we would have huge problems in 30 years' time because of a lack of accumulated funds.
4. Our Council feels it is prudent to collect rates for the future infrastructure asset replacement and also that these funds are invested for the sole purpose of future replacement. As discussed above it is important that this is not completely based on historical depreciation but is adequate to replace the cost of infrastructure as it falls due in the future, bearing in mind expected rates collection for this purpose, investment returns and the predicted cash flow of capex. Therefore, the amount collected from rates may bear no relevance to depreciation at all.
5. It is also important to note that accumulated accounting depreciation will also never be enough because it only began in the late 1990s so a significant amount of infrastructure was part way through its life already and therefore not depreciated.

Question 10:

It is likely that the prices for goods and services will fluctuate between councils. Often this is more the case of contractor's willingness to operate in rural New Zealand and on 'smaller' projects and contracts than the difference between small and larger councils.

Councils extensively use 'All of Governments' and regional procurement contracts to achieve great procurement results.

Question 12:

The scope and scale of activities provided by a local authority will impact cost. If the scope and scale of operations (say the removal of waters activities) would have a significant impact on the viability of, particularly, smaller and medium size councils. Overheads, which are to some extent fixed, will need to be spread across less services.

Question 29:

As discussed in the response to Question 2 the building of Asset Replacement Reserves, which are invested externally, is an appropriate method of spreading infrastructure cost intergenerationally.