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Submission on Local Body Funding and Financing

1) Kapiti Coast Grey Power (KCGP) is a member of Grey Power NZ Federation and is based in the Kapiti Coast District Council's (KCDC) region. It has close to 4000 members.

2) At 26% Kapiti has the second highest number over 65 year olds in the country following Thames –Coromandel. It also has a high percentage of young people who are not in the workforce which puts a higher burden of **r**ates on the over 65's. This is demonstrated by Kapiti's median income which is 20% lower than the national median.

3) KCGP believes that after food, rates are the second highest annual cost facing the elderly in Kapiti. Consequently KCGP takes a strong interest in council affairs, always submits on LTPs, Annual Plans, and other issues that affect the community. Consequently it welcomes this review of financing and funding of local bodies and the opportunity to consult. KCGP submitted to the Shand report both as an association and as part of a consortium of Councils and voluntary organisations and is disappointed that none of the recommendations were taken up by Government.

4) A further incentive is a recent Regional Council report *"are we meeting our environmental outcomes in the Kāpiti Coast catchment?"* which indicates that Kapiti faces serious problems caused by increased sea levels in the future with significant flooding which will be costly to remediate.

5) The KCDC rates largely on land value but in 2018 a proportion of some activities (roading and economic development) were recovered on a capital value basis as a district revaluation produced a distortion that would have resulted in a heavy rating load on one of its villages. Water is charged on a volumetric basis plus a uniform charge, and the council does not collect rubbish or recyclables, but licences various operators which has resulted expensive and unsatisfactory services for some.

6) KCGP’s responses to your questions will largely be dictated by Kapiti Coast District Council’s activities and policies.

Q1; what other differing circumstances across councils are relevant…

7) The objectives, lobbying and sectorial interests of individual councillors have a varying effect on expenditure patterns and the way rates are collected. KCDC has only recently introduced a rates differential and then only on $0.5m of the Economic Development Services budget (para 5). As well part of the roading budget is now being recovered on a rate based on capital values.

8) KCGP believes that these changes from a fixed charge did not result from a change in policy but from political necessity.

9) There has been a high expenditure on various facilities largely with the objectives of increasing business opportunities and encouraging tourists. Eg an aquatic centre $23m, “Transforming Towns” project $41m, and minor projects, upgrading the art gallery $3m, and library $6m supporting an events centre $1.5m. The regional council report referred to above predicts significant difficulties in future from sea rise for Kapiti. KCGP believes that there is an imbalance of funding between well-being activities and infrastructure.

10) Kapiti has the highest debt of the minor TLAs.

11) This level of debt has prevented Kapiti from clearing $239 a backlog of stormwater works. As a result it will be 31 years before the last property is relieved of in house flooding.

12) The Auditor General has warned that ageing underground infrastructure in many areas of New Zealand will require replacing shortly, but Kapiti is a comparatively new population centre and will not be significantly affected for about 40 years.

13) 80% of KCDC’s income comes from rates as compared (at the time of the Shand report) with the national average of 56%. The lack of income producing assets is a difficulty faced by the smaller councils who were not allocated shares in forestry, ports etc. when those assets were restructured.

Q2; What explains the difference between the amount that councils account for depreciation and the amount spent on renewing assets….

14) For a number of years KCDC did not depreciate new assets (KCGP understands with the acceptance of the Audit Office) with the understanding that it would “catch up” within a 10 year period, which it is now doing. The depreciation however is not being put in a pot to renew the assets that are being depreciated, it is supporting new capex.

Activity	Unfunded depreciation $000,s 2018/19
Roading	2197
Coastal management	135
Water management	103
Community facilities	902
Parks and open spaces	561
Total	3898

15) A review indicates that KCDC's rates of depreciation of its assets closely follows that of most councils with the exception that it depreciates the base course under its roads. KCGP believes that this was a cynical move to keep its borrowings within the limits set in its significance policy.

16) However KCGP refers the Commission to the discussions in the "Shand Report" which recommends "*That councils move away from fully funding depreciation, with the development of longer-term funding policies that take better account of intergenerational equity, and the availability of longer-term debt financing"*

Q3; in what way are population growth and decline affecting funding pressures for local government. How significant are population trends compared to other funding pressures?

17) Kapiti has a pleasant (for the Wellington region) climate, is largely flat, and rate payers are close to relatives that may live in Wellington, has a growing retirement village industry, and is seen as a place to retire. The completion of the Gully Road may make Kapiti more attractive for a wider range of people currently living and working in Wellington. This growth along with the desire to improve the tourist trade will increase the pressure on the infrastructure. Housing will be a constraining issue. Pressure will eventually come to expand its waste water and water processing plants which KCGP believes the cost of which, will not be met by development contributions.

Q 4 What are the implications of demographic changes such as population ageing for the costs faced by local government

18) Kapiti is growing but it is largely populated by a significant number of superannuitants (26% of the population) which brings lower incomes and reduced

affordability (see para 2) which is recognised by KCDC's rates assistance policy of an additional rates rebate of up to $300 pa (funded from rates) for those whose rates (after the Governments rate rebate) exceeds 5% of their income after tax. There is a cap of $125.000 on this fund.

19) KCGP is concerned about the "open ended" nature of council funding as opposed to that of government which is constrained by tax rates.

20) The lack of a cap on rates as imposed by one Australian state gives free reign to councils whose only restriction is the ballot box.

21) It is of concern to KCGP that councils do not take the possibility of declining district wide income into consideration in its 30 year Long Term Plan.

22) KCGP believes that the LTP should include an estimate of district income over the 30 year period of the plan to ensure that it does not commit the community to a level of debt which in later years becomes beyond the capacity of the community to pay.

Q 5: to what extent is tourism growth resulting in funding pressures for local government? Which councils are experiencing the greatest pressure and how is this manifesting?

- The beach is one of the major attractions of Kapiti and the Council is planning a $17.7m concrete seawall (instead of a cheaper rock revetment) to protect the beach at Paekakariki.
- KCDC has plans to build a gateway to Kapiti Island, but as the number of visitors is controlled by DOC, KCGP has concerns about the value of such an asset.
- The council financially supports Air Chatham.
- The $42m Transforming Towns project is another attempt to increase the attractiveness of Kapiti to visitors.
- There is a need for more public toilets and freedom parking is a problem.

Q 6: Is an expansion of local government responsibilities affecting cost pressure for local government? ……

23) The National Policy Statement on Water Quality, which will affect all LTAs immediately, comes to mind.

24) The Shand report recommends that Government contribute to the costs of the work being undertaken to meet the requirement of these national policies.

25) The transfer of SHI to local control as result of the construction of the Gully Road to Otaki will create an increase in rates which will not be as the result of local pressures.

Q8: How are local authorities factoring responses to climate change and other natural hazards to their infrastructure and financial strategies? What are the cost and funding implications of these requirements?

26) KCDC's infrastructure strategy in its LTP discusses sea rise but does not in KCGP's view establish a policy or a strategy for each activity. The work being done eg placing a rock revetment and concrete blocks along parts of the beach fronting council assets is reactive rather than pro-active and is in response of a local policy policy to protect public assets.

27) Following a recent tsunami alarm council staff and volunteers visited vulnerable properties to discuss what steps should be taken for personal safety.

Q9: Why is the price of goods and services purchased by local government rising faster than the GPI? Etc.

28) Local government and its contractors use materials sourced overseas e.g. fuel, bitumen) and the local government construction index produced by BERL reflects this.

29) The index is made up of several items not all of which apply in a particular activity, for instance why should the full LGCI be applied to operating expenditure for waste water services which use energy, material, or services not sourced overseas. The same applies to Democratic Services and Economic Development and probably other activities. In KCGP's view the use of this index across all activities provides a slush fund for councils. The BERL report is attached as appendix 1

Q10: Do the prices of goods and services produced by local government vary across councils? If so what are the reasons?

30) In KCGP's view there are at least five reasons:
- Costs incurred by distance e.g. Rangitikei faces high electricity and transport costs.
- Lack of competition, poor tendering processes for services and materials.
- Lack of volume.
- Differing public/private allocations
- Differing staff ratios.

Q11; is local government shifting away from traditional core activities etc.

31) While KCDC has always supported economic development. KCGP considers that an allocation of $42m for a project (Transforming Town Centres) is outside its core activities, especially when outstanding stormwater works ($239m) is programmed to take 45 years to fix and it will take 31 years for the last house to be relieved of flooding of its floor. Apart from the over the top aquatic centre, its wellbeing activities seem sensible but not evenly directed to all parts of the community eg very little is directed to the elderly.

Q12: Does the scope of activities funded by government have implications for cost pressures?

32): Probably housing will. As result of Expressway construct Kapiti will have 14Km of SHI transferred to the council as a local road.

Q13: what other factors are currently generating local government cost pressures? What will be the most significant factors in the future?

33) Sea rise is already creating problems with a $16m sea wall programmed and plans are being developed for the protection of another half kilometre of beach front.

34 Kapiti has a steady growth prediction so the problems facing other councils of declining population and aging infrastructure will be a limited issue for KCDC

Q14: No comment

Q15 & 16: How effective is the LTP…etc

35) KCGP would say that the LTP process was not very usefully from the individual ratepayer's point of view, but the three year process does provide for a continuity of planning The KCDC holds LTP workshop meetings during the day. Consequently apart from KCGP and Older Person Council (OPC) representatives only an odd person or two attends the workshops leading up to the production of a draft LTP. Both the KCGP and OPC representatives are able to speak to issues as they arise.

36) The draft consultation document does contain options for ratepayers to consider. Rarely does it offer significant choices i.e. the choices offer as little as a 0.01% change so are not accepted. In fact some see these suggestions as the Council merely going through the motions. When something significant arises and few of the community are affected, the majority take the recommended option. A case in point the KCDC has a backlog of stormwater works to the value of $239m. The LTP had 3 options, complete the works in 25, 35, or 45 years with the last being the Councils preferred option. This option was selected by those who responded and as a result the last property that has flooding on the floors of its house will receive relief in 31 years.

37) KCGP's experience is that the council makes subtle changes to some policies have been quietly degraded at cost to ratepayers.

38) The new summarised version that councils now produce hides these changes from ratepayers who are not prepared to read the full plan.

39) Portland Oregon U.S.A, uses a bottom up process to develop its long term plans, as opposed to NZs top down process. Local Government NZ with Mckinlay Douglas ran a course some years ago on this subject. It is understandable that such a process could not apply to large infrastructure projects such as water supply etc. The Thames-Coromandel District Council has a process with starts with its Community Boards.

40) KCDC does an affordability exercise which examines the effects of the proposed rates increases on several mesh blocks selected in high decile areas which in KCGP's view is a reasonable approach but unfortunately doesn't seem to affect councillor's decisions.

41) This year KCGP congratulated the Council for adopting a "green line" limit on capital expenditure in the last year. While hopefully this policy will be retained by subsequent councils. KCGP has no idea how the cap was calculated.

42) KCGP supports the retention of the LTP but would like to see the community more involved in the process, and councils including in it, long term community income forecasting.

43) The shortened form allows some issues to escape the notice of ratepayer. An example is the watering down of coastal protections which in 2009 provided for rating for benefit and is now reduced to “the expense would exceed the benefit” which is a nonsense when considered over the expected time frame for sea rise.

Q18: How much scope…..to deliver services more efficiently

44) Many ratepayers will moan about the number of staff and the level of salaries. KCGP believes that smaller councils get what they pay for and many problems result from inexperienced staff. KCGP believes Councillors do not have experience in selecting staff and that LOGIMA has too big a role in salary structures. KCGP does see instances where efforts are made to reduce costs but has the feeling that contractors are quick to take advantage of an organisation which counts awards for excellence as an objective.

Q19: What practices and business models etc

45) During the last term a commercial project (Clean Tech Otaki) that the Council supported financially, failed. Originally $130,000 was allocated to the project KCGP understands that a lessor sum was written off. KCGP is unaware if a business case was prepared. Although the last council also said in its LTP that projects would be evaluated for their internal rate of return KCGP has not seen any evidence that this has occurred. KCGP believes that KCDC has staff that would be capable of using this tool but has not seen any evidence of this in council papers.

Q20: How do councils identify and employ new technologies…

46) KCGP has seen KCDC adopting new technologies, one of which was a major failure (the Lemar sewage project) and others that are successful e.g. the chip burning drying system at the sewage plant (saving electricity costs) the plastic roof of the aquatic centre (saving heating costs) and LED street lighting (saving electricity costs) but suspects that the initiative for these activities was external.

Q21: What incentives do councils face…

47) To be cynical, the three year election cycle.

Q22: What are the barriers…….

48) For smaller councils, lack of scale in quality of staff or numbers (unable to afford numbers or experienced people) purchasing power, quality of councillors, and lack of a cap on rates. This lack of experience resulted in changes to solid waste collection referred to in para

Q23: How does local government measures performance…..

49) The only visible sign to ratepayers are the KPI’s and ratepayer surveys, neither of which KCGPs view are satisfactory. The KPIs are soft and a number of KCDC’s KPIs have a target that 85% of ratepayers are satisfied with the service. Council staff decide what the survey questions shall be.

50) LGNZ has introduced an independent performance measuring service “councilMARK” which measures performance in 4 broad categories. KCGP cannot give a views on this process as KCCD has not been surveyed to date.

Q24…Q25 To what extent…..

51) There is no public evidence available to ratepayers that there are any attempts measure efficiency. KCGP has been told that councillors asking for information have to wait 20 working days for an answer. (The engineering group is one exception) It is KCGP's view that councils are concerned that they will be liable if something escapes an inspector's eye or some other issue creates a liability.

Q26: Measures to keep activities affordable….

52) KCDC does an affordability study along with its LTP. This is based on selected mesh blocks in high decile areas throughout the district. KCGP notes that this report is considered by councillors early in the 3 months long process and is forgotten at the end of it. KCGP would say it is ineffective. A copy is attached. The private /public split advantages some (see below). The only benefit for a class of people is a discount for Supergold card holders with Community Service classification get at the council's swimming pools. Grants of up to $2000 are available from the Community grants scheme to improve social cohesiveness (total fund $40,000).

Q27: Public/private split…..

53) KCGP is astounded by the variation in the range of splits across all TLAs. It appears that some are determined by policy (Open for Business in KCDCs case) rather than by benefit and it appears that ratios may be determined by a desire to promote an activity. KCDC at the last LTP varied the splits in some activities because the previous results for the activities concerned did not meet the financial reality.

A structured approach across all TLAs could provide a solution.

Q28: Do councils distribute costs fairly…

54) KCGP has been asking the KCDC to introduce a business/commercial rating for years. During this time the Council has beautified the shopping centres in Paekakariki MacLean St Paraparaumu and Mill Rd Otaki. It has plans to upgrade Margaret Rd Raumati but this has been put aside to allow the Transformation Towns project (42m) to go ahead. The Transformation Towns projects objective is to create town centres in Paraparaumu and Waikanae. The shop owners have not contributed in any way.

55) The council about 10 years ago agreed that it would protect public assets from sea rise and where private property was also protected, those properties would be rated for benefit. Over the last two, LTPs this policy has been watered down without public notice to the latest which states that rating for benefit would not be cost effective. There are millions of dollars' worth of private property involved. And while the latter statement may be correct for one year, the benefit will remain for many years making rating for benefit well worthwhile.

Q29: Do Council spread costs over future generations…..

56) Prior to 2009 KCDC funded infrastructure on a 20 year basis. It now funds on a 30 year which provides greater intergenerational equity.

Q30: no comment

57) The principles are laid out in the act but are unfortunately subjective.

Q31: How effective are funding tools ….

58) KCGP believes that the KCDC should in a number of instances, rate for benefit.

Q32: Targeted Rates what is inhibiting the use

59) Politics

Q33: Is there a case for greater use of certain tools…

60) Rates are levied to meet Council's needs. KCDC uses land valuation as a basis for its rates but as a result of revaluations transferring higher costs to a low decile area, has resulted in the introduction of capital value rating for roading. There are opportunities for rating for benefit.

Q34: Use of user charges…

61) KCDC applies user charges to water and solid waste.

62) 75 % of the population has benefitted from water charges which annually are less than the previous fixed charge .To allay community fears that once established the service would be sold to the highest bidder a separate ring-fenced account was established with protections written into standing orders. The resultant savings in usage and the location and repairing of leaks resulted in a significant shortfall in income to the Council which has been covered by a loan.

63) KCDC licenced its solid waste collection and the result has disadvantaged some ratepayers. Originally there were 4 contractors but 3 have been squeezed out with price consequences for ratepayers. KCGP believes that contractual arrangements, rather than licences, would have benefitted ratepayers.

Q35: How does the timing risk….

64) Funding issues have caused shortfall in investment in infrastructure especially stormwater. In future years this will affect coastal protection arising from sea level rise.

Q36: What are the pros and cons…..

65) In a community where the median household income is significantly lower than the national median, land based rating is a regressive system. Development contributions do not fully fund extensions to such items as water and sewage plants that are necessitated by an increasing housing stock. The cons are that development might be curbed if additional costs are imposed on developers. The effects of the Governments Urban Development Authority are unknown.

Q37: Under what circumstances could there be a case for greater central Govt funding….

66} A growing number of councils are faced with increasing demands for infrastructure as result of the growing flood of tourists. While local traders benefit, as does central government (from GST and lower benefit payments), none of this benefit passes to a council. Government should at least allocate a share of GST income to Councils for infrastructure that is needed to meet tourist requirements.

67) Certainly the regional growth fund is correcting some of this imbalance but a change of government may result in this being a fleeting action.

Q38: Do councils have sufficient incentives…

68) KCDC is growing and its ability to meet additional infrastructure costs is limited by the level of development contributions, debt and income in the community.

69) The area does have natural incentives such a climate, and beach, which encourages immigration and is evidenced by the high number of one and two person businesses (over 4000).

70) Tools are available, such rebating rates, which council has used in the past to encourage business growth, but its current high level of debt and residential rates probably prevents it from using financial incentives to bring high value businesses to the area. (Currently largely only businesses paying minimum wages are arriving in Kapiti). Council does provide limited free advice for those seeking consents and council advertises itself as being "Open for Business".

71) The completion of the Gully Road may make a difference to the number of people and businesses moving to Kapiti, but a large proportion of the workforce utilise the excellent train force and work in Wellington (probably at higher remuneration than would be available here).

Q39: …What funding and financial options …would help councils with population decline

72) This is not a concern of Kapiti but property taxes may be an option that would help as would the removal of GST on rates.

Q40: What are the other funding options….

73) The removal of GST on rates would give councils some "freeboard" to increase rates without increasing pressure on ratepayers and would be particularly helpful where populations are declining.

Q41: What are the pros and cons of income and expenditure taxes……

74) Expenditure taxes are regressive and would be difficult to allocate and administer. We see Aucklanders taking steps to avoid the current fuel tax. We already have GST and Australia is a good example of the difficulty of distributing centrally collected taxes, and political interference in its distribution.

75) While income tax would in KCGP.s view provide an equitable system of funding the difficulty would arise in its collection where councils have differing requirements and, as in Kapiti's case, the largest proportion of the work force is employed outside the district.

Q42: What are the advantage and disadvantages of property tax.…

76) The assumption is that the value of a property is an indication of the ability to pay and in many cases this correct but there is an increasing number of households that are asset rich but cash poor. This situation has arisen through the GFC, and divorce.

77) Should the latter group be forced through the circumstances above to sell up a property to which they have strong emotional ties and perhaps are mentally incapable to move to a property where they can afford the tax.

Q43: Are there any other……

78) KCGP believes that other than perhaps private partnerships the funding tools are adequate, but we are concerned that councillors are not aware of the tools available.

79) In the past, KCGP has requested that councillors receive briefings in the Rating Act but as far as we know that has not occurred.

Q44: How can this transition

80) The KCDC has in the past introduced a significant change (i.e. Rural Village rating) and has successfully phased it in over a 3 year period.

Q45: To what extent do funding tools….….

81) As we explained earlier KCDC has introduced user charges for water and solid waste. Other LTAs have introduced user charges for sewage based on a percentage of water used. KCGP fails to see how this can be equitable.

Q46: To what extent are financing barriers….

82) KCGP would be concerned if funding at ratepayers expense was made easier. TLAs have open-ended budgets now in comparison to central government whose expenditure is restrained by income. Lending institutions would likely be concerned also.

Q47: What role could private investors play…..

83) KCGP would be concerned about the ability of private investors to control projects, the life-time of such contracts, the fees charged, and the ultimate destination of the assets. In KCGPs view the KCDC not have the skills to negotiate such a contract and this has been displayed by its Lemar contract, its solid waste licences and recent sealing contracts.

Q48: If NZs adopts property tax should it also adopt TIF

84) Probably.

Q49: How effective……

85) In the past KCGP has had the impression that the Audit Office seemed only to be interested in process.

86) The Council decided to borrow $30m from the LGFA and invest it in higher earning funds as a source of income.

87) This action put borrowings above the limit authorised in the council significance policy, but it received advice that as the funds were not being used to fund any council activities, it was legal.

88) KCGP understands that as result of private enquiries, the Auditor General (AG) has reviewed the action by the council and has warned the it that this has a risk.

89) KCGP is of the view that if this action is legal it does not comply with the spirit of the Local Government Act

Q17): Is there scope…….

90) The measurement of the internal rate of return could be appropriate for some capital works.

Additional item

92) The Shand report recommended annual valuations. KCGP considers that the Commission should come to a view on this recommendation

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