



# Local government funding and financing inquiry

Hauraki District Council's submission  
February 2019



## Introduction

We, the Hauraki District Council, thank you for the opportunity to participate in the local government funding and financing inquiry. The funding of local government activities continues to be a significant challenge for us. We welcome this inquiry looking into the issues the sector face and options for improving the funding and financing system. Our feedback to the questions posed by the Commission are set out below.

In summary, we submit that:

1. the ongoing requirement for increased standards are a major cost driver, yet they won't all result in improved environmental, social, cultural or economic benefits. Wastewater treatment upgrades is particularly significant example.
2. a lot of what we do contributes to the wellbeing of New Zealand, yet it currently must be funded by local communities.
3. the pressures on our communities' ability to pay rates and the limitations as to how much we can redistribute costs to those with greater wealth and ability to pay is the key funding and financing issue we face now, and will continue to in the future.
4. we believe that increased scope of government subsidies for both local and national-good projects where communities have a lower ability to pay is an appropriate solution.
5. while a number of the drivers and challenges raised in the issues paper are not a surprise, we do not agree that they all are issues. We believe that for our district depreciation is accumulated and spent appropriately, local government cost increases are naturally different to consumer price increases, and we are not experiencing shifts away from so-called traditional core business (as interpreted by the Commission).
6. we support the establishment of a national climate change adaptation fund since adaptation to climate change is forecast to be a large expenditure driver in future.

We thank you for the opportunity to meet with the Commissioners on 11 February and look forward to continuing this conversation.



J P Tregidga, MNZM JP

Hauraki District Mayor

## Q1. What other differing circumstances across councils are relevant for understanding local government funding and financing issues?

In addition to the circumstances identified in the issues paper, the following can affect local authorities differently.

- **The ability of communities to pay for council services.** The social deprivation of communities can limit how much residents can pay for council rates and user fees. We've provided more information on the following page.
- **The topography of areas.** Different geographical features can affect the need for services and/or the cost of services. For example, the roads in our district can be quite challenging because the soil they are built on – especially peat and soft estuarine soils – move much more than other areas in the country and need more maintenance. This of course comes at a cost.
- **The spread of population and settlements.** We have a number of small settlements dispersed across our district. This means we have to duplicate a lot of the infrastructure we provide to these settlements, for example, providing seven separate wastewater schemes rather than one in an urban council area. Our largest town has a population of fewer than 7,000, and several of our wastewater schemes service towns with fewer than 1,000 people. It is very expensive per ratepayer to meet the environmental requirements for these small schemes.
- **Land use or amount of industrialisation.** In our District commercial and industrial land represents 3% of our ratepayer base and 2.6% of the total capital value of properties. It contributes 10% of the rate funding base while in a metropolitan council area such as Hamilton City the commercial industrial land represents 7.7% of the ratepayer base, 22% of the capital value base and contributes some 33% of the rates funding.
- **The age of a council's infrastructure.** We have been providing for depreciation since this was introduced in 1996. The 75% of our reticulation infrastructure that was built prior to depreciation being accounted for will require additional external funding when it needs renewing.
- **The impact of natural hazards such as severe earthquakes isn't limited to councils that have recently experienced severe events.** Avoiding or adapting to potential natural hazards also comes at a cost, from upgrading infrastructure and facilities to settlement retreat. The level of risk associated with earthquake damage, liquefaction, flooding and tsunami for example varies across local authority areas.
- **Local community expectations.** Given that the level of services that a council may commit to delivering is set in consultation with its communities, the expectations of those communities will inform the range and type of services provided. Local communities may differ in what they consider is desirable or necessary to deliver.

## OUR COMMUNITIES' ability to pay for council services

Our district has high levels of social deprivation. We have communities falling below the adequate standard of living and experiencing more hardship than others. People in these communities are likely to be on lower incomes.

**7 in every 10** of our residents live in areas of high deprivation.



Our Paeroa and Waihi communities are in the **10% most deprived areas** of New Zealand.<sup>1</sup>

### Our household incomes are lower



Our District's average annual household income is **41%** less than New Zealand's (\$63,100 compared to \$89,100).<sup>2</sup>

In 2013 **56%** of our households earned less than \$50,000 a year, compared to **40%** nationally. We have fewer households earning more than \$100,000 compared to New Zealand too (15% compared to 28%).<sup>3</sup>



### Our unemployment rate is higher

**5.5%** of our workforce are not in employment. **4.6%** of New Zealand's isn't.<sup>4</sup>



### Our housing is less affordable

After paying their housing costs **85%** of our first home buyers have a below average income amount leftover. **72%** of our renters also do. This is higher than New Zealand on average of **80%** and **59%** respectively.<sup>5</sup>



### 1 in 4 of our residents don't have enough money to cover their everyday needs

**27%** of our residents say that they don't have enough money to cover their everyday needs. **45%** have just enough.<sup>6</sup>



### Rates exceed the affordability threshold for 16-23% of our home-owning households

Rates are considered to be affordable if they are less than 5% of a household's annual income. For **at least 16% and up to 23%** of our home-owning households, paying their regional and district council 2016/17 rates (with the full rates rebate discount applied) would have taken up at least 5% of their income.

A number of households in our communities face challenges in paying for everyday costs including housing and council services. We allocate some of our costs to those who have a higher ability to pay (acknowledging the limitations of using property value as a proxy for wealth), but we don't have a large number of high income earners and our ability to transfer costs to other ratepayers to address these affordability concerns is limited.

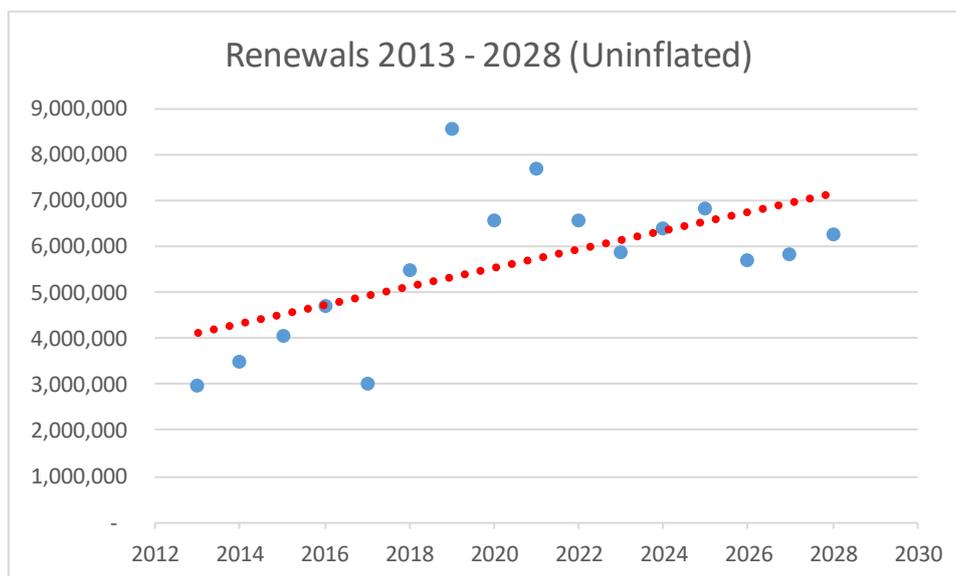
References: 1 University of Otago, 2013; 2 MBIE, 2018; 3 Statistics NZ, 2013; 4 Infometrics, 2018; 5 MBIE, 2018; 6 Waikato Regional Council, 2017.

## Q2. What explains the difference between the amount that councils account for depreciation and the amount spent on renewing assets? Are changes needed to the methods councils use to estimate depreciation? If so, what changes are needed?

First, it is expected that 100% of depreciation will not be spent on reinvesting in assets in any one year. Our assets have long life spans, well beyond the financial forecasts contained in long term plans. The five-year window does not reflect the long term cyclical nature of infrastructure renewals. Modern reticulation assets generally have lives greater than 100 years. Long term trends show that there have been two big waves of investment, in 1910-1930 and in 1950-1986. These waves were synchronised across different types of assets<sup>1</sup>. Such investments will 'echo' in the future as they come to the end of their useful lives. For assets with 100 year lives then, renewals would expect to peak in 2010 to 2030 and 2050 to 2086.

Our land transport services are the only ones where renewals are fairly constant and depreciation is fully allocated.

Renewal works to be funded through depreciation may not be seen in a ten-year budget but that is not to say that the works won't occur in a timely way.



This chart shows Council's actual and forecast renewals (blue markers) and depreciation (red line) for the roading and three waters activities. This demonstrates the variability of renewals over even a short timeframe.

Second, much of our capital spend classified as non-renewal for financial reporting purposes will include a large proportion of renewal expenditure. For example, a project to upgrade a water treatment plant so it meets drinking water standards would be classified as level of service rather than renewal. However, this project may involve replacing 90% of the existing water treatment plant.

Over the last five years our network renewals have averaged 52% of depreciation, however network capital expenditure has been 122% of depreciation.

<sup>1</sup> NZIER Local government finances – A historical perspective 2014

Our forecast reinvestment in renewal of assets being lower than depreciation is not due to replacement deferrals, excessive depreciation or spending depreciation funds on other items. Nor do we consider we are over-accounting for depreciation.

### Q3. In what ways are population growth and decline affecting funding pressures for local government? How significant are these population trends compared to other funding pressures?

Going from a static population forecast to a small amount of demographic growth has changed the picture for our district quite significantly. We had designed many of our assets to cope with minimal growth in serviced properties. Our infrastructure then doesn't have capacity for growth, even if that growth is minimal, and substantial work is required to provide that capacity.

Our current long term plan predicts some \$4.5million in capital expenditure to meet additional demand arising from growth. If certain proposed developments were to go ahead this figure would likely increase fourfold. If existing ratepayers were to meet the interest cost associated with these works until development contributions were received to repay the loans would be in the area of \$2 per ratepayer. We note that this would compound each year the contribution was not received. By year 2028, based on a 30-year depreciable asset, the additional depreciation costs of the new asset would be around \$12 per ratepayer. Any maintenance costs that might arise would also need to be funded.

Our long term plan indicates that financing the upgrades and renewals is not our primary concern. By 2028 our projected external debt will be 55% of the LGFA covenant (our borrowing limit). We can easily borrow and stay within our LGFA borrowing limits. The issue however is whether our communities can afford to make the repayments and whether it is prudent to take on additional debt today when considering long term interest rate risk.

If interest rates increased by 6.5% to the levels they were 10 years ago, then Hauraki rates would increase by 10% which would significantly increase the proportion of our community for whom rates are unaffordable.

### Q4. What are the implications of demographic changes such as population ageing for the costs faced by local government?

Some of the implications of demographic change for our district include:

- **An even older population:** Our district has a higher proportion of older people than New Zealand as a whole and its forecast to increase. As at 2013, our median age was 45.5 years, compared to 38 nationally. 24% of our population is aged 65 and older and this is forecast to increase to 38% of our population by 2048.
- **Urbanisation:** The Commission's own Better Urban Planning (2017) report notes the high population growth concentrations in the Golden Triangle (in or near Auckland, Hamilton and Tauranga). It concludes that the consequent decline of the working-age population is likely to have an impact on the smaller urban areas experiencing low-growth and decline which will lose their younger populations. This is likely to have a negative impact on average income growth, which may in turn see reduced abilities to pay for increasing housing costs compared to larger urban areas.
- **Housing for the elderly:** We've forecast that to maintain the same proportion of over 65 years old we currently house within our elder housing units alone we'll require 43 more elderly to be accommodated by 2037. We estimate a 55% increase in annual revenue would be required to fund a capital build programme of \$5.49 million by 2035.

- **Accessibility:** To ensure our walking and cycling networks are accessible for all our residents including our elder population, we have allocated \$700,000 over 10 years to widen footpaths and apply other engineering techniques. We'll also prioritise the actions that arise from our accessibility audits.
- **Engagement preferences:** The elderly are likely to have different preferences for engaging with councils than other population groups, however this is not a big cost driver in the grand scheme of things.
- **Other:** We haven't yet identified the implications for our ageing population for other facilities and services including reductions in demand for things like more active sporting facilities.
- **Ability to pay:** As the aged population are more likely to be on fixed incomes, we consider that the challenges some of our communities face in being able to pay the rates bill may well exacerbate in future.

## Q5. 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?

It is to an extent. For example, we spend over \$700,000 per annum on operating public toilets (for both visitors and residents) and reserves for travellers' purposes. This equates to 3.1% of our non-water rates funding.

We've experienced cases where the Government had committed to funding locally-based contribution to national programmes but in reality, a significant proportion of the costs have fallen on local authorities and their ratepayers. The Hauraki District Council supported the Government project to provide cycleways throughout New Zealand and the Hauraki Rail Trail cycleway scheme was established. Despite initial commitments, the initial Government funding was reduced considerably and minimal funding was provided for the cycleway operating costs. As a result, we have been left with a significant asset and operating liability. While there is some local use of the cycleway, it is essentially an asset that is used by visitors passing through. The income generated is not able to be targeted for rates yet the councils are expected to finance the cycleway services. It would be more appropriate to fund this similar to state highways which are used in a similar manner, whereby a substantial government subsidy is provided. This costs us \$620,000 a year, or 2.7% of our (non-water) rates.

## Q6. Is an expansion of local government responsibilities affecting cost pressures for local government? If so, which additional responsibilities are causing the most significant cost pressures and what is the nature of these increased costs? To what extent do these vary across local authorities?

There are numerous examples where additional requirements put on local government have resulted in additional costs.

### National Policy Statement on Freshwater Management and wastewater services

We forecast that the standards will require us to spend \$38 million on upgrading our waste water infrastructure, resulting in a cost of \$6,975 for each connected property. Not only will this require a huge investment, but it will result in very little environmental benefit. Modelling shows that the risk of illness from our treated wastewater in one of our rivers is already lower than the upper catchment of that river. Treatment plant improvements will result in the environmental benefits to receiving waterways being very limited. We believe there are more cost effective ways to contributing to better water quality.

## Regulatory creep

A number of regulatory policy-making roles have been put on local authorities for example, Easter Sunday trading, local alcohol, district plan standards requiring plan changes. These incur costs in preparing and consulting on policies, developing supporting implementation systems and processes as well as resourcing implication and compliance. The financial impact of individual single regulatory policy requirements may seem low, but for a small council the cumulative impact can put pressure on existing capacity and resources.

## Mining activity

Our district has a major mining company located in it. This incurs costs for the Council. For example, any appeal on mining activity under the Resource Management Act 1991 is a direct cost to the Council in the vicinity of hundreds of thousands of dollars, yet it cannot be passed on to the company. The average cost to a Hauraki District household is upwards of \$20 per household for each of these appeals. These appeals will likely continue into the future, as will appeals on new activities such as establishing wind turbines.

In our view the royalties generated from this mining activity should be shared with local government. Such income could be used to invest in local community assets and support the longer term sustainability of our communities once the finite resources have been extracted and mining activity ceases.

## Q7. How is the implementation of Treaty of Waitangi settlements, including the establishment of 'co-governance' and 'co-management' arrangements for natural resources, affecting cost pressures for local government? How widespread is this issue?

We expect that the Treaty settlements will result in the development of new responsibilities for both the Council and Hauraki Iwi in relation to those relevant matters incorporated into the Treaty settlements. If a co-governance entity is established for the Waihou, Piako and Coromandel catchments, the Council's consideration of water supply, wastewater, stormwater and land drainage resource consents could be affected with any new provisions included in the settlement legislation or the Regional Policy Statements and Regional Plan.

We would likely face additional costs irrespective of the co-governance decisions that will be made, as we meet our Local Government Act 2002 and Resource Management Act 1991 obligations. However, the administration of the co-governance arrangements in addition to our existing obligations may incur additional costs.

The Council's District Plan must give effect to the Regional Policy Statements so any changes to the Regional Policy Statements that are relevant to the District must be reflected in our District Plan and such changes will incur costs.

## Q8. How are local authorities factoring in response and adaptation to climate change and other natural hazards (such as earthquakes) to their infrastructure and financial strategies? What are the cost and funding implications of these requirements?

Having a large proportion of coastline and significant areas of low lying land, the Hauraki District is forecast to be affected by sea level rise in the future. We are also susceptible to heavy rainfall events.

We are working with our regional council to assess the risks associated with climate change forecasts to our communities. This is a work in progress.

We know that adapting to climate change will involve rethinking how we provide a number of our services from preparing land use planning to maintaining land drainage, stormwater and flood protection works. We need to take an integrated approach across council activities and functions. That means preparing adaptation strategies and applying these to future infrastructure decisions as well as our land use plans. Risk reduction may include changes to zoning and settlement patterns in susceptible areas such as low-lying coastal areas.

### Adaptation strategies

We are initiating a programme of integrated planning processes for local geographic areas. This will involve looking at how our communities will need to adapt to climate change forecasts, particularly sea level rise. Our priority area is the Kaiāua and Pūkorokoro/Miranda coastline where existing flooding is forecast to be exacerbated with rising sea levels, affecting the viability of their roading network and drainage. The retreat of this community in the longer term is likely to be an option on the table. We've budgeted \$290,000 for the Kaiāua planning work. This is a high cost for us. The results will inform our 30-year infrastructure planning and other future service provision.

### Water supply

We anticipate that rising sea levels could potentially introduce a saltwater intrusion risk to one of our water intakes. Modelling would be required to determine whether saltwater intrusion is a risk requiring mitigation including whether the water take would need to be moved upstream (and when).

### Wastewater services

We have an improvement programme in place for identifying groundwater infiltration from prolonged rainfall and how we'll respond. Rising water tables combined with sea level rise may present issues for septic tanks in our low-lying Kaiāua area. Kaiāua properties currently have septic systems on reasonably porous ground (shell). As the sea level rises the current septic systems may become inundated with a corresponding rise of groundwater or seawater and become ineffective.

### Stormwater services and assets

More frequent intense rainfalls are expected to increase the occurrence of surface water ponding. Our stormwater infrastructure built in the last ten years has the capacity to deal with both the increased higher intensity and the increased reoccurrence of high intensity rainfall. Older infrastructure however may be under capacity to handle the revised 10% Annual Exceedance Probability (AEP) events and this will need to be addressed as pipework is replaced.

### Land drainage services and assets

The current projection for sea level rise may result in the need for stopbank heights to be re-assessed. Inundation modelling is required to ascertain the level to which design specifications would need to be changed. It is likely that a sea level rise breach of stopbanks in our Waitakaruru area would occur in the next 30 years if defences are not increased due to the lower level of service combined with the projected sea level rise. Increased ponding events will mean we need to operate the drainage pumps more frequently which will incur costs. Sea level rise will mean that flood gates will be less effective and drainage pumping will occur progressively more often until such time as low tide water levels become above the ground levels, preventing gravity drainage.

We also support the Waikato Regional Council's view expressed at the Productivity Commissioners' meeting with local authorities of the Waikato Region.

## Road, footpath and cycleways

Climate change scenarios showing an increase in both rainfall intensity and an increase in rates of return would likely cause increased road damage and therefore repair work. This might therefore require increased budgets for roading repairs. Drier and hotter summers and therefore drought conditions may damage elements of roads particularly those on peat soils in the Hauraki Plains, with associated disruption and repair costs. A drought in 2008 required \$3.04 million of repairs to those roads.

## Resilience to earthquakes

To make our infrastructure more resilient to natural hazards like earthquakes, we are going to have to spend more on renewing some of assets, or bring renewals forward before the end of their useful lives. This is to ensure that our core services are available after an earthquake event and reduce the costs for reinstatement. Currently the Government meets 60% of the reinstatement of essential infrastructure after a natural disaster and the investment we make on upgrades produces a significant benefit to reducing Government's risk.

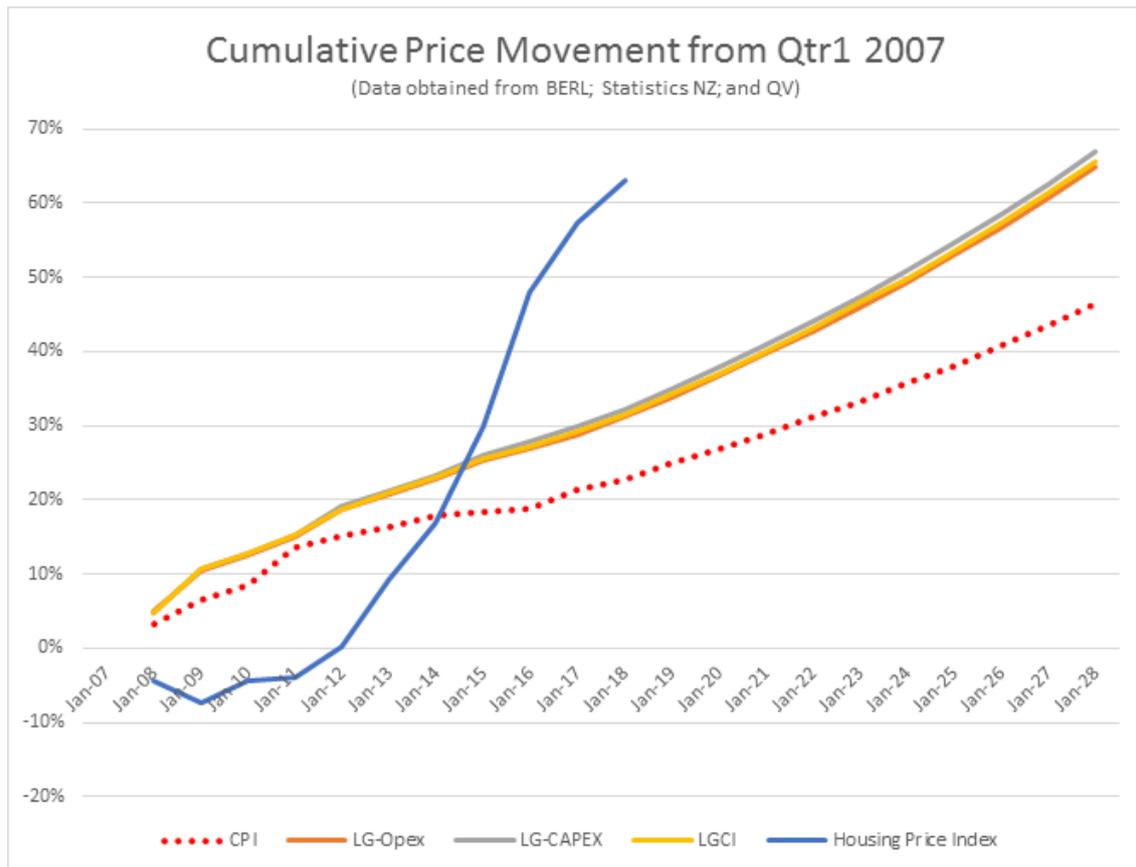
## Financing adaptation upgrades

We foresee that adapting to climate change effects will likely come at a high cost. Accessing finance to fund capital work required is not a key concern however the ability of our communities to pay off the loan is. This will put more financial pressure on our communities. We support the establishment of a national climate change adaptation fund since adaptation to climate change is forecast to be a large expenditure driver in future.

## Q9. Why is the price of goods and services purchased by local government rising faster than the consumer price index? To what extent is this contributing to cost pressures for local government?

Put simply, we buy different things. The inputs to the consumer price index (CPI) are not the same as the services and goods purchased by local authorities.

Over the ten years from 2008 to 2018 the actual cumulative CPI increase has been 23% while local authority costs (the LGCI) have increased by 32%. The 9% higher increase means the cost of the Council's inputs are increasing 40% faster than the CPI. This difference is forecast to continue with cumulative CPI increasing by 46% by 2028, and the cumulative LGCI increase being 66%, as is illustrated in the graph below.



We find out costs are more, in part due to decreased competition amongst contractors supplying the services; suppliers are in practice very limited and they can charge high amounts in the absence of competitors.

The availability of contractors to undertake our capital work programmes is influenced by capital work programmes of our fellow councils and the private sector. To acquire their services in the regions can come at a premium, that is if we can secure their services. Many are not located within our district and this shows little sign of abating.

## Q10. Do the prices of goods and services purchased by local government vary across councils? If so, what are the reasons for these differences?

Indicators are that there are differences:

- Local authorities may have different procurement methods.
- Areas with smaller centres may have fewer providers and less competition, driving up prices.
- Power prices differ across areas. For example, power costs in the Thames Valley are higher than for Hamilton City and Auckland<sup>2</sup> (source:).

<sup>2</sup> MBIE Quarterly Survey of Domestic Electricity Prices

## Q11. Is local government expenditure shifting away from traditional core business into activities such as economic development, sport and recreation and community development? If so, what is the rationale for this shift, and could these activities be better provided by other parties?

### Shift in activity spend

The proportion of spend on the so called 'non-core' services (as defined in the Commission's report) increased by 9% between 1999/00 and 2018/19 (or an average of 0.45% per annum). This includes spend on libraries, swimming pools, sports fields, recreation and passive reserves, halls, housing for the elderly, public toilets, cemeteries, community development, economic development, rail trail cycleways, an events centre and sports coordination.

The rail trail cycleway on its own represents about 2% of that expenditure increase. This is a relatively recent new area of spend, arising as a result of the central government national cycleway scheme (we've already discussed some of the cost implications of that under question 5).

### Sport and recreation

While the Commission may consider that sport and recreation activity is not core council business, these services are key to delivering on national health objectives. Sport New Zealand's recent report 'The Value of Sport and Active Recreation to New Zealanders' found that there is strong evidence that participation in sport and physical activity can have a positive impact on physical health, social cohesion and educational outcomes. Health benefits include reduced instances and cardiovascular disease, type B diabetes and obesity related disorders, improved self-confidence, esteem and perception and experience and life skills. However, the Ministry of Health advises that the high body mass index (BMI) has now overtaken tobacco as the leading risk to health in New Zealand.

While the Ministry and the Waikato District Health Board strongly promote being active for the physical and mental health benefits it brings and have performance targets related to this (including reducing obesity in children for example), it is often local authorities providing many facilities for structured and unstructured physical activity. For example, sports fields, swimming pools and footpaths are provided for the purposes of enabling physical activity. These are funded by local ratepayers and users.

We suggest that the national outcomes achieved through our investment in these areas could be better reflected through financial assistance from central government.

## Q12. Does the scope of activities funded by local government have implications for cost pressures? If so, in what ways?

At its simplest, the more we deliver, the more it will cost. Additional spend will put pressure on maintaining affordable debt levels, ratepayers and capacity to continue to deliver services in the case of significant unforeseen expenditure requirements (for example in the case of a severe natural event).

## Q13. What other factors are currently generating local government cost pressures? What will be the most significant factors into the future?

We find that the limited availability of contractors to deliver on capital expenditure items affects the competitiveness of the local market and the rates charged. We're working with other councils of the Waikato Region to look at combine scheduling of capital projects to take into account resource availability.

There are always demands for increased or changed levels of service. For example, changes in people's methods of recreation from team to individual sports, results in request for new facilities.

However, we see that the most significant factor going into the future will continue to be the ability of our communities to pay for council services.

#### Q14. How will future trends, for example technological advances and changes in the composition of economic activity, affect local government cost pressures?

There may be some capacity for technological advances to decrease some of our costs. For example the recent optimisation of our wastewater pump network in Ngatea resulted in a 38% reduction of \$92,000 because a technical solution was cheaper than originally envisaged.

The cost of meeting increased service levels associated with technology use may change to variable levels e.g. using social media in the short term when other communication channels are still used.

To an extent cost savings or new cost pressures may depend on the technology used. For example, we know that the likes of self-driving cars will change the investment needed in the roading network. However the type of technology used will affect the extent to which new types of asset investment is required and other traditional investment like road safety initiatives are reduced.

#### Q15. How effective is the long-term plan process in addressing cost pressures and keeping council services affordable for residents and businesses?

This will likely depend on each council.

The long term plan process provides a thorough decision-making process for councils to work through to identify what cost pressures it is facing, how it will manage them and keep council services affordable. Decisions will often involve making trade-offs between service levels and expenditure, with affordability a common theme.

It enabled our Council to have a clear conversation with our communities about the trade-offs between costs and services and the results of this have been a clear directive to the subsequent annual planning process, as legislation intended.

The inclusion of the infrastructure strategy requirements and the need to identify significant issues and the principal options for managing those issues over a 30-year timeframe helps to determine the realistic nature of maintaining all our major assets as a collective over the long term.

However, a long term plan process can only go so far to keep services affordable if councils have no discretion but to meet set service levels required of them by government statute and our communities' ability to pay for services is limited.

## Q16. How effective are councils' long-term plan consultation processes in aligning decisions about capital investments and service levels with the preferences, and willingness and ability to pay, of residents, businesses and other local organisations?

In so far as the Council and communities have the discretion to trade off decisions on capital investments and service levels with their ability to pay, we have shown that we can continue to improve what and how we communicate and generate more participation.

In terms of public engagement, in the last long term planning process we gave more thought to affordability and tried to communicate it to inform meaningful engagement. However, the local government financial environment is a complex one and balancing sufficient articulation of the matters with accessibility to and appeal of information is always difficult. Further, the discretion we have to offer meaningful savings that may address ability to pay concerns is limited, for reasons we have outlined earlier.

The majority of our expenditure is on infrastructure. We find that a large portion of our community tend to be more interested in the lower spend and lower risk services including community services and facilities.

## Q17. Is there scope to improve the effectiveness of long-term plan processes? If so, what, if any, changes would this require to the current framework for capital expenditure decision making?

We consider that there are some elements of the long term planning scope that make it clunky and could be better improved, although these aren't in our view significant impediments. For example:

- the requirement to include a statement on Māori capacity to contribute to decision-making and a summary of the significance and engagement policy does little to focus the Council and its communities on integrated decision-making and coordination of a council's resources and could be better addressed elsewhere with an engagement and governance focus
- the directly relevant financial policy and long term plan requirements could be streamlined to be more efficient e.g. having to adopt a policy on how activities are funded separate to and before the long term plan consultation proposals which by its very nature should include decisions on funding, makes it disjointed and discourages integrated and coherent decision-making.
- the national setting of some local government fees and charges through regulation is at odds with the funding decision-making principles required of local government and adds additional process with limited value.

The development of a long term plan can often take two to two and a half years to complete. With a long term plan having to be reviewed three yearly, a council can almost be permanently in a state of longer term planning. While we believe that we should continually be updating and adjusting our plans, we suggest that a longer period between major strategic reviews may improve the effectiveness of the process. We understand that the current review period is aligned to the three-yearly local election cycle and there would be consequential considerations to be had.

## Q18. How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently?

Our largest cost drivers are around drinking water quality and environmental standards and ageing infrastructure.

There is some scope to through having a collaborative approach with neighbouring councils and industry. For example under the utilities and road legislation such councils are required to meet at least once a year to undertake planning of the delivery programme. This provides opportunities for the local authorities and industry to adjust the timing of works to avoid pressure points and the costs associated with those.

We are looking to use a strategy of resourcing council construction teams to do the base load of work and then outsourcing 'peak' works. This relies upon getting sufficient staff.

We will always consider shared service opportunities where there seems to be scope to save costs or achieve other efficiencies.

### Q19. What practices and business models do councils use to improve the way they manage their infrastructure assets and the efficiency of their services over time? How effective are these practices and business models in managing cost pressures? Do councils have adequate capacity and skills to use these practices and business models effectively?

Economies of scale have often been quoted as being more efficient. However, smaller organisations are often nimbler and can be just as cost effective as larger ones. For example, our charges for water and wastewater services are similar to Auckland Watercare's charges, despite having to provide these services to a number of small, geographically separate communities.

The Council is a member of the Waikato Local Authority Shared Services Limited (WLASS). WLASS provides a legal entity, representative of all the shareholding councils, which can enter into contracts and agreements with external suppliers and provide value by reducing costs. This collaboration has resulted in a number of cost savings for the participating councils:

- Procuring a joint property database resulted in a \$126,000 reduction per annum (an 18% saving).
- A joint project for LINZ to scan historic aerial photo negatives is estimated to save the private sector at least \$75,000 per annum as well as reducing staff costs.
- Waikato councils saved \$1.45 million as at June 2015 through purchasing through the N3 business-buying network.
- As at June 2015, \$180,000 was saved by councils through sharing roading asset information programmes through the Waikato Road Asset Technical Accord (RATA).

In terms of general practices, we following best practice asset management including using sector tools, our sector tends to share skills well and we purchase expertise when we need it.

### Q20. How do councils identify and employ new technologies to manage their infrastructure assets and produce services more efficiently? How effective are councils in using new technologies to manage cost pressures? Please provide specific examples of the use of new technologies to manage cost pressures.

New technologies can provide efficiencies in how we work, even if the financial savings cannot be quantified. As examples, we expect that the installation of electronic water meters will save the costs involved in manual on-site water monitoring; using mobile roading asset management information technology improves our data collection.

## Q21. What incentives do councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened?

Elected members are very aware of the ability to pay pressures on our communities and are focussed on keeping costs down. This is a continuous process.

Constituent demand for dealing with cost pressures will be reflected in local body elections as well as day to day interactions with elected members and staff.

Incentives could be strengthened by rolling out more national support systems and standards with the purpose of efficiency. This could help council customers as well as staff.

## Q22. What are the most important barriers to local government achieving higher productivity?

Regular changes in the regulatory environment requirements can inhibit the potential for higher productivity.

## Q23. How does local government measure productivity performance? Are these metrics useful? If not, what metrics would be better?

As Local Government New Zealand's submission notes, local authorities are required to measure their financial and service performance annually. This includes reporting on measures set by central government. A number of councils also participate in excellence measurement frameworks to assess how they are performing and where improvements could be made. We are not able to comment on the extent to which these various frameworks measure productivity performance.

## Q24. To what extent and how do councils use measures of productivity performance in their decision-making processes?

We make use of the information provided by the excellence benchmarking surveys we're involved with and consider that when assessing our business effectiveness.

## Q25. Do councils dedicate sufficient resources and effort toward measuring and improving productivity performance? If not, why not, and how could effort toward measuring and improving productivity performance be increased?

When reviewing service delivery of our activities (as required by the Local Government Act 2002) we will assess the cost effectiveness of our delivery models compared to other alternative options.

Measuring and improving productivity performance can be resource intensive and is not easy. Measuring local government productivity is complex. Performance should not be measured simply by a rate of production, but also the effectiveness in meeting local community needs and expectations.

For our council this is an area where we target continuous improvement.

## Q26. What measures do councils use to keep services affordable for specific groups, and how effective are they?

Please refer to our responses to question 1. Affordability is a key concern of ours and one on which we have a strong focus.

The measures we use to reduce costs faced by specific groups of ratepayers include:

- increasing the amount that higher value properties pay for a number of our services to decrease the share that lower value properties pay, to better reflect ability to pay. However, as we've noted, we are limited in the share that we can transfer as we don't have a lot of high value properties and commercial activity
- providing discounted user fees for not for profit users of some of our community facilities
- actively trying to maximise the uptake of the rates rebate, for example through home visits.

## Q27. How do councils manage trade-offs between the ability to pay and beneficiary pays principles? What changes might support a better balance?

In terms of rates, property based rates are a very blunt instrument for allocating costs in a way that reflects wealth and ability to pay. We consider that they are a poor method for wealth distribution. However, it is the only rating tool available to us. Income-based tools would provide a better proxy for ability to pay.

There is also a trade-off between targeting user fees and charges to reflect a user pays approach and reducing the rates required, and maintaining a fee structure that is low enough to encourage sustainable use of the services. We've found in the past that there is a tipping point where fees become too high for our users and services are no longer used enough to be sustainable.

The statutory 30% cap on the amount of uniform annual general charges we can use is not a useful tool. It should include all rates that are in the nature of an annual charge not just uniform annual charges. There should be no exclusions for any particular rates e.g. wastewater, water and solid waste. support an increase in the subsidy amount provided by the national rates rebate scheme, and eligibility.

We suggest a Government-funded rates postponement scheme until the sale of property – similar to the reverse mortgage concept would be valuable. This would be a complex area for councils to get into, however we think we could help keep people in their homes if this service was offered.

As a collective however these tools can only go so far in addressing affordability challenges, particularly those faced by communities with high deprivation and much lower abilities to pay. We believe that a more effective and sustainable solution would be for the government to consider providing subsidies for key infrastructure, particularly that which must be designed to meet national objectives. This would be consistent with the current government subsidy practice applied to land transportation services.

## Q28. Do councils currently distribute costs fairly across different groups of ratepayers? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across ratepayers?

Please refer to our earlier responses.

We do make use of a number of differentials. We regularly review the differentials and how appropriately they reflect service exacerbators and beneficiaries through the revenue and financing policy. We do not agree that they are set in an arbitrary fashion.

### Q29. Do councils currently distribute the costs of long-lived infrastructure investments fairly across present and future generations? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across generations?

We believe we distribute the costs of long-lived infrastructure fairly across present and future generations, particularly through the funding of depreciation. In the past when local authorities only had access to short term borrowing facilities and didn't depreciate assets over their lives, they may not have.

After experiencing unforeseen population growth in our district, we are reviewing our financial contributions policy to ensure that new ratepayers pay for their share of infrastructure investment.

### Q30. What principles should be used to appraise current and potential new approaches to local government funding and financing, and how should these be applied? What are appropriate trade-offs across these principles?

As we've indicated earlier, we believe that the application of the affordability principle should specifically include income-based funding solutions.

We support applying the principles of transparency and fairness.

We consider that the biggest trade-offs to be made are between ability to pay and fairness in reflecting beneficiaries and exacerbators of the need for our services.

We note that there can be a trade-off to make between transparency and administrative simplicity/ efficiency.

### Q31. How effectively is the existing range of local government funding tools being used?

There is a range of approaches to how extensively the current rating tools are being used across local authorities.

Some councils use targeted rates very little, and in communities where the services supplied are relatively homogenous that may be appropriate.

Our council uses a large number of different targeted rates with a number of different factors being used, for example land value rural drainage rates, pan based wastewater charges, land-use based differential capital value general rates, volume based water rates.

### Q32. Is there a case for greater use of certain funding tools such as targeted rates and user charges? If so, what factors are inhibiting the use of these approaches?

We use targeted rate and user charges extensively. The biggest factor that limits our use of user charges is keeping them sufficiently affordable that people will use (and therefore pay for) the services. If we recovered

the full cost of libraries and swimming pools by user charges, the cost of borrowing a book would increase from \$3 to \$58, and the price for a swim would increase from \$2 to \$46.

The cost of collecting and maintaining property data has an impact on the use of targeting tools e.g. the area of land that is sealed, paved or built on (for stormwater services).

### Q33. What is the rationale underlying councils' approach to levying rates? What are the costs and benefits of shifting from a capital value system to a land value system?

Our rationale is to try and use a lot of targeted rates to address the beneficiary pays principle.

The shift to a land value system would mean rates allocation is affected more by changes in relative rating valuations between different sectors e.g. residential and farming. We consider that the land value system is appropriate for rural drainage-serviced properties as the service benefits are about the productive value of the land rather than buildings on that land.

The capital value system differentiates between land that is unused and land that is being used. It reflects the value of asset being protected and may also be an indicator of the likelihood or extent that services are used.

### Q34. In addition to restrictions on how targeted rates are applied and the types of services where user charges can be levied, do any other restrictions on existing funding tools unduly limit their uptake or usefulness?

We do not support charging for wastewater based on the volume of water being used. Some water uses have no impact on demand for wastewater services, e.g. many elderly residents use more water to irrigate their gardens than they use inside their home.

Allowing stepping in value based rates would be useful. For example, stepped pan charges for wastewater where a business with two toilets could pay x amount of rates, and a business with more toilets pays an additional 50% per pan. We are limited in our ability to provide appropriate stepping.

### Q35. How does the timing and risk associated with future funding streams influence local authority decision making about long-term investments? What changes to the current funding and financing system (if any) are needed to address these factors?

The main area in here relates to development contributions in high growth councils. We are generally not a high growth council, however being a small community, one significant development can have a large impact on the rest of the community. We are facing the possibility of one such development which would mean the capacity of one town's wastewater treatment plant, and the capacity of the wastewater trunk main of that town would both be exceeded. Both these assets would need to be replaced. It is difficult to plan when there is uncertainty over whether these large wastewater projects will be required or not.

### Q36. What are the pros and cons of a funding system where property rates are the dominant source of funding? Does the local government funding system rely too heavily on rates?

Please refer to our responses earlier.

We strongly believe that the local government funding system does rely too heavily on rates. They are blunt tools for reflecting ability to pay and addressing affordability issues. The rating system is limited by the boundary of a local authority area. If a local income based system was used it would be unlikely to really solve our affordability issues as generally most of our incomes are low.

We don't believe that shifting the rates burden to a non-residential sector would address the affordability issues. The only significant non-residential sector that we have is the dairying sector. In the Hauraki District this sector is situated mostly on the Hauraki Plains that has major flood protection and drainage schemes to allow for productive farming in this area. To pay for these schemes the total rates on farms on the Hauraki Plains are already significantly higher than average. A typical 100-hectare dairy farm on the plains pays between \$40,000 and \$50,000 in rates to HDC and the regional council. In general, we don't believe our local farming sector represent high income earners.

We suggest that the most efficient ways of overcoming this challenge is source income from outside our district:

- for a wealth value-based funding system to be based on income taxed sources outside our district rather than property value
- to have a greater amount of government subsidies targeted at councils with high levels of deprivation or greater inability to pay issues.

### Q37. Under what circumstances (if any) could there be a case for greater central government funding transfers to local government? What are the tradeoffs involved?

We believe there is a case for government subsidies for various council activities, based on community ability to pay. As per the answers to earlier questions, a large proportion of Hauraki District's residents do not have the ability to pay for required upgrades to council services. This is particularly true for the water, wastewater, and stormwater activities.

As stated previously we have invested heavily so that all our water infrastructure will exceed drinking water standards. It has achieved this partly due to \$5M of Ministry of Health subsidies.

Our current wastewater treatment achieves a high quality of output. Despite the current high quality of treatment, upgrades will be required at consent renewal. The increasing cost for diminishing environmental returns is unaffordable for our communities without government assistance.

Using measures such as deprivation indices would be helpful in determining the targeting of central government assistance.

There should be effective monitoring of central government subsidies. Reporting requirements should be commensurate with the amount of subsidy being granted. Large dollar amount subsidies should demand a high level of oversight, while small dollar value subsidies should not have onerous reporting requirements.

Please also refer to our earlier comments.

### Q38. Do local authorities have sufficient financial incentives to accommodate economic and population growth? If not, how could the current funding and financing framework be changed to improve incentives?

Promotion of economic growth is seen by most commentators as non-core business of councils.

The only financial incentive to councils to provide for population and economic growth is the additional rates that can be assessed on new properties created through subdivision. The cost of providing infrastructure to these developments generally outweighs the additional income received. This can be offset to some extent by development contributions.

We now required to ensure that growth has no additional impact on the environment. It is not achievable for additional properties to have no impact, so this generally requires reducing the environmental impact of existing properties. Meeting this higher standard has a cost impact that is partly met by the existing ratepayers and partly met by the additional income from new properties.

Due to a lack of private developers in certain parts of the Hauraki District, we have developed our own residential and commercial/industrial subdivisions. This has generated a small income and has generated growth in towns that otherwise would have remained static.

The greatest incentive currently to provide for growth is political.

### Q39. What funding and financing options would help councils to manage cost pressures associated with population decline? What are the pros and cons of these options?

In declining communities with high deprivation there is a case for government subsidies to maintain some levels of service.

### Q40. Are other options available, such as new delivery models, that could help councils respond to funding pressures associated with a declining population? What conditions or oversight would be required to make these tools most effective?

We are not aware of any new delivery models that would help councils respond to this issue.

### Q41. What are the pros and cons of local income and expenditure taxes?

It is likely the council's in low income areas would benefit least from local expenditure or income taxes.

We believe a more effective method would be to target national funding sources to those communities that are highly deprived. This could be by way of grants for required infrastructure upgrades, or by Water or Wastewater subsidies, similar to the current NZTA roading subsidies.

#### Q42. What are the advantages and disadvantages of a local property tax as an alternative to rates?

Rates are a tax and are compulsorily set upon property owners. We would be reluctant to implement taxes that are not based on an expenditure requirement. Where income surpluses were generated there could be an incentive towards ineffective or inefficient expenditure. The current method of rating to meet forecast expenditure, and the focus on any rates increases, ensures that all expenditure is regularly reviewed for potential efficiencies.

In the three years to June 2018, residential property prices in the Hauraki District increased by 56%. Under a local property tax model there would be a disconnect between the amount required to fund council activities and the revenue raised.

#### Q.43 Are there any other changes to the current local government funding and financing framework, such as new funding tools, that would be beneficial?

Bed taxes could be a useful tool for some targeted rates for some councils. Any new rating tools should be made available to all councils.

#### Q44. How can the transition to any new funding models be best managed?

Councils can often determine the best way of transitioning to new funding models. On a number of occasions, we have transitioned from one rating basis to another over several years.

#### Q45. To what extent does the need for particular funding tools vary across local authorities?

Different communities do need different funding tools. We believe that any new rating tools, such as bed taxes, should be added to the toolkit that all councils can draw from, rather than this being restricted to areas that currently need such a tool.

#### Q46. To what extent are financing barriers an impediment to the effective delivery of local infrastructure and services? What changes are needed to address any financing barriers?

We do not believe that financing barriers are an impediment to the delivery of the Hauraki District Council's local infrastructure and services. However, what *is* a major barrier is the ability of our ratepayers to pay for the debt incurred when obtaining this financing.

Q47. What role could private investors play in financing local government infrastructure and how could this help address financing barriers faced by local governments? What central government policies are needed to support private investment in infrastructure?

The Local Government Funding Agency has given private investors the ability to invest in council debt, and provided councils the ability to borrow at favourable interest rates.

Q48. If New Zealand replaces rates on property with a local property tax, should it also adopt tax increment financing as a way to finance growth-related infrastructure investments? What are the advantages and disadvantages of tax increment financing?

Tax increment financing would be a variable source of income. It would have limited use for meeting core expenditure. It could possibly be used as a means of funding some discretionary community infrastructure projects.

Q49. How effective are the current oversight arrangements for local government funding and financing? Are any changes required, and if so, what is needed and why?

Rates are a tax and are compulsorily set upon property owners. HDC would be reluctant to implement taxes that are not set based on an expenditure requirement. Where income surpluses were generated there would be an incentive towards ineffective or inefficient expenditure.

## Statistic References

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