



## ***'Findings 2005'***

***The 'Findings 2005' report ... an analysis of the New Zealand Local Government Sector (TLA's) results for the year 2005 derived from the 'Base Stats with Trendz' Reports***

***Prepared for***

**'Kiwi' District Council**

***By***

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## **1 INTRODUCTION**

### **1.0 Welcome to the 2005 edition of the '*Base Stats with Trendz*' '*Findings 2005*' report**

This report is:

- Generic – a generalised report of findings affecting all territorial (the NZLG sector) New Zealand local authorities (Councils) – the 'sector'
- Analysis – a collection of data analysis and the findings relating to all New Zealand City and District Councils and
- Information – derived from the current '2005' run of the '*Base Stats with Trendz*' system, ref; [www.kauriglen.co.nz/larry](http://www.kauriglen.co.nz/larry)

This is the '*Base Stats*' eighth! Year ... the *eighth* year in which the extensive local government dataset held within the '*NZLG Database*' ref; [www.kauriglen.co.nz/larry/NZLGDatabase.doc](http://www.kauriglen.co.nz/larry/NZLGDatabase.doc) has been collected, collated and reported.

The take-up of the '*Base Stats with Trendz*' reports, (the 'reports'), particularly since introducing the '*Trendz*' five year 'longitudinal' analysis and reporting has been gratifying.

The reports are designed to meet the data needs of smaller Councils, Councils unable to afford the fulltime services of analyst/economists or research departments.

#### **1.1 '*Base Stats*' Reports subscribers 'package'**

This 'Generic' report contains information of relevance to **all** New Zealand City and District Councils. Subscribers to the '*Base Stats with Trendz*' reports receive this '*Findings 2005*' report and in addition also get the following:

- '*Base Stats with Trendz*' electronic and paper media report files, graphs, tables and data for the 'Standard' group reporting plus,
- '*Base Stats with Trendz*' electronic and paper media report files, graphs tables and data for their 'Customised' group reporting plus,
- The generic '*Findings*' annual report plus
- A Customised report that includes Council specific findings and analysis unique to each subscriber Council – part of the 'Full Monty' deal ref; [www.kauriglen.co.nz/larry](http://www.kauriglen.co.nz/larry) and also [www.kauriglen.co.nz/larry/2004basestatsmarketing.htm](http://www.kauriglen.co.nz/larry/2004basestatsmarketing.htm)

This latter report represents the true value of the '*Base Stats*' 'Package' deal for which only subscribing Councils get the benefit. The customised report shows at a glance how a specific Council has fared over a period compared with its peers (both current and over the last five years... the Council's '*Trendz*' reports) covering a very wide range of criteria.

#### **1.2 '*Base Stats*' Reports content**

A small sample of the evaluative criteria reported include...

- Financial ratios, debt, capital expenditures, operating income and expenditure etc
- Ratepayer measures including rating review data such as density measures, expenditures and revenues per ratepayer etc.
- '*Difficulty Factors*' ... of service delivery options assessments



- Residents '**Ability to Pay**', the income, economic and eco-socio factors – absolutely vital data for every Council, essential for most forms of Council policy analysis and financial planning.
- The data and judgements of the '**Base Stats with Trendz**' reports are 'essential' for:
  - Development of the LTCCP
  - Quadruple (sustainability) bottom line reporting
  - Rating policy work
  - Debt studies and long range financial planning
  - Core services reviews
  - Staffing and departmental analysis
  - Performance measurement
  - Cost containment and budgetary analysis

... in fact, for most areas of New Zealand Local Government performance and policy analysis. Many Councils, without the benefit of their own staff of policy advisors and statisticians simply do not have 'the data' – for even halfway rigorous analytical work. Certainly no other body of comparative analysis exists, akin to that of the '**Base Stats with Trendz**' reports.

Try this test ...

***Without the 'Base Stats with Trendz' data and reports...***

***What have you got?***

### **1.3 Preparation of data input**

Council's that subscribe to the reports need do 'nothing' in the drudgery (input preparation) area ... it is all done for them.

The task of preparing input involves gathering, collating, entering, and editing well over 200 data elements per Council per annum – to say nothing of the analysis and sorting needed before they can be input. Believe me, 86 (including Regionals) Annual Plans and Annual Reports make for two mighty big stacks ... and I don't mean for bedside reading.

Anyway, to make things interesting, whilst compiling the 2004/05 data I have again noted 'matters of current interest' ... interesting, often thought-provoking snippets discovered along the way. I have also used recent assignment experiences to develop certain topic related content, for example the section on rating issues.

Many of these notes and observations have merely been 'noted', many deserve much closer scrutiny by Council management to 'see if the cap fits'. Other observations relating to the 'Customised' findings taken from the analysis of the '**Base Stats with Trendz**' reports are in later sections of this report. Subscribing Councils are supplied with their 'full' particulars!

### **1.4 The significance of the reports to Council performance measurement**

Before noting these observations however, I should declare certain of 'my prejudices' gained over many years of contact with the 'NZLG' sector. The two most important to me are my two 'passions'...

- one for clarity of information,
- the other for fullest and useful accountability and performance measurement.



In this context these guiding principles form the basis for many of the comments, opinions and content of this report, in particular those relating to Council performance measurement.

Arising from my research this year, in the interests of better understandability, that is less 'obfuscation' and as a contribution for the vitally necessary 'decision usefulness' *ref*; [www.ltcnp.net.nz/FirstPrinciples.aspx](http://www.ltcnp.net.nz/FirstPrinciples.aspx) of information reported by New Zealand Council's, I have 'noted' matters that have caught my eye whilst ploughing through the detail.

### **1.5 But first a big 'thank you' again to 'StatsNZ' ...**

A big thank you to the ever-co-operative 'StatsNZ' staff who have assisted me, and also to their enlightened management. The latter have recently made much more data available on a 'free public interest' basis, than has been the case in the past. Much of this freely available data is needed to 'feed' the '*Base Stats*' process, it is now also provided in an increasing number of cases in a useful format – along TLA boundary lines.

### **1.6 'Findings 2005' Report objective**

The observations of this generic report contribute toward what might be loosely termed an NZLG 'accountability quotient' a judgmental measure that might reward very good, understandable, easily (audit) trailed information of importance to the principal users of the information, the ratepayers... not merely data of interest, (the often dense and arcane stuff) included to satisfy the whims of the technocrats and developers of purist accounting reporting standards!

Good Council reporting particularly post '**LGA 02**', now includes matters of public interest relating to the information needs of 'decision-making' in accordance with the terms of 'The Law' *ref*; *LGA 02 Legislative Review*.

Disclosure of information, financial and non-financial is not just a matter of doing the minimum that will 'get by the auditors and will meet the requirements of the black letter of the accounting standards'. Councils now have very wide responsibilities (and discretions too) to provide residents and ratepayers with 'useful' information and to squarely inform them upon matters of public interest irrespective of whether or not such information is mandatory or disclosure is forced upon report preparers.

### **1.7 Framework of the Report**

The '*Findings 2005*' report is in five sections. These are:

- This 'Introduction'
- 'Comments', the General findings of the 2005 run of the '*Base Stats with Trendz*' reports ... in which graphs and tables of data are mixed with opinion and commentary about the matters of general (generic) interest to those who work in or who are interested by association with the sector.
- 'Economic' findings dealing more particularly with the reports results relating to the local government sector's local economic environment which are so important to issues involving such policy matters as the ability of residents to pay for Council services.
- 'Financial' findings comprising extensive data analysis supported by the '*Base Stats*' '*Trendz*' graphs.
- 'Rates' a special reporting section of the report on Rates – the 'hot' issue of the moment for the sector – with appendices.



## **2 COMMENTS FROM ANNUAL REPORTS**

### **A list of other significant events identified this year from a review of the June 2004 Council Annual Reports**

#### **2.0 Introduction**

##### **Authors personal statement:**

*The contents of this section (and for that matter this entire report) are not intended to be deliberately provocative nor are they intended to offend.*

*If a whiff of healthy scepticism is detected at places within this report, then this should come as no surprise to those persons more intimately connected with the sector and aware of its legendary 'intrigue'.*

*If offence is taken then I wish to make it clear than none is intended. My professional evidence-based assessments are those of a disinterested, independent professional working in the sector.*

*My opinion's are just that ... 'opinion's. If the 'true opinion's' that I have expressed are not based upon clear evidence then I state this.*

*In most cases the content of this and other sections of the report are based upon evidence and upon views formed after long experience in the sector. Some, (most) relate to issues where it may be a case of ... 'if the cap fits' ... if not then 'so be it'.*

This section of the **'Findings 2005'** report, as the title suggests is a collection of observations – with opinions on matters of interest taken principally, though by no means exclusively from the audited June 2004 Council financial statements.

It is hoped that these matters will be of interest to all who administer or service the New Zealand Local Government sector.

The information contained in this section has been 'sanitised' and no reference is made to any individual Council result.

The individual Council results, their cohort statistics both for standard and customised groupings is available only to subscribing members of the **'Base Stats with Trendz'** reports. Other 'agencies' interested in obtaining 'deeper' data and analysis can obtain this information 'upon request'.

Note: the 'sector' referred to in this section and elsewhere in this report does not include the 'Regionals' – Regional Councils. Whilst extensive data is held on these 12 units of local government, their operations, their nature, their relatively lower levels of investment in infrastructure and utilities and their generally lower levels of expenditures are different than is the case for the providers of local government essential services, that is, the City and District Councils.

The existing two tier levels of New Zealand local government justifies, for most purposes of local government performance reporting the exclusion of the 'Regionals' from the **'Base Stats with Trendz'** reports.

Apart from the many disclosure matters noted in other parts of **'Findings 2005'** there were numerous 'points of interest' observed in the course of compiling and analysing the 2005 **'Base Stats with Trendz'** reports. These included the following:



## **2.1 CEO's update**

The regular changes and turnover of CEO's continues within the sector, 'uneasy lies the head' may be?. Even allowing for a regular exposure to a review of their career prospects, most CEO's continue generally to be 'well paid'.

This assertion is supported by the level of Council assets, total revenues and full time employees under their stewardship relative to other similar public sector organisations. For State Sector organisations the State Services Commissioner no doubt sees to this but Councils are free to set their own terms and make judgments upon what payment is appropriate according to the criteria they set for themselves.

Larger Councils pay their CEO's very well, the smaller ones 'cut their cloth' to suit their circumstances. The highest CEO's package reached the 'dizzy' heights of \$371 K pa, up 31% over the last five years. The lowest were 'around \$100 K pa' at much more 'modest' rates of increase.

The average CEO's 'package' in 2004 was \$183 K pa, an increase over the last five years of just 19% or 3.8% pa on average.

A quick assessment would number at least eight of these executives who are paid more than the Prime Minister ... (she who faces even greater uncertainty of career prospects and scrutiny than CEO's do!)

## **2.2 Councillors remuneration**

A rare example of an expenditure tracking at 'about or below' inflation rates included Councillors remuneration. These payments increased by only 4% last year (election year for Councillors) whereas in 2002, the year after election year they increased by double that percentage ...the electoral cycle effect in evidence again!

Recent increases of Councillors emoluments in early 2005 signal a significant shift upwards in these payments, although the winds of change toward more appreciation of Council costs and the need to show 'frugality' may be becoming apparent if recent press comment is anything to go by *ref*; [www.localgovt.co.nz](http://www.localgovt.co.nz) Feb 21 2005 *ARC Chief spurns \$40,000 work car*. Community Board members remuneration did not significantly affect this finding in percentage terms.

Councillor's remuneration, averaged over the whole sector in 2004 \$32,400, up from an average of \$28,000 in 2001.

## **2.3 Annual Report detail ...principally 'financial'**

The 'Metro's' (the big boys and girls) Annual Reports are still, in general too complicated, long-winded and obscure (not deliberate obfuscation surely?).

The move to 'Outcome' reporting may be desirable for other reasons but it is often not conducive to the sort of detail and understandability that promotes accountability.<sup>1</sup>

There are exceptions notably two of the smaller metros. Both markedly improved their 'accountability quotient' with very informative ... and reconcilable! Outcome/Output disclosures.

## **2.4 Auditors Responsibilities**

Only one audit report was qualified this year, (similar to previous years) and this was based on 'a technicality'.

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<sup>1</sup> Note: for particulars, data and support for 'Outcome' reporting see [www.measures.net.nz](http://www.measures.net.nz)





This result 'may' appear to reflect well on account preparers within the sector ... or is it just a case of 'tame auditors' acting 'tamely'.

The sectors audit environment is complex including as it does onerous legal compliance audit matters. But it is (to me) just not credible that the sector auditors do not 'have more to report'.

Given all of the performance related information required of Councils which plainly is yet to be implemented – (although required first in 1996), this is not apparent from recent Annual Reports. It might be reasonable to expect some audit reference to these deficiencies. Perhaps with public interest increasing and with change 'in the wind' this 'Unqualified Audit Opinion' position will also change.

It will change if the sector (and its auditors) get serious about the subject of performance measurement, (but then is this just a case of my 'passion' on this subject colouring a viewpoint?).

There are good grounds for the belief that the time has come for the sectors performance measurement 'in the round' to be fully implemented. Elsewhere in this report this point is made more fully and this view is largely based upon the increasing level of public interest in Council 'performance'.

I remain of the view that the auditors are there to see that apples continue to be compared with apples (consistency) and that the cost effectiveness (or not) of every Council should be fully and properly measured and reported (accountability).

At present, these criteria are not being addressed. But when judged by the standard of the numbers and content of recent years unqualified audit opinions, in circumstances where fuller audit comment has been warranted, not the least for poor or worse performance measurement reporting, all 'seems' to be in order.

A wake up call for the Auditors? ... You bet, for as public interest in Council performance rises as judged by the emerging public debate about rates '*et al*' we must expect better audit reporting than we are at present getting. The sanction of an audit qualification of a Councils financial statements within the sector remains a very powerful mechanism for ensuring better disclosure and reporting ... in the public interest.

It would be good to see this sanction being used wisely and for instances of 'poor performance'. Phew ...got that off my chest ... 'Here endeth the lesson'.

## **2.5 Accounting timeliness and Audit Signing**

In a previous 'Findings' report I said that:

*'Audit signing was in some cases late and ran over the November 30th deadline. 'IMHO' three months, not five should be set for reporting in any event, for it is well into the new calendar year in the case of some Council's before final published audited accounts are available.*

The change to the Act (**LGA 02**) requiring signing to be 'by October 31<sup>st</sup>' has had the desired effect and it is pleasing to note instances of much earlier and fully audited reporting, one (small rural Council) before the end of August!

## **2.6 Audit Fees and audit appointments**

Audit fees totalled \$6.9 M in 2004. The average fee was \$93 K and fees have increased over the last five years at around 3% pa.

Private sector (non Audit NZ) auditors continue to make inroads into the audit monopoly. Whereas a few years back over 95% of the market was serviced by Audit New Zealand now 11 Councils





(15%) have private sector auditors ... with 'DeLoittes' leading the field from 'EY' ... the only other non Audit NZ auditor.

'Other' professional fees paid to Council auditors last year totalled \$0.95 M, down by 21% over the last five years average for this total.

It is too soon to tell for certain if there is a 'cost' advantage in retaining Audit NZ as Council auditors, but with what evidence there is ... there is!

## **2.7 Samples from the 2004 Annual Reports of 'the good, the bad and the 'old chestnuts''**

As examples (just a few amongst many) of matters that need improvement or are worthy of comment (matters which the auditors 'might' have chosen to themselves comment more fully upon) are the following sector wide general practices ...

- Inconsistent reporting of operating results with mixtures of capital items clouding any useful and comparable assessment of Council 's operating surplus or deficit reporting
- Huge and wildly swinging infrastructural asset revaluations and information missing about their effect upon depreciation allowances
- Depreciation allowances themselves ... their adequacy or not
- Poor definition of revenues on a consistent basis (both inter and intra entity) together with the widespread inconsistency of the use of the term 'rates'
- Performance reporting 'in the round', and nowhere has there yet been sighted an audit opinion relating to the adequacy of this reporting. Not surprisingly as a consequence no reference is found in Annual Reports of exceptions involving a waste of ratepayers money. (Do we deduce from this that all monies were spent effectively and represented value for money?)
- Other instances included large (apparently) unabsorbed significant activity overhead! – often given very obscure titles such as 'Corporate Overhead'. Accountability 'is the loser'.
- Patchy disclosure of fair values of investment assets and their associated revenue streams, particularly where, for example land/market values are very different (often greater) than disclosed leasehold values. Rates of return from these investments are difficult if not impossible to determine and as a result, 'performance' of Council's investing activities is not possible.
- Turgid 'local vernacular,' difficult to understand titles and terminology used in Annual Reports. Instead of the standard '*Roading Expenditures*', phrases such as '*Make the City easy to get around*' are used. Outcome reporting that often gives rise to these buzz phrases is just fine provided they are understandable and low level cost outputs are also disclosed (and reconciled). Without this information true accountability sinks without trace.
- Other examples of 'obfuscation' included the use of obscure terms including.... '*Authorisations*' which I think? means expenditures relating to '*Regulatory*', '*H2O Xtreme*'.... a swimming pool and '*Expressions*'.... '*Expressions*'.... 'huh?'
- Investments tagged to legal reserves (Restricted Reserves) are often not easily distinguished nor are their associated reserve funds including separate and detailed disclosure of depreciation reserves – distinguishing these from other investments not so restricted – such as investments derived from the proceeds of the sale of Power or Airport Company shares.
- Group structures are rarely clearly identified (with the aid of a chart) including associations with the Council's related parties with clear distinctions between CCO's, Associates, JV's etc. Allied to this, a detailed note disclosing the Reporting Entity, that is the full particulars of the coverage of the accounts (the composition of the consolidated 'Group') is rarely included or is



lacking in detail – such as the extent of the Council's interest, degree of control, details of Net Asset Backing, Rate of Return etc.

- Disclosures of planned and achieved key and useful debt ratio analysis particularly a 'normalized' Income to Debt ratio, (the only debt ratio that really! matters) is very patchy.
- Additional information disclosures (although discretionary, but normally of considerable public interest) are often not disclosed. These would materially assist with performance measurement. These include:
  - Numbers (normalised and consistent reporting) of full time equivalent staff members
  - consultancy fees by category
  - simple, understandable reports of the costs of running community assets including the library incorporating such useful performance data as cost per book lent, swimming pool costs including data such as cost per swim, stadia costs including data such as cost per event/admission, art gallery costs including data such as attendance numbers, costs per attendee etc
  - costs of economic development distinguishing sub categories such as Tourism or CBD improvements etc.
  - tourism promotion costs per se
  - emergency management (CD), although this has much improved in 2004
  - identification of material unexpected and unprovided for costs/revenues such as slip clearance, flood clean ups, receipt of one-off Central Government subsidies (Ministry of Economic Development or other regional grants), subsidy receipts identifying fees, separate charges/rates from the omnibus title 'Rates Revenues'.
  - developers financial contributions distinguished from vested asset 'contributions'.

## **2.8 Other, (some improved) asset related disclosure examples**

Some asset related disclosures have 'improved. Better disclosure has emerged of for example:

- capital expenditure items,
- shortfalls of budgeted capital expenditures from those planned,
- details of capital and other operational (including lease) 'committed' expenditures,
- depreciation with totals by asset categories.

## **2.9 Depreciation disclosures**

A missing element of information relating to Councils Capital Expenditures continues to be a lack of any clear analysis of depreciation reserves – under or over spent.

Many Councils continue to work in the dark, they seem not to know if their depreciation provisioning is appropriate. They often are unable to tell the public and their elected members whether they believe (with evidence to prove it) that current levels of depreciation provided, funded and/or unfunded is 'about right'. Perhaps the auditors know ... but are they telling? For an expense category such as depreciation that has such a huge impact upon Council's current rates and service charges this is a major omission.

The suggestion to improve this situation involves the introduction of a plain English 'laymen's' analysis of depreciation reserve movements so that readers can judge for themselves. Many recent rates increases, or at least significant portions of them are attributable to depreciation but their credibility remains in question given the huge variations in asset revaluations, (depreciation provided) and the lack of meaningful analysis as to their size and effect.



## **2.10 Effect upon depreciation of the soon to be introduced International Accounting Standards (NZIFRS)**

The new International accounting standards are to be introduced for all 'Public Benefit Entities – PBE's' including Councils, for Annual Reports starting with their restated comparative figures at June 2005. LTCCP's and Annual Reports will be placed on this fully revised reporting basis by July 2006. Full compliance will become effective for audited statements dated June 2008.

The big concern (amongst many, including the costs of their implementation) is that these requirements include a 'fair' asset value regime that will most likely increase asset valuations and consequentially will add to the already 'highly suspect' (above) levels of funded depreciation charges.

Some exemptions appear to be offered using for example 'revaluation as deemed cost' whatever this means ... more pressure on rates requirements to fund the added asset values could result, exempted or not.

It is anticipated that NZIFRS will affect future rates and charges – the revalued assets will add value to assets, ratepayers equity and depreciation charges to be funded will be further increased. This will add to the already uncertain depreciation provisioning problems.

## **2.11 Availability and accessibility of Council reporting**

Councils, (40 or so of them) again put their Annual Reports on a web site, either their own or 'LGOL' ref; [www.localgovt.co.nz](http://www.localgovt.co.nz)

Many Councils would make the effort really worthwhile by using smaller (.pdf) files. Try getting this stuff off these sites and see what I mean! Good indexing and sub-division of the data using thumbnails/with bookmarks would help too – otherwise finding and downloading information is often just 'too hard' even for pointy headed analysts ... the public will definitely struggle!

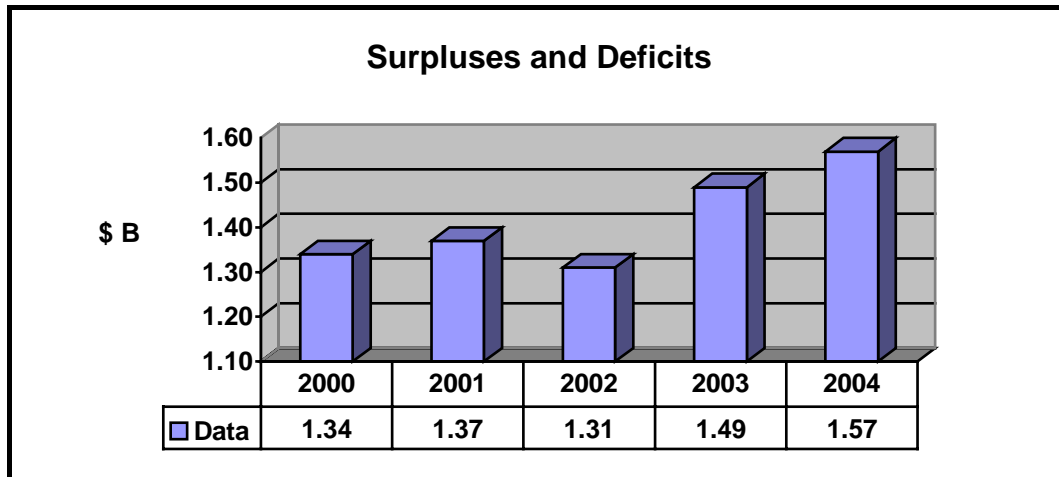
Also may I again issue the usual plug for Council Annual 'Plans' to include a summarised (say two page) list of major capital expenditure projects – help the analysts help their clients.

Whilst on the subject of Annual Plans it will be interesting to see the content and occurrence of these this year (2005) as they can lawfully be much 'skinnier' now with the LTCCP process well underway. Will they be? ... I personally think generally not, as the public interest will determine that there are many matters to report in an Annual Plan that cannot be left to 'every three or five years'.

## **2.12 Surpluses ... What surpluses?**

Amongst the Councils with 'true' operating surpluses, (that is, those not corrupted with revaluations and other extraneous non-operating items), are some very large ones. Surpluses include the results of Council 'groups'.

*Note: The graphical representation of the data that follows in this section of the report includes Standard Deviation, Average and Medians which have been calculated and are based on all of the 5 years data ('the range' – 2000 to 2004) data. In some cases percentages are expressed of the differences between the year 2000 and the year 2004 values, (note, not 'the range' 2000 to 2004').*



Standard Deviation	0.11
Average	1.42
Median	1.37

Net sector surpluses declined slightly in 2003-04. This reverses a trend of the previous three years, no doubt due to 'balanced budget' requirements although an overall sector surplus of \$1.57 B is hardly 'balanced' even allowing for inclusion in this total of the results of associates and subsidiaries.<sup>2</sup>

### 2.13 Taxation of the sector

Taxation paid by the sector has dived, with most, (44) Councils paying 'nil' tax. One Council reported a payment of over \$11 M in group taxation (accounting for over half of all tax paid by the sector) though its 'Council Only' tax payment, similar to most other Councils was 'nil'. Booking of tax credits largely missing in these circumstances, seems in this case to be problematical/puzzling given the sectors tax status.

### 2.14 The rich getting richer ...?

The Councils running a 'Michael Cullen' surplus form of budgetary planning, were generally cases of 'the rich getting richer'. Perversely, a small number of such Councils continue to outstrip others in expenditures on 'niceties' – community assets and the like even though in some cases their amenities – infrastructural asset demands in some cases are 'pressing' to say the least, for example sub standard drinking water and lake water quality.

Many of the 'richer' ones were Councils fortunate enough to be 'in the money' due to large endowments from the proceeds of the sale of Power Company or Airport shares. There are others, (the vast majority of smaller Councils) who have spent these reserves. Investments remain surprisingly static their total has not shifted very much in the last five years and total \$ 2.8 B.

### 2.15 Rates increases ...a potted summary

The subject of Rates more widely discussed is contained in a later section of this report. This 'potted' summary is for those too busy to look at the detail.

<sup>2</sup> Note: 'Surpluses' data should be treated with caution due to the well recognised 'apples and lemons' disclosure problems in audited financial statements. Consolidated (group) data has been used for these findings.



In the 2001-2002 edition of the **'Findings'** report I stated:

*Individual ratepayer rate increases per annum of the order of \$500 to \$800 pa will soon become common and in some cases these will represent an over 30% increase on existing levels.*

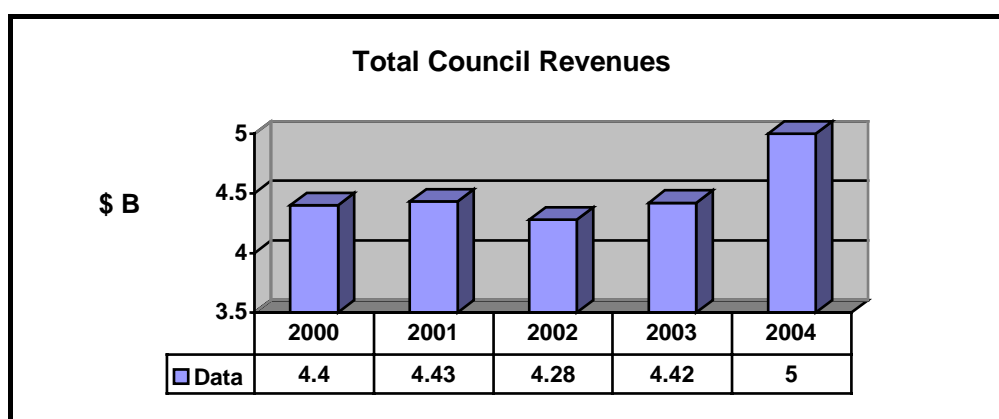
I was both right and wrong with my predictions.

Rates increases (see the separate detailed section on this subject **ref; Rates Section 5** for the survey group (the Napier survey) show on average, increases less than those predicted although 'a few' achieved the dizzy heights ... as predicted.

'Rates' however defined have risen only half of that expected for reasons given elsewhere in this report.

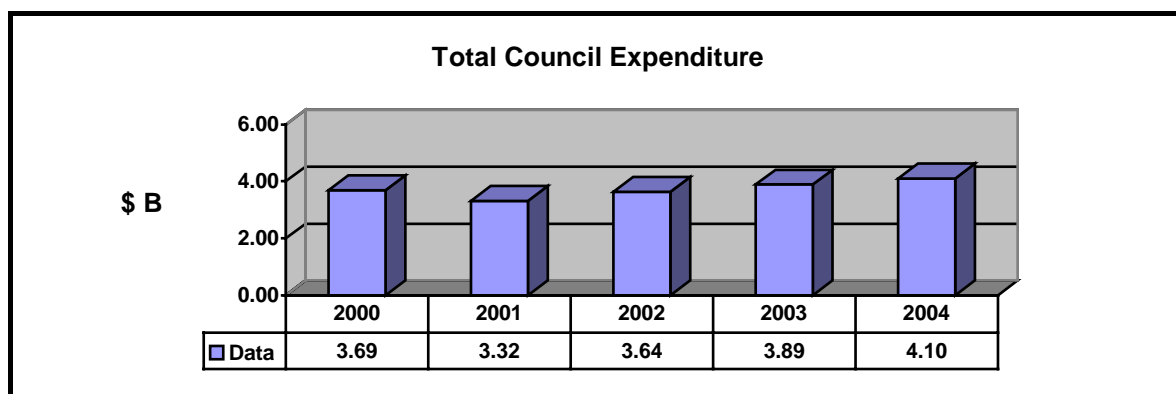
I was right in predicting that many ratepayers would experience large increases of their so termed 'Rates' if the sum total of their Council related charges including rates and all of the other separate and other charges were to be taken into account. (Mayors and others hoping for re election often choose to cynically exclude 'Other' Council charges from their discussions of increases of 'Rates').

## 2.16 Council Revenues and Expenditures



Standard Deviation	0.28
Average	4.51
Median	4.42

The evidence of increases in Council revenues (above) is that they have increased by 14% in the 5 years to 2004. Bearing these Revenue results in mind it is advisable at the same time to relate them to Council expenditures (reaching for the first time over \$4 B in total for the sector in 2004) which have increased over the last five years by 10.2%. Although Council surpluses over this period account for some of this difference the size of the gap between revenues and expenditures is still a little surprising. Analysis at the individual Council level would prove to be of value.



Standard Deviation	0.29
Average	3.73
Median	3.69

Council expenditures are up 11% over the five years to 2004.. There are very big movements masked by these averages for certain Councils, predominantly those experiencing unprecedented levels of growth.

Many Councils, a dozen or so, have increases of total expenditure of over 40% in the last five years. A fuller analysis of this has yet to be attempted but across the board all expenditures are on the steady 'up' over the whole sector.<sup>3</sup>

## 2.17 Revaluations of assets

Clearly detailed reporting of asset revaluations, particularly those involving infrastructural assets are needed. This should include relevant information so that such matters of interest as the effect of the revaluations upon depreciation charges can be assessed.

Very few 2004 Annual Reports achieved this objective. Revaluations are matters of considerable importance when reporting variations from budgeted results. Revaluations themselves, their materiality (of scale) are important, some revaluations are 'enormous' many are poorly explained and they continue to create concern.

For example, some Councils have increased their asset revaluations by over 100% of their 2003 values. Some revaluations exceed 20% of ratepayer equity totals and many Annual Reports do not properly explain the circumstances and their effect. In many cases depreciation charges (which must, it should be noted 'be rated' for) are affected. Curiously, for a matter of such intense public interest increased depreciation allowances do not always result and the reasons for this are often unclear. Much more easily understood ('layman's' language) explanations of asset revaluation disclosures are needed.

## 2.18 Huge increases in some areas of Council expenditure in the last five years

Regulatory and Roothing expenditures are the big winners-culprits, up over the last five years to June 2004 on average by 51% and 37% respectively,

Refuse is up by 23%, Democracy up by 20% and Parks and Reserves also up by 20%, (see later in this section for more detail).

<sup>3</sup> The electoral cycle pattern of Council expenditure is plainly obvious from this graph although the 'drop off' in 2004 is less, due to 'pressing' development expenditure demands not now so easily deferred.



Expenditures on Water and Wastewater (their operational costs) have curiously, in spite of numerous recent and very large capital investments in these large utility assets both tracked at around an 8% (less than 2% pa) increase over the last five years. Perhaps this is to be expected with newer infrastructure. It would be good to see some analysis on this but my search for 'reasons' has to date been 'in vain'.

## **2.19 Regulatory costs ... an object lesson of the need for better performance reporting**

If ever there was the case for credible, consistent and comparable year on year Council services performance measurement then here it is! ...

Regulatory costs have 'exploded' (see above – the 51% over five years to \$364 M in 2004 which exceeds the totals for water and wastewater).

As perhaps a demonstration of my frustrations as an analyst of local government data lets briefly look at this very significant increase in this cost that often is of major public interest.

This level of interest appears to be due to regulatory cost visibility, its contestable debate characterised often by misleading information and its politicisation, for example the often heard moans about the costs of the RMA or because the consent fees have gone up, (since I last applied to build a shed).

## **2.20 A simple cost accounting (Regulatory costs) issue**

In simple cost accounting terms all costs move in accordance with cost drivers including their volume – all are influenced by price changes. Costs of a regulatory department are not mysterious, anything but, and a good time and cost accounting system can 'job cost' all regulatory processes very well.

Most regulatory costs are labour related, (assessed as over 70% of the total), these can be accurately assessed and recorded ... although are planners disciplined enough to 'do the paper work'?

The drivers of regulatory department costs include the following:

- Volumes of consents
- Their average value
- The hours to process paperwork through all stages of approval (or not)
- Their complexity due to legislative and other constraints
- Leaky building and similar risky approval situations
- Tangata Whenua Treaty complicated issues
- Costs, direct (wages) and indirect (computers etc) including general overhead attributed to the regulatory activity
- Staff competence and numbers (payroll costs)
- Department and general Council performance and 'efficiency' ...
- Other influences such as District plan conundrums and developers contributions 'complications'.

But then 'such is life' ... this situation and the regulatory costing issues are not cases of complexity comparable with (say) a Whiteware Manufacturer's design, development, manufacture costing and marketing of a new product!.





Once the cost determinants (drivers) of regulatory costs have been nailed down, the problem of determining performance of any Council regulatory activity and the 'per process' cost/charge is a relatively simple and tractable one in costing terms.

Put baldly, there are no regulatory cost variables of any significance to the issue that cannot be run down, measured and reported upon.

But although this environment is characterised by a high 'public profile' and is fully tractable to analysis, no member of the public interested in finding out (to my knowledge) knows which of the variables (above) are dominant or influential upon regulatory costs, we/they just don't know ... for the reason that this simple exercise to my present knowledge has not been 'publicly' reported upon ...yet.

So the moans about efficiency or not, extra workload excuses, staff levels, the RMA bogey etc go on – 'uninformed'.

To reiterate ... In all of my time in the New Zealand local government sector I have not seen a publicly reported and credible attempt to cost regulatory activities and to explain to ratepayers and others the impact of the cost drivers upon Council charges for these services.

These exercises may be done internally but for a matter of such public interest the 'silence is deafening' in the public arena and the debate on these issues tends, as a consequence to be based upon rhetoric. The issues of consent costs are, as stated, of continuing and significant public interest but they do not get the accountability required to match with this level of (public) interest.

The data shows that these costs are the highest in percentage increase terms amongst all other Council costs over the last five years. *Per se* they are therefore 'of public interest.'

The questions with respect to regulatory costs left for the moment unanswered include; ...

- Are regulatory costs and their increases reasonable?... for all we know they may be or on the contrary they could be just be a dumping ground for general Council overhead
- What has the enormous increase most been a result of? ... for all we know they may be should have 'reduced' per process ... due to economies of scale
- Are they out of control? ... we think that they are! ...out of control.

Who would know? Pointless speculative arguments reign over the reasons for these costs being so high but nothing is done to inform this discussion. It is high time we did ... is it not?.

The point to this dissertation is that it is symptomatic of a lot of other similar performance issues that the sector has yet to squarely face

A cynic (perish the thought) might suggest that we are afraid of what we might find. An auditor worth his or her salt should be finding out the answers to these and other questions and insisting upon much better Council and public performance reporting in this, (and for that matter the many other) cases of merit and of public interest! Go figure.

## **2.21 Investments**

Note: A full sub set of financial data of interest to the sectors investment managers and financiers is placed on our website at [www.measures.net.nz](http://www.measures.net.nz)

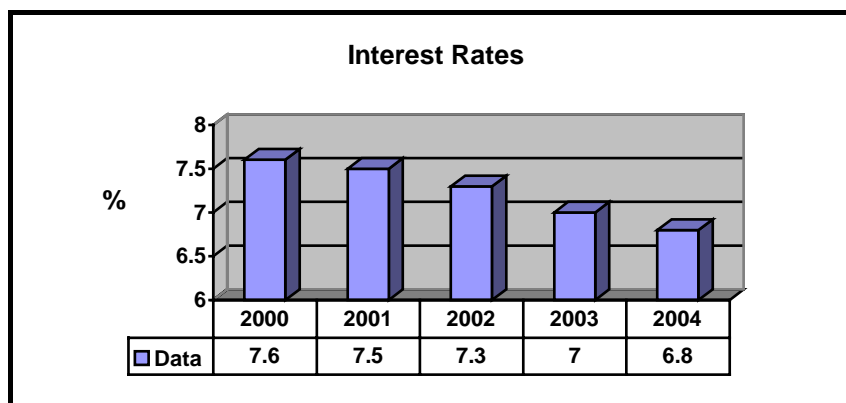
2004 was a better year for local government administered investment funds. The local government sector did not escape the downturn in overseas equity investment returns and the very large write offs of mostly (unrealised) reductions in portfolio values of 2001 and 2002.



This year, (2004) many of these devaluations have been reinstated but the data to support detailed analysis of this is not readily available from public reporting sources.

## 2.22 Borrowing costs

Good news continues on the borrowing interest cost front.



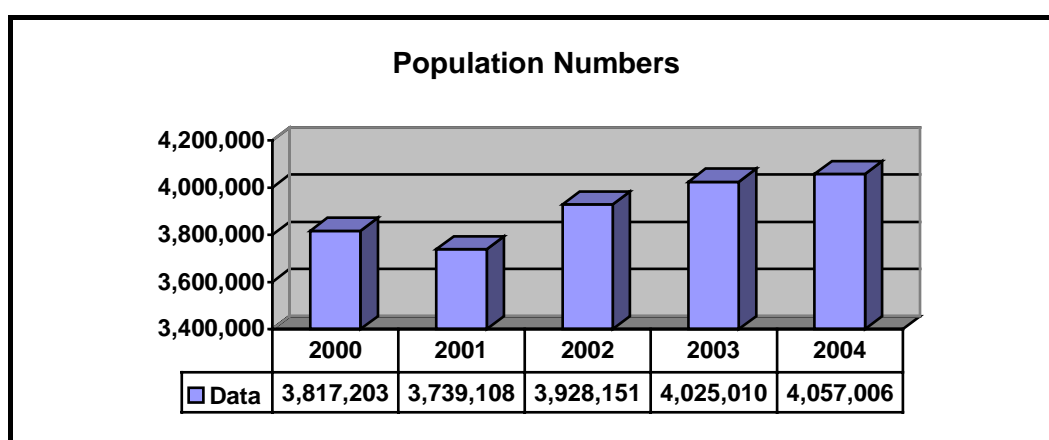
Standard Deviation	0.34
Average	7.24
Median	7.30

As is reported more fully elsewhere in this report, Council's weighted average long term borrowing interest rates fell two basis points in the last year to 6.8%, (they were 7.3% in 2002). Caution is advised with the use of this 'stat' as should be obvious for use of an 'average' of a weighted average which can be misleading if used incorrectly ... and because calculation methods vary.

Councils with short to medium terms to their loan profiles appear again to have prospered, achieving lower than average borrowing interest rates, some as low as 5.5%, (6.1% was the 'low' in 2002).

## 2.23 Population numbers – of 'general' significance – see also Section Three - Economics

Population data continues its steady upwards trend.



Standard Deviation	135,375
Average	3,915,296
Median	3,938,151



Over the whole country population numbers have increased over the last five years by 6% to over 4 million usually resident New Zealanders. In addition tourism 'people' numbers continue to rise at between 10 and 15% visitor numbers annually.

Last time I reported 'Findings' relating to tourism impacts and population 'stats' they were in the following terms.

*Whilst Councils service their 'residents', many also service 'visitors' if tourist numbers are taken into account. For example, Westland reports 7,773 usually resident 'residents' but on census night a further 2427 people were on the Coast – using water, sewers, roads and refuse facilities.*

*Rotorua also estimates that on any night – throughout the year – there could be 'about 7% additional by number of visitors compared to its resident population as visitors in their town', in Rotorua city itself.*

*These numbers make service delivery levels and their revenue/cost equations very different from other areas not so heavily impacted by visitor numbers. The case for a bed tax to finance the inevitably additional costs looks more cogent as a result – does it not?*

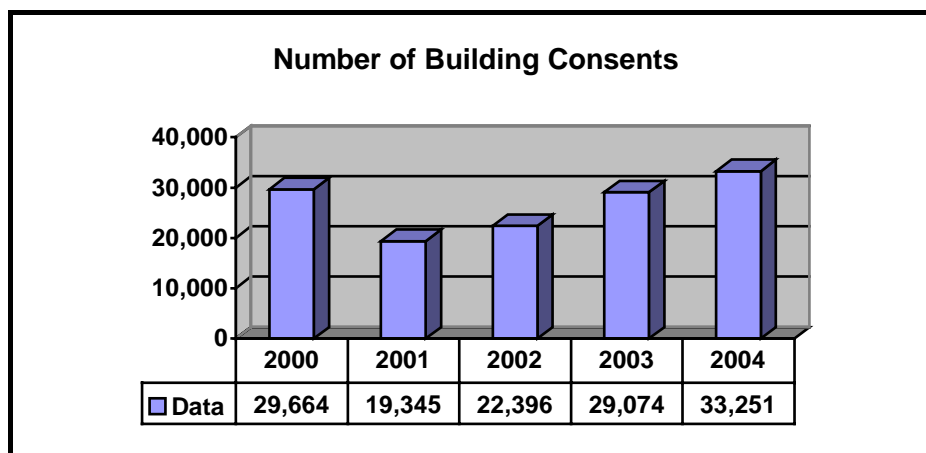
The same sentiments apply (even more so) to the present 2005 situation.

Many Councils are today looking for ways to recover the costs of having tourists tramp through their domains, either by charging hotels and motels directly (bed taxes) or private individuals indirectly, via an accommodation premium to Council property rates ... for units rented to visitors.

Utilising property 'usage' factors (often merely a 'code' exercise within Council Rating Information Databases) within rating policy settings, (differentials) are becoming more popular to catch the tourist and tourism operators 'of all hues' within the Council revenue net.

## **2.24 Building consents and construction activity ... a very useful measure of local economic activity – see also Section Three - Economics**

Building consent numbers are from my experience an excellent first cut indicator of local economic activity (in the absence of any other reliable economic activity indicator at a 'District or City level'). Building consent numbers (not note ...value) issued in the last five-year period display the following profile:





Standard Deviation	5,700
Average	26,746
Median	29,074

Following the boom of 2000 (obvious from the above graph) it has taken the next four years to achieve a higher volume of building activity than for year 2000.

2004 was without a doubt a boom year for building construction with building consent numbers exceeding the 2000 year total by 12%.

Many smaller rural Councils doubled their consent activity last year, surprisingly other Councils which were expected to show increases actually reported decreased numbers.

If there is an 'efficiency' aspect to this result it may be that regulatory consent volumes have slowed/decreased because the applications are taking longer to process, (for some Councils).

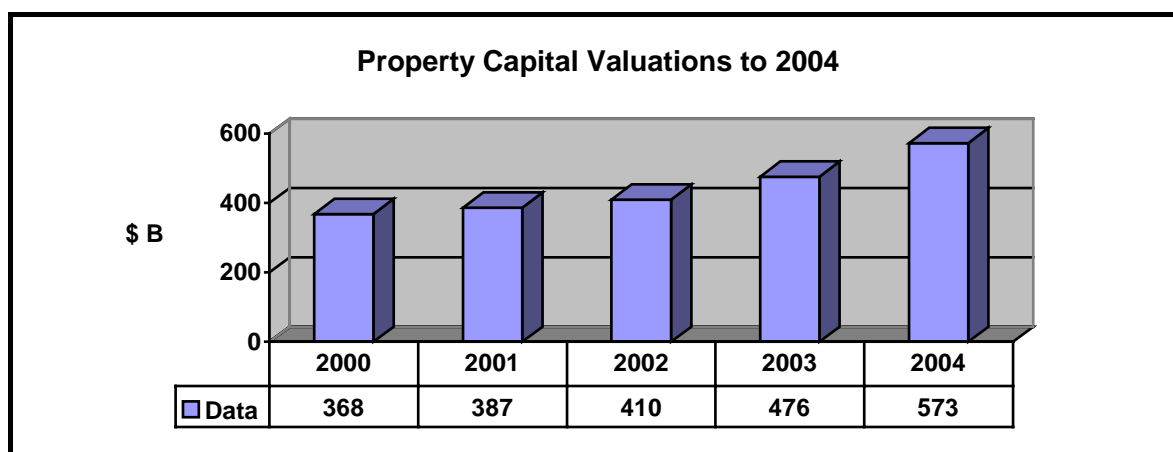
Pockets of very high and sustained building activity (over the last three-year period) included the 'Deep South' and to a lesser extent the Taranaki region, some albeit off historically low bases.

Reportedly 'high development Districts' with substantial urban development under way were often overtaken in this years 'percentage increase' statistics by the more provincial districts activity relating to building occurring other than in their urban areas.

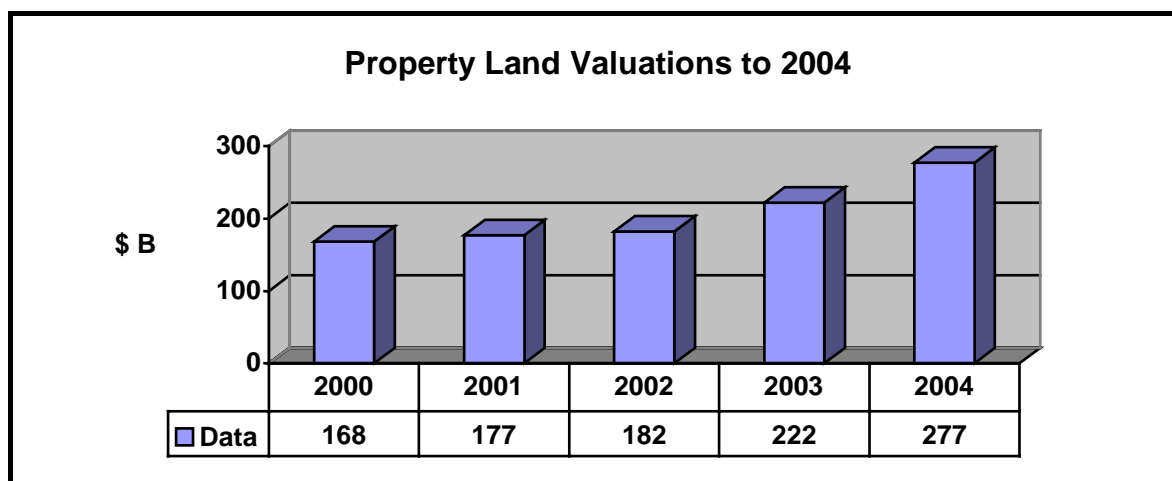
Land and capital valuation movements incidentally tend to confirm the finding in that most uplift in property values, certainly of land values, appear to be attributable to rural land.

## 2.25 Land and capital valuations

These next two graphs, considered together relate to property valuations – they are truly astonishing.



Standard Deviation	83
Average	443
Median	410



Standard Deviation	45
Average	205
Median	182

These graphs indicate an almost 'doubling' of property values in the last five years. The effects of these property (realty/real estate) asset revaluations for their ratepayer owners are very significant indeed.

The 'Rates' section (see para 3.3) of this report considers some of the implications including the need to comprehensively review and adjust Council rating policy settings to better (more fairly?) reflect the impact of these new values upon property based rates.

### **Council infrastructural and other 'fixed asset' revaluations**

2002 was the last most recent year to see massive shifts in asset revaluation accounts, largely due to initial uptakes of the value of land under roads, the 'FRS 3 transitional allowance' being availed of for the last time in the 2002 accounting period.

This year the 'mischief' continues with further large and often largely unexplained shifts of asset revaluations.

In addition, there continue to occur major variations in depreciation charges year on year. This area remains a 'mess' and this state of affairs will continue as long as Council's find the need to 'wriggle' over funding of these depreciation charges. Most Councils gave good to excellent information concerning the separate components of the revaluations. Because this period's asset revaluations were mainly related to non-depreciable land values, the depreciation expense impact was fortunately thereby lessened.

One City probably made NZLG history by booking \$2.545 Billion (yes billion) through their revaluation reserves.... and the smaller part of this total, (note not the larger) was the land under roads entry. Contributors to this huge total were its drainage and wastewater assets.

Variations of value as large as these – and many other Councils besides 'the City one' had similar material adjustments in the current period - albeit at lower totals – must call into question the service charges being levied on such 'fluid' (and unreliable?) valuation bases. Depreciation booked as a cost and funded from rates is proportional to a (unreliable) valuation base – it too will therefore be unreliable.

And what's more.... the ratepayer is funding these 'whims' of financial accounting. Although... some Councils produced curious, apparently 'nil' depreciation expense effects this year, in spite of



these huge value movements, (perhaps next year will be different). This area deserves some further (audit) scrutiny.

Not surprisingly given these asset and other 'value' adjustments, large adjustments to ratepayer's equity also occurred. Ratepayers equity totals for the sector grew last year by a large 13% attributable largely to the continuing upward asset revaluations, and reported surpluses.

**2.26 Other totals of interest taken from the 'Base Stats with Trendz' database over the sector include:**

	2000	2005	% five yearly change (decreases)
Infrastructural Assets	\$29.6 B	\$43.5 B	47%
Fixed Assets	\$37.9 B	\$50.2 B	48%
Current Liabilities	\$1.7 B	\$1.68 B	(-3%)
Term Liabilities	\$1.9 B	\$2.38 B	16%
Investments	\$2.9 B	\$2.8 B	(-1%)
Public Debt	\$2.5 B	\$2.5 B	(0%)
Economic Development Expenditures	\$96 M	\$114 M	19%
Regulatory costs	\$242 M	\$364 M	51%
Roading Expenditures	\$793 M	\$111 B	37%

Note: A caveat must accompany the above data. Whilst all care is taken in the preparation of this data the information's accuracy is totally dependant upon the reliability of audited Annual Report disclosures. Full particulars of all data reported at the Council, cohort and sector level for the last eight years is available. The data is described at *ref*; 'NZLG Database' [www.kauriglen.co.nz/larry/NZLGDatabase.doc](http://www.kauriglen.co.nz/larry/NZLGDatabase.doc)



### 3. ECONOMIC AND INCOME RELATED FINDINGS

#### 3.0 Introduction

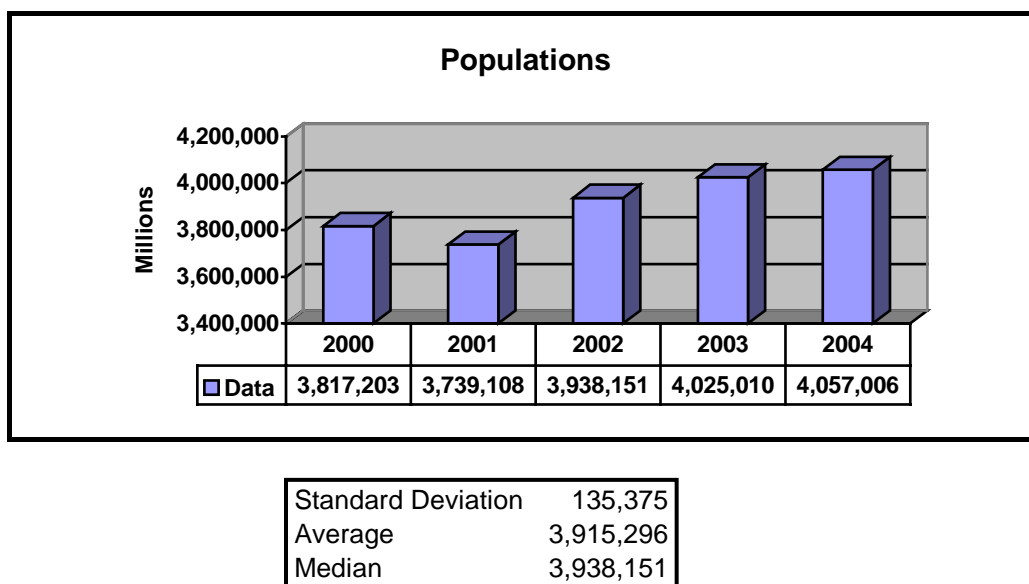
The *'Base Stats with Trendz'* reports contain the annual reportage of extensive economic and so termed 'eco-socio' data that address the key question of a City or District Council resident's *'Ability to Pay'* ... for Council services. Many of the topics of this section of the *'Findings 2005'* report are directly related to these reports available to subscribers within the *'Base Stats'* package. Individual Council results are not reported here but are available to subscribers.

Each Council will need to become keenly aware, (if they are not so already) of these local and national income trends when conducting the detailed analysis and review of their rating and other policy settings. The relative ability of their own ratepayers to absorb rates and charges increases is crucially dependent upon these numbers. The *'Ability to Pay'* graphs and composite index of economic and income factors contained in the *'Base Stats with Trendz'* reports are designed to assist with these judgements.

*Note: The graphical representation of the data that follows in this section includes Standard Deviation, Average and Medians, which have been calculated and are based on all of the 5 years ('the range' – 2000 to 2004) data. In some cases percentages are expressed of the differences between the year 2000 and the year 2004 values (not 'the range' 2000 to 2004).*

#### 3.1 Adjusted Census – Population data – of 'economic' significance

The 2001 Census results have again been amended since the *'Base Stats'* reports were run last year. These numbers were input to this years reports and have been further adjusted to take account of changes estimated to have occurred to June 2004. 'StatsNZ' have supplied population data at the Council/TLA level as of this date taking into account births, deaths and visitor numbers.



The following are the changes to the population data since last run, most changes are due to better data now being available... mostly thanks to 'StatsNZ'. Note the 2001 downward 'blip' in this data arose from the tendency of Councils to earlier report higher populations in non-census years.





Population numbers and percentage increases have been limited to data of the 5 yearly census cycle. Adjusted data is now supplied for the '**Base Stats with Trendz**' reports as at June of the current year being the 'updated' latest census numbers adjusted by 'Sub-National population estimates', in other words adjusted between censuses using rational estimates including births and deaths, estimates of transients on census night etc.

The New Zealand totals of this kind were Census 2001, 3,732,000, adjusted to June 2004 to 4,057,006 (4.01 M).

As population is a key variable for the '**Base Stats with Trendz**' reporting system the revised treatment of its data (*circa* 2002) gives a much more accurate measure than has been used (or has previously been available) in the past.

The adjusted population numbers did not give rise to significantly different '**Findings**' from last year. The details of these movements are available from previous reports or upon request. The following edited commentary (from last year's reports) is repeated below.

The nine Councils that have suffered the greatest decline in 'usually resident population numbers' are predominantly the smaller rural communities; five of these are North Island districts.

Of those with over five percent 'declines', some South Island – smaller 'Rurals' disproportionately add to this picture, (7 of 17 that 'declined' are in this 'Rural' grouping). Recent people movements southward may have reversed this trend however.

Six of the eleven Councils with the highest population percentage gains are dormitory suburbs of the large Metros.

Five of the nine major upper North Island metropolitan centres have achieved above 6.0% growth rates of their populations. Note, the total increase over the whole country was 7.2 % indicating the application of the 80:20 rule....'most people in this country live in Metropolitan and City conurbations' - (1.8M- 48% of the national population total reside in the Metros).

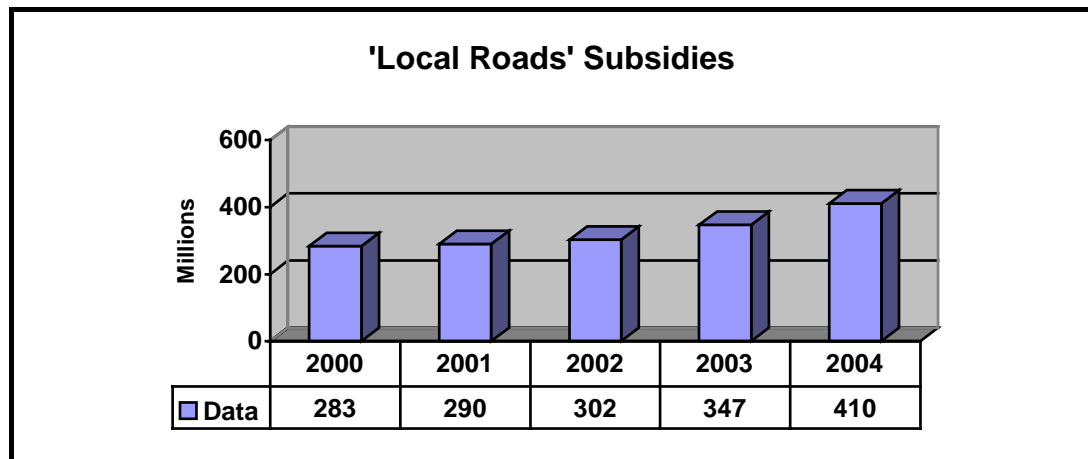
Apart from the trends noted above, it should be added that tourism and retirement areas have done well with impressive population gains in Districts of this kind.

The '**Base Stats with Trendz**' reports show clearly, at an individual Council level and for sector groups the local particulars of the population trends in total and percentage terms.

### **3.2 Land Transport Authority (LTA the ol' 'Transfund') roading statistics**

The extensive, reliable and consistent data 'year on year' again provided from the LTA's (used to be Transfund's) Annual report supplement, continues to prove very useful and discloses information often the preserve of the 'engineers'.

The total 'Local Roads' subsidies paid to TLA's in the most recent year to June 2004 (\$411 M) represents a 45% increase for that period in nominal dollar terms from what it was five years ago, (the year 2000 total was \$283M).



Standard Deviation	52.96
Average	326.40
Median	302.00

The Ministry of Economic Development continues to add regional roading special project funding to the subsidy total (above). Forestry roading funding in the North of the North Island has been the principal beneficiary of these grants recently. The added MED figures are reflected in the roading expenditure totals of the **'Base Stats'** reports but are excluded from the 'Transfund' 'subscriber' Council Transfund subsidy graphs (above).

Given that in general, in some cases up to 50% of Council funding for Provincial/Rural and Rural Council groups goes on 'roading' expenditures, active management of these numbers needs to be facilitated. (Note; for the whole sector roading expenditures represents 26.3% of all Council utility operating expenditures, still by far the biggest, the next biggest being wastewater – \$348 M pa and then Water Supply at \$318 M pa).

As a starting point the **'Base Stats with Trendz'** reports will assist management in assessing any Council's roading costs. The reports continue to indicate that a number of council's still do not, (using existing subsidy allocation formulae) appear to be receiving their 'just deserts', that is they may not be receiving their full and fair entitlement of roading subsidy money.

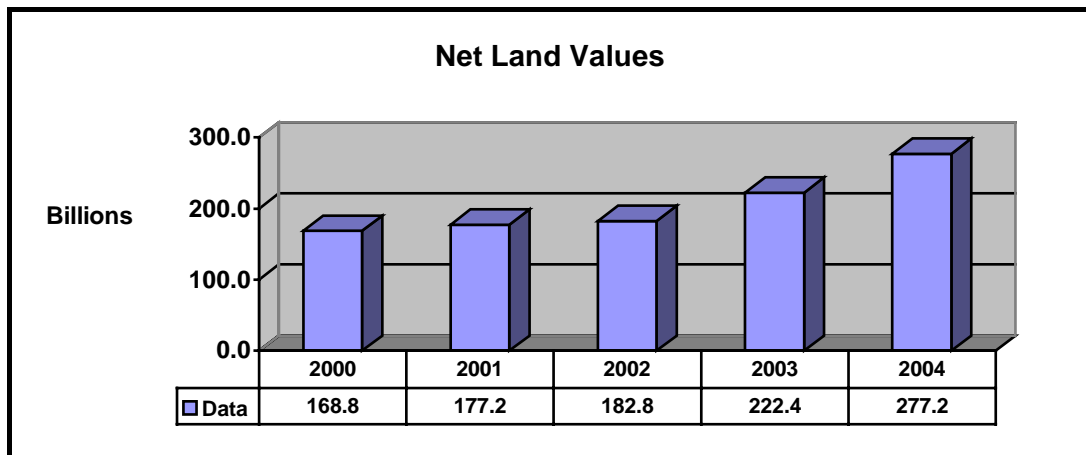
Another independent initiative to provide Council subscribers with in depth roading data to assist in addressing the issues of under funding of roading subsidy is due to be announced shortly. Watch this space *ref*; [www.measures.net.nz](http://www.measures.net.nz)

Some Councils have used this data already to begin to further investigate these circumstances.

The **'Base Stats with Trendz'** reports show clearly, at an individual Council level and for sector groups the local particulars of the graph.

### 3.3 Valuation data - of 'economic' significance

The 2004/05 valuation data used in the **'Base Stats with Trendz'** reports is nothing short of 'staggering', even more so if late 2004 revaluation data is introduced. The rise of land values throughout the nation is (historically) unprecedented.



Standard Deviation	44,954,554
Average	205,716,249
Median	182,880,626

Over the last five years, land values (net rateable) have increased by 64% most of this occurring since 2003.

Capital values (net) over the same period have increased by 56%. Some more recent revalued properties have exceeded even these astonishing figures, in one case, late 2004 revaluations on a District wide basis threw up increases over the whole District for 2001 to 2004 of over 70% with the weighting leaning toward the uplift of rural land values and residential properties averaging an 89% increase.

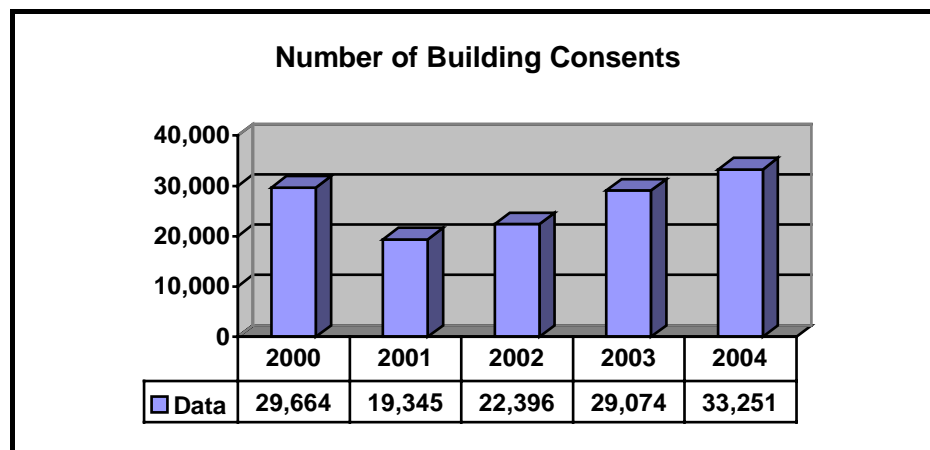
The impact of these valuation movements will be far reaching. They will severely test many existing rating policy settings. Simple 'twiddling' with differentials may not be enough as has been the case in the past. 'Comprehensive' rating policy reviews will be called for.

The '*Base Stats with Trendz*' reports show clearly, at an individual Council level and for sector groups the local particulars of the trend.

### 3.4 New Dwellings – based upon building consent information

Building Consent numbers – development and construction activity, as measured from building consent data of new dwellings, are some measure of both current and recent period economic activity – the way this indicator is designed within the '*Base Stats with Trendz*' reports.

Both the present period and the last three years are reported within the '*Base Stats with Trendz*' graphs to give some indication of the permanence or the impermanence of any perceived trend.



Standard Deviation	5,700
Average	26,746
Median	29,074

The last five years figures for building consent numbers has seen a 12% uplift. The most recent two year period results makes up for earlier years downturns, reinstates the volume of building activity experienced pre-2000 and in 2004 the earlier 'boomlet' turned into a full blown building construction 'boom'.

This year's economic growth/building consent data at a 16.5% increase is very positive. But nevertheless, despite its upward shift the increases have been quite 'patchy' over the whole country.

To illustrate, the seven Auckland regional TLA's reported year 2004 increases much below the national average which is a quite different pattern from the results of two years ago.

One Auckland region bordering Council actually experienced a decline of 18% of its building consent numbers whilst the highest of this Council's peer group achieved a 49% increase. Most in this category failed to reach positive double digit percentage increase figures possibly for reasons detailed at length in another section of this report relating to regulatory departmental operations.

In other parts of the country star performers appear to have shown increased consent numbers of over 30%. Other standout performers were smaller provincial and rural Councils with the Deep South Provincial/Rurals leading the charge.

The **'Base Stats with Trendz'** reports show clearly at an individual Council level and for sector groups the local particulars of the trend.

### **3.5 Economic growth**

The table below, ('Year on Year' growth from September 2003 to September 2004) describes the data used for this element of the **'Ability to Pay' 'Base Stats with Trendz'** composite index for this years reports.



Region	Reported year's economic growth to Sept 2004	2003 year	% Increase Year 2003 to 2004	Commentary
Northland	5.4	3.0	+2.4	<i>Steaming ahead ...in fact Northland has had eight! successive periods of quarterly rises of its economic activity measure.</i>
Auckland	3.7	5.6	-1.9	<i>Dropping off the pace ...traffic gridlock may be ?</i>
Waikato	4.0	4.5	-0.5	<i>Steady</i>
Bay of Plenty	5.0	9.4	-4.4	<i>Off of reported highs to something more 'realistic'</i>
Gisborne	2.5	8.0	-5.5	<i>Curious ...and not what I have observed</i>
Taranaki	5.5	4.5	+1.0	<i>See also comments re Northland. Both these regions are making a race of it</i>
Manawatu-Wanganui	4.7	2.1	+2.6	<i>Floods and recovery</i>
Hawkes Bay	4.3	3.9	+0.4	<i>Steady</i>
Wellington	2.7	1.0	+1.7	<i>Like their footie team ...on the up</i>
Nelson-Marlborough	4.16	5.9	-1.8	<i>Solid result after previous highs</i>
West Coast	5.5	2.7	+2.8	<i>Tourism is booming</i>
Canterbury	4.3	4.2	+0.1	<i>Like their footie team ... successful but boring...no serious offence intended</i>
Otago	5.2	3.9	+1.3	<i>Less solid result after earlier spectacular highs</i>
Southland	4.3	1.9	+2.4	<i>Volatile ...like their footie team</i>
Total New Zealand	4.0	4.3	-0.3	<i>A result the All Blacks would be proud of</i>

The data used above (National Bank quarterly survey) is the only available disaggregated (regional) and current information of its kind measuring economic growth and is based on 'regional' survey data.

Clearly this data will need to be 'massaged' for each sub-regional TLA unit if the regional 'stat' varies from local circumstances and, if this information has been collected.

Overall, since last surveyed in 2003 when the data showed strengthening economic growth in the rural hinterland and in the South Island, this years 2004 data exhibits a general softening of the economy, an economy on the way down.

The 'landing' (the extent of any downturn) of the 'NZ Inc' economy if it is a hard landing would upset many existing Council plans of further expansion.



Some Councils appear to be 'seizing the moment' and are currently pushing hard for facilitative or direct inputs into local economic growth.

In the last 'Findings' report I stated as follows:

*'Stats NZ' have very recently completed their survey of Land Use Statistics – their Rural Census in effect. They make impressive reading. The following URL [www.stats.govt.nz](http://www.stats.govt.nz) - search on 'Land Use' – can be used to view the final results from the Agricultural Census.*

*The approach/arrival of the forestry-cropping avalanche is starting to show. The economic impact of this and other diversification of crops and rural expansion, generally including smaller blocks of land now under intensive cultivation, bodes well for future rural prosperity.*

Well, as it turned out the forestry boom proved to be boomlet with this sector exposed to currency and commodity price 'vagaries'. Other export prices held up but could also soon take a dive. 'Such is life' but this little case study serves as a warning to rural Councils to 'be careful' if significant additional Council 'participation' in local economic activity is contemplated.

The '**Base Stats with Trendz**' reports show clearly, at an individual Council level and for sector groups the local particulars of the trend.

### **3.6 Unemployment**

Recent media headlines reported for New Zealand's unemployment data a position that at the moment 'is close to best in class', 'the lowest in the OECD'. The figures really are astonishing.

Most Councils are aware from the work of their local economic units of their own 'employment' statistics, and the numbers of unemployed in their area. The benefit derived from the way the '**Base Stats**' unemployment data is presented is that they are reported by TLA boundary area and they can for the five most recent years be compared with peer groups, standard groups and across the sector.

It is one thing to know the detail of your own data, an entirely different slant may be taken of this information when it is compared with others.

For example,

- 'How are we doing compared with our peers?', therefore
- Can we do what they are doing or not? ...
- If so, can our service levels approach theirs? ...

... a whole raft of questions can only be addressed with this form of comparative analysis, not possible with 'just raw unrelated data'.<sup>1</sup>

A high level of detail concerning unemployment for individual TLA's is essential to an assessment of actual and relative Council positions over time for this and other important so termed 'eco-socio stats'.

The 'stat' of unemployment (along with 15 other statistical measures) form the basis of the '**Base Stats**' '**Ability to Pay**' capability. This data is available annually, it covers all of the criteria needed

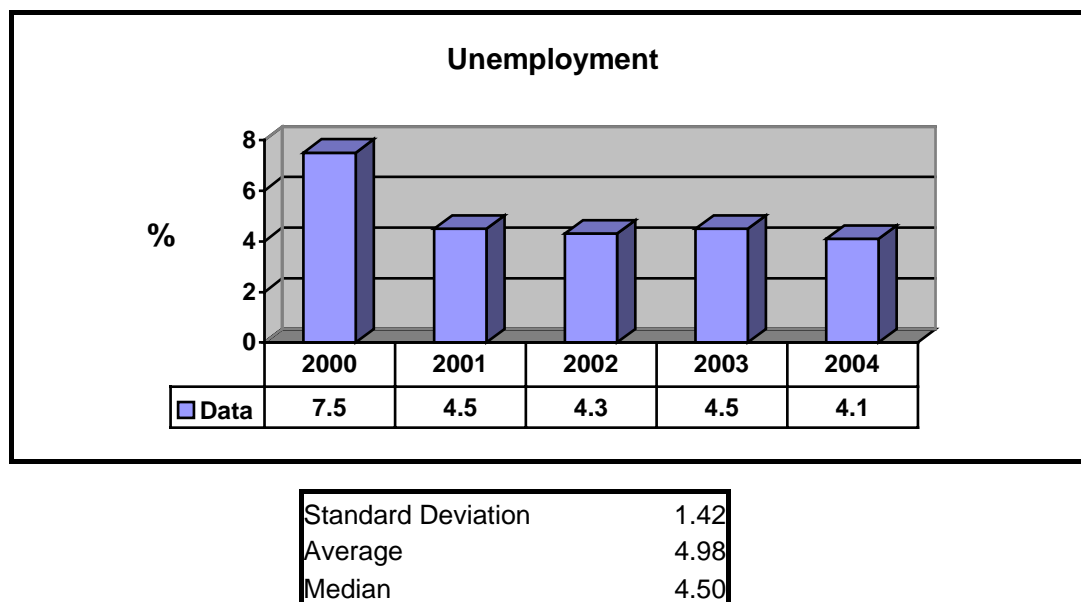
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<sup>1</sup> This of course holds good for most, if not all of the data derived from the '**NZLG Database**' ref; [www.kauriglen.co.nz/larry/NZLGDatabse.doc](http://www.kauriglen.co.nz/larry/NZLGDatabse.doc) the data engine of all of these reports. The data set of the '**NZLG Database**' is alone in providing this body of knowledge for use by New Zealand Councils.



to assess '*Ability to Pay*' determinants and issues and saves subscribers the need for costly surveys within their own boundaries.<sup>2</sup>

The following graph shows unemployment data for the whole of the sector.



There is a surprising consistency of the unemployment data right across the nation. The percentage of the total work and labour force unemployed now for two – or more years running (2001-2004), is remarkable.

The data is in aggregated form (above), its points of interest – over the whole of sector are:

- Definitional aberrations were present for the 2000 year data but in spite of these the big drop of numbers of those 'unemployed' occurred in 2001.
- The numbers of unemployed continued to decline (albeit at lower rates) for two of the three succeeding years (2002 to 2004).
- The current (2005) '*Base Stats*' reporting year for which data was available is conservative (uses slightly higher numbers) as the position more recently reported has the numbers slightly lower again to reach the 'best in class' position.

In summary the key stats of the unemployed for the whole of sector are as follows:

- The numbers of those 'unemployed' (all of NZ) for the five years from 2000 to the present have 'nearly halved', (they are 'down' by 45%) overall.
- All TLA areas have benefited from the fall in unemployed numbers to differing degrees.
- The most recent period has displayed a further decline (a 7% drop) in these numbers.
- A level of employment has been reached where shortages of (particularly skilled and hireable) work persons are appearing.

<sup>2</sup> The most recent '*Ability to Pay*' survey conducted by another Survey consultancy for a Provincial/ Rural Council which essentially answered the same questions as does '*Base Stats*' at a fraction of the cost ended up costing this Council in the region of \$30,000. What is more, at that price this Council will only conduct the survey every 'five'? years and will miss out, in intervening years in tracking its crucial short term circumstances of information which they should be aware of, at least annually so that they may respond to it with analysis and policy setting.





Demographers have been predicting these circumstances for some time due to many factors including the aging of the work force and historical data based on lower birth rates

Short term predictions, though cautious appear to suggest a continuation of the trend of the last three or four years, that is, whilst the unemployment rate may fluctuate 'mildly' and additional workforce numbers will be added, (due to targeted immigration and the 'Mums back to work drive') a nation wide level of those unemployed will be about half of those of the peaks reached in the 'nineties'.

The '**Base Stats with Trendz**' reports show clearly at an individual Council level and for sector groups the local particulars of the trend.

The significance of this data to the local government sector should not be underestimated. Councils occupy a very strategic position in these matters concerning their local economies. They are often, particularly in provincial rural areas, 'the biggest show in town', they have the potential to be the guiding, helping and facilitating hand ... or in the alternative merely the 'dead hand of bureaucracy'.

The posture that Councils adopt to these circumstances will influence where 'NZ Inc' goes over the next decade or more.

There are many Councils that have in the past been constrained in their ability to achieve worthwhile localised economic growth as indicated by their local 'Ability to Pay data', possibly most importantly due to such data as their level of local unemployment.

The golden opportunity to break this cycle (in spite of numerous other 'challenges' such as Councils debt financing, revenue raising etc) has arrived.

The sector as a whole can now face these challenges if they are bold. The base for continued prosperity exists ... with certain cautions (see above re the "rurals") as the data clearly shows.

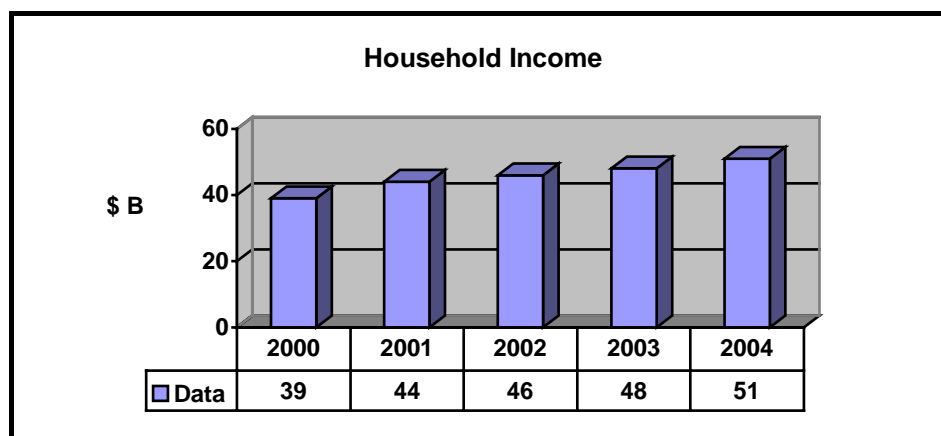
Coupled with a need to become more efficient (less bloated some would say), Councils can either adopt performance improvement measurement and imaginative wealth creation initiatives for the good of their citizens ... or not. Regulators (Government) may also wish to ponder their responsibilities in this context 'if is to happen'.

### **3.7 Household Income 2005 data, (adjusted 2001 census)**

This data (Household income) follows on from the commentary of the previous discussion concerning unemployment. For as 'night follows light' incomes follow employment.

The adjusted Household Income data used this year is derived from a 'StatsNZ' so termed 'New Zealand Income Survey'. The survey is carried out each June quarter and its results have again been factored into this years report. Note: the data purchased from 'StatsNZ' includes a weighting which in simple terms applies a factor to each TLA area depending upon the number of households surveyed. For this reason the numbers may not be comparable with other surveyed data but the results are strictly comparable, census to census within the '**Base Stats with Trendz**' reports.

As a determinant of Council's residents '**Ability to Pay**', Household Income is a key element in the composite Economic and Income related indices of the '**Base Stats with Trendz**' reports.



Standard Deviation	5
Average	46
Median	46

The key indications derived from the Household Income data are:

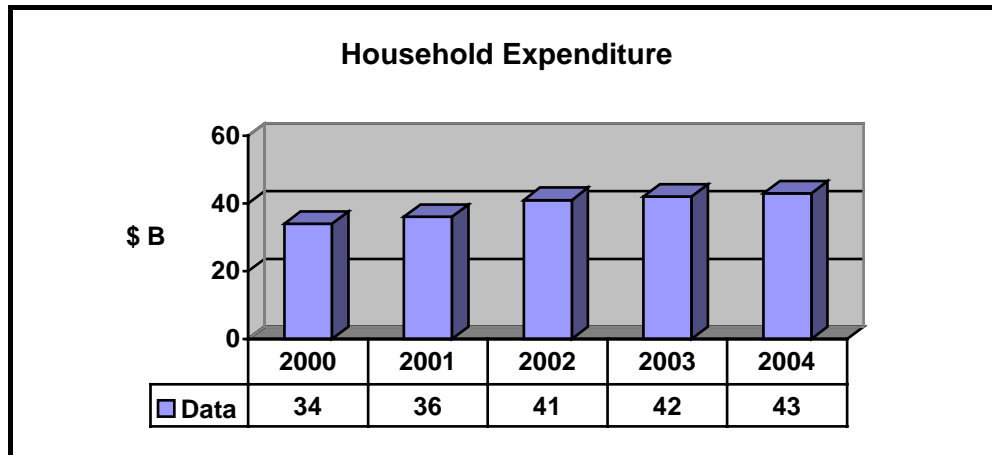
- Whilst unemployment over the last five year period has fallen by 45%, for the same period Household Incomes have risen by a (somewhat) comparable amount, by 30%, establishing some possibly direct correlation between the two factors as discussed (above). The annual increments in percentage terms of both 'stats' track each other quite closely.
- Median (all of NZ) Household Incomes for the period have increased by 30% from \$38,443 (in year 2000) to \$50,337 (current).
- All TLA's have experienced positive (increased percentage) improvements of their Household Incomes 'stats' and as measured by the 'narrow' standard deviation of this data the range of percentage increases is quite small.
- The highest percentage increase was 42%, the lowest a 19% increase.
- The '**Base Stats with Trendz**' reports show clearly at an individual Council level and for sector groups the local particulars of the trend.

### 3.8 Household Expenditures

The data on household expenditures is obtained by 'Stats NZ' from a periodic survey (of 3000 households throughout the country). At '**Findings**' reporting time last year the following circumstances prevailed.

*'The Household expenditure data has thrown up some aberrations which are still being 'worked on' as the '**Base Stats with Trendz**' reports were being prepared. The judgement has been taken to use 1998 (the date of the last survey) adjusted by the CPI movement. This simplification should be borne in mind when interpreting the data but it is expected to be 'not far off the mark'.*

The data on Household Expenditures 'has settled down' since the last '**Findings**' report but caution should be exercised if the data is to be used with demanding requirements of precision. The data reported, if even only 'indicative' by nature is robust enough to discern unmistakable trends if not their precise statistical purity. See *ref*; [www.ltccp.net.nz/FirstPrinciples.aspx](http://www.ltccp.net.nz/FirstPrinciples.aspx) research paper for data criteria.



Standard Deviation	4
Average	39
Median	41

Whilst Household Incomes over the last five year period have risen by 30%, for the same period Household Expenditures have also risen a comparable amount, by 25%, establishing some possibly direct correlation between the two factors (and also with unemployment) as discussed above. The annual increments of Household Incomes and Expenditures (unsurprisingly) track each other quite closely.

Average, (all of NZ) Household Expenditures for the period have increased by 25% from \$34,479 (in year 2000) to \$42,445 (current).

All TLA's have experienced positive (increased percentage) results for their Household Expenditure Incomes 'stats' but at widely different levels.

As measured by the 'widening' standard deviation of this data the range of percentage increases is getting wider. This is much less visible at the aggregated 'all of NZ' level but at the individual TLA level it is in some cases 'startling'. Some of the smaller and 'poorer' areas are falling further behind 'the big boys and girls'

Over this period the data indicates that 'the gap is widening' ... the rich getting richer and the poor, poorer - relatively.

The '*Base Stats with Trendz*' reports show clearly at an individual Council level and for sector groups the local particulars of the trend.

### 3.9 Discretionary (surplus) Income

Discretionary Income is not currently reported within the '*Base Stats*' data set. This data and much more including demographics, other eco socio data (deciles, deprivation, crime, traffic, roading, financiers indices and CAPEX) are all available by subscription on our web site at [www.measures.net.nz](http://www.measures.net.nz)

### 3.10 Concluding references to '*Base Stats*' reports

This concludes the highlighting of selected items within the Economic and Income factors reported within the '*Base Stats with Trendz*' reports. Subscribing Councils are again reminded to carefully review their customised results within the reports supplied covering:

- Difficulty Factor assessments (customised 'Full Monty' '*Base Stats*' only)



- **'Ability to Pay'** – section 3.0 and
- **'Composite Index'** section 3.8.

**'Base Stats'** subscribing Councils gain the benefit of the full analysis and interpretation of this body of local government knowledge. Others, financiers, contractors, government agencies, audit interests, ratepayer groups, trade associations, interest groups etc can avail themselves of these details also. For full particulars see [www.kauriglen.co.nz/larry](http://www.kauriglen.co.nz/larry)



## **5 RATES**

### **5.0 Council Rates and Charges ... an Issue in election year**

Based upon recent media commentary see *refs*; Appendix 2 – 'Land values are not a fair system for rates', Appendix 6 – 'City council steeped in fiscal laxity', Appendix 7 – 'Fraser Colegrave article', it is pretty obvious that local authority rates, local government funding in general, the level of Council charges and more recently Council cost effectiveness and performance are becoming matters of intense public interest and debate.

The press and other public comment are included as appendices to this report to demonstrate the nature and extent of this emerging dialogue, (the views of the selected correspondents are not necessarily shared by the author) ... but 'he ... the author – is up and cheering' that at last the debate is being given the attention it deserves.

Looking back upon earlier 'Findings Reports' relating to the subject of rates, the rates debate was reported to be 'brewing' and evidence then suggested that it would soon come to the crunch.

Rates continue their inexorable rise ... with it, so does the public interest in these matters.

### **5.1 The current rating environment**

The rating environment within the New Zealand Local Government sector at the date of preparation of this report is experiencing a level of conjecture and discussion rarely experienced in the recent past.

This has come about largely because of:

- The impact of imminent revaluations of property,
- interest created by the new rating framework arising from the introduction of new rating and other legislation,
- from periodic and recurrent increases of rates and Council charges often at above the rate of inflation and
- from a widespread public interest (that varies according to ones circumstances and point of view) with views that are usually expressed in terms such as:

*'Council rates are an outdated and unsuitable mechanism for raising the revenues of Councils...'*

*Council's rates and charges are 'unfair' to some (or all) of the following and for differing reasons*

- ...to the rural sector,
- ...for those on fixed incomes,
- ...to the business sector or
- ...to special interest groups who point to the disparity between their rating costs and their benefits.<sup>1</sup>

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<sup>1</sup> A recent letter to the editor *ref*; Appendix 2 – 'Land values are not a fair system for rates' covers most of the usual gripes about rates – and about the effect of 'LV'. The 'usual suspects' are identified – costs verses benefits for example, and the 'system' of property-based rating is castigated. Councils are stuck with 'the system' for now, care of the denizens of the beehive but Councils are bound to heed some of Mr Kyle's pleadings – and achieve the best result possible, one of fairness and balance.



There is nothing new in these views and Council's elected representatives have the time honoured and largely unfettered responsibility to reach a moderated balance of these various positions as they see fit.

It appears however, for the many reasons referred to in this report, (and in light of recent media reports) that 2005 could well be the 'crunch date' for many other New Zealand Councils.

For example, 'push seems now to have come to shove' due to the pressure of:

- unprecedented increases in the rating valuation base (property values, particularly of coastal properties),
- the impact of the new **'LGA 02'** legislative rating environment and
- the 'local' issues that affect the rating policy settings of most Councils.

At the same time as these pressures have been building up locally, the New Zealand local government rating environment, its idiosyncrasies and the public debate (in a national election year, 2004-05) are receiving considerable attention.

Many Councils have not done a comprehensive review of their rating policies for a considerable time now and the timing is ideal to address all of the issues to mesh with the new law including the 2006 LTCCP and its Funding Impact Statement requirements.

For assistance on the processes involved with the new legislation *Appendix 1 – 'Funding Impact Statement Data'* and *Appendix 3 – 'Legislative Review'* provide some guidance.

## **5.2 Rating Reform... is it 'in the wind'?**

A major survey effort of 'Rates' titled *'Identifying Funding Pressures on Councils'* Appendix 5 is underway ...

The Local Government 'Forum' will meet in June 2005 to consider the results of their extensive (16 Councils) survey and investigative work. Councils not directly participating in the survey would do well to consider the content and significance of this survey according to their own Council's circumstances.

## **5.3 Rates – are they high?**

Over the period of the preparation of the **'Base Stats with Trendz'** reports, (1997 to 2005), rates and charges have risen at rates in advance of the CPI – 'inflation' over the whole sector.

It is interesting to compare the 'average residential rate' of 2000, \$1,135 with today's \$1,223 or a mere 7% increase – according to the Napier City survey shown below – the graph. This serves to point up the disparity of what we call 'rates', their calculation and the 'true' and much higher overall advance of all Council rates and charges and the more 'solid' evidence of the **'Base Stats'** reports over this period.

'Rates' so defined in the five year period from 2000 to 2004 have risen by 39% but proportionately in relation to other Council revenues they have continued to decline in proportionate terms.

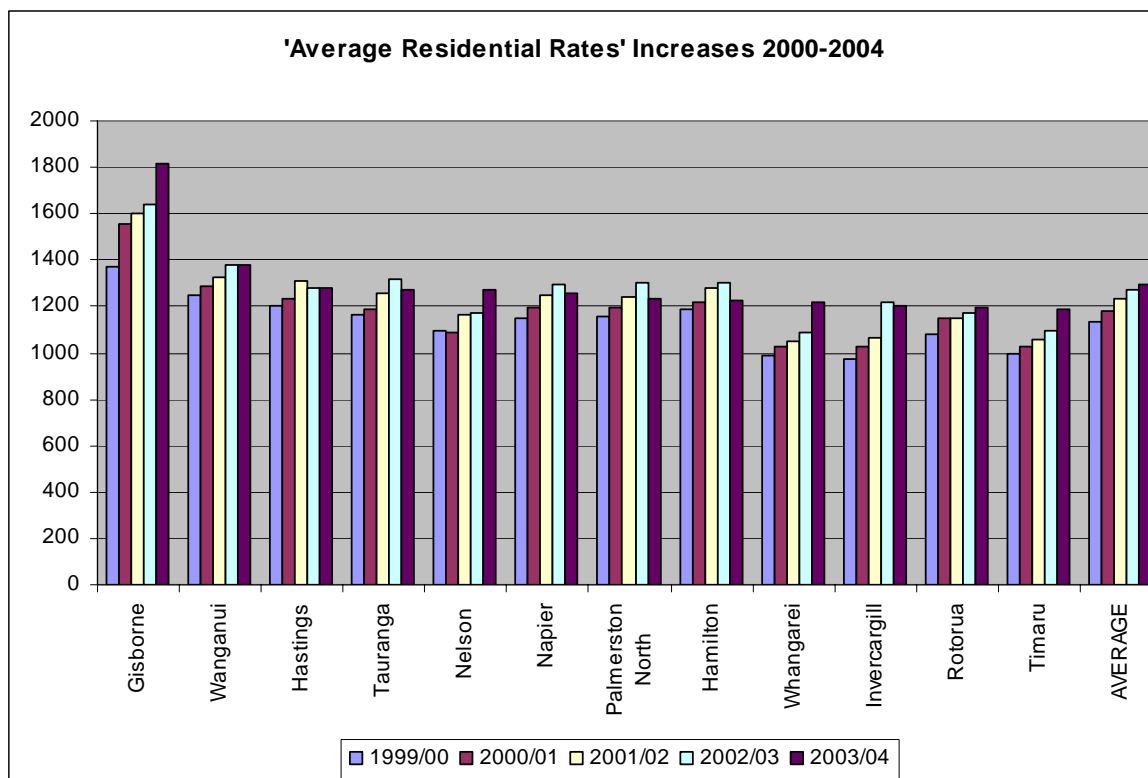
By the measure of the Napier City survey they have risen very little. This survey's usefulness lies merely in its attempt to compare the rates of a small group of Councils (12 of them) to see if 'they are high or not'. The levels of increase amongst this group have a wide range albeit clustered around a narrow mean, (a standard deviation of 104 and a mean of \$1,244).

Each year, the Napier City Council conducts a rates survey that has proven over time to be very useful in getting a handle on rates increases over the sector. Curiously the data, for all of its 'hit and miss' collection methodology (an average LV or CV is calculated and rates and charges including



gst is attributed to this to find an 'average' residential rates bill). The survey results do give reasonably valid indications of recent rates movements. These are, to some extent applicable, on average over the whole sector and certainly, from my observation, the results at least single out the known relatively 'high rating' Councils within the survey.

### Graph of recent rate increases



- The graph reads from left to right – (sort of) highest to lowest.
- Note: annual 'steps' indicate annual 'increases' – for 2000 to 2004 – note, with the 'higher' rating Council's setting both the 'highest' \$ and % increases!
- The 'average' – histogram stack reveals the cumulative % increase over the most recent five-year period for those surveyed. The LG sector average is likely to well exceed these numbers (above).

The Councils that have varied most from the average numbers within the group of 12 surveyed – with rate increases above the norm/average are, Whangarei, Invercargill and Gisborne. Hamilton – is below the norm/average.

The Gisborne case needs to be interpreted in the light of its additional 'Unitary' duties (costs) although the same cannot be said for Nelson which is also a Unitary authority – but then it benefits from significant investment income – Gisborne does not.

The evidence of the '**Base Stats**' reports ... their rate rise graphs is clear enough. Based on this evidence, New Zealand Council's on average have been increasing their rates over the past five years by at least double the rate of inflation, (inflation at say 2.0% pa). On the other hand (and in the court of public opinion it should also be firmly stated) that 'maybe' Council duties/responsibilities/possibly even costs? have risen – at a greater rate? But who can tell if this in fact is true? The 'Comments' section of this report goes into this situation more fully.





Unfortunately, no Council currently to my knowledge even attempts to measure these rates/extended duties/cost relationships and it is therefore not surprising that the widely held 'public' view of Council costs, in general, associates rates increases with 'gouging'/overhead blow outs and/or increased bureaucracy and staff levels. These (equally ill-informed?) views largely go unchallenged.

Until the sector (and its auditors) really buy into cost tracking and effectiveness and efficiency cost control performance measurement the sector will have 'to take such criticisms on the chin'.... justified or not.<sup>2</sup>

## **5.4 Rating Systems**

Alterations to rating systems have settled down from the events of 2002 and 2003 which saw many changes to Council rating bases.

Twenty two Councils (according to reliable sources) report that they use capital value property based rating systems, two, (the biggest - and remarkably almost - the smallest) use Annual Rental value, the remainder, (68%) report using land property value to set 'rates'.

The position is made somewhat murky however in that a large number of Councils (unreported) are steadily moving to a true 'mixture' of land and capital bases for their rating. Capital values are increasingly being used as a basis for charging targeted rates attributable to dwelling occupancy, for services such as water, wastewater, local community area improvements, for example additional footpaths, stormwater and drainage, curbing, street lighting, street furniture etc.

This 'mixture' of rating bases has a great deal to recommend it. Many Councils seem, in the past to have gone for 'an all or nothing approach' (choosing either a wholly land based or wholly capital value based system), when a mix and match approach, one that is appropriate after due consideration of the cost drivers has been completed ... as circumstances suggest.

Selection of the correct base(s) then becomes more a matter of a consideration of using 'both' bases (not merely one or the other) as each cost recovery situation and the nature of any particular service cost dictates.

## **5.5 Extracts from a recent 'Rating Assignment' ... with no further comment**

### ***Legal position relating to rates policy setting***

The definitive text upon these legal matters is the volume titled Local Government Law in New Zealand, Second Edition, K. A. Palmer. ... **ref; Palmer (Chapter 11 page 363).**

*'Notwithstanding various enquiries and recommendations by government committees over recent years, property rating has remained the predominant source of local authority revenue. It possesses the advantage of being generally independent of government policy requirements, with each local authority accountable for the quantum of the rate, and choice of expenditure, to the local electors.'*

When tested in Court the common law has reinforced these notions best demonstrated in the 'Wednesbury' rules **ref; Palmer page 57 et al** governing the 'reasonableness' of Council decisions and in 'Webster v Auckland Harbour Board' **ref; Palmer page 59** where judicial review of a local authorities decision demonstrated for New Zealand Councils both their wide discretion, available in making decisions and the reluctance of the Courts to interfere in decisions lawfully made.

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<sup>2</sup> This paragraph is repeated from an earlier 'Findings' report. Unfortunately 'it still holds true'!



The oft-quoted issue concerning rating policies is mostly about their 'fairness.' The dictionary meaning of this word includes the synonyms of 'Justice', 'equality' and 'evenhandedness'

Matters of fairness were canvassed by the Courts in 'Bushell' where *Diplock LJ* stated: *ref; Palmer, page 70.*

*'What is a fair procedure to be adopted will depend upon the nature of the subject matter'.*

Put simply, elected members, Councillors, are free to set within generally wide limits their Councils rates given that they act reasonably and with fairness. These positions remain in place to the present day.

Some would say that there are no truly fair rating systems. The opposite unfortunately however is true, there are cases of unfair rating schemas and the Kiwi DC's existing settings must be tested for these criteria. ... as will be discussed shortly. The place of 'fairness' within the rating context is for elected members to judge. The business of this report is to provide some justifiable basis and guidelines for making these judgments.

(This report) will not attempt to second guess the matters of fairness but it will make judgments by applying reasonably robust analysis, to draw logical deductions from the evidence and to reach a view on the current rating policy mix compared to what a 'better way' might be.

It is acknowledged (again), that there still remains within the new LGA 02 context, for proper powers and competence to be exercised by elected members, to vary, adopt, modify and compromise policies put to them for their consideration as they see fit, so long as they follow good process.

### ***Unscoped but more comprehensive rates review considerations***

The scoping of a rating review can be compared with assessing the 'length of a bit of string'. Such is the nature of this beast. In the Kiwi DC's case, whilst the scope of the planned exercise is 'reasonably comprehensive' there is a list of other topics that might, or could have been scoped but for the moment are not being addressed.

The following is a list of topics that have emerged through research, or from the analysis. They may be subjects for more study in due course. These prospective rating related topics include:

- fuller analysis of the implications of the new rating legislative environment
- more rigorous economic analysis related to Kiwi DC future funding
- further 'Options' iterations not presently scoped
- more rigorous analysis related to Kiwi DC's future funding to meet social, environmental or cultural well being outcomes. These would include assessment of funding linkages to the Kiwi DC's specified Community Outcomes *ref; Kiwi DC ltccp – Statement of proposal page xx to xx2 pp x.x5 table of contents rates doc.*
- rating policy development 'fitted' with the aims of encouraging economic, (employment, business, commercial, horticultural, tourism etc) or other developments including preservation of the environment.
- implications of 'Growth' upon all forms of funding
- rating policy development 'fitted' with the aim of assessing the impact of forestry in the district, (though roading Option 7 comes close to this topic)
- Contributions policies, their relationship with other (rating) funding.



- Alternative sources of revenue including central government assistance possibly for issues involving public health or law and order.
- Consideration of extended or amended rates remission and postponement policies.
- 'Big picture' issues, that is, influences impacting upon (future) Kiwi DC funding, to include:
  - the capacity and adequacy of existing rating tools
  - 'lobby fodder' and/or development of Kiwi DC policy positions including,
  - roading activities, (devolution), road tolls, alternative sources of funding (gst local sales tax?)
- central government funding either Regional or District (lobby material, extra funding applications – case stated support and other policy considerations)
- Kiwi DC/Regional participation in the looming national rates debate.

### ***The Legislative environment***

Rating policy setting has entered a new era as a result of recent legislative change. Rating is still, as it has always been, a rules based discipline involving the need for scrupulous attention to the detail of 'process'.

The new era has arrived, for example the new rating processes now include:

- more extensive consultation with communities,
- rules of decision making that are much more demanding than in the past together with
- the need to bind in rating policies linking to overarching Itccp outcomes.

Yet, another 'tall order', and unfortunately, with good practice at the date of *this report* still under development.

### ***National and local rating 'political' environment***

The context of this 'legislative' section of the report concerns firstly the legislation itself that is the Local Government Act 2002, 'LGA 02' and the Rating Act 2002, 'LG (R)A 02' *ref; LGA 02 and LGA (R) 02.*

The detail of this legislation has been carefully considered but before reporting on this it is worthwhile considering the context of the new law and the politics involved, with a view to gauging the interaction of one upon the other.

This is perhaps timely, for there are powerful influences afoot at present already referred to in the following terms...

*'The rating environment within the New Zealand Local Government sector at the date of preparation of this report is experiencing a level of conjecture and discussion rarely experienced in the recent past'.*

The year 2005 has long been regarded within the New Zealand local government sector as being the year in which 'rating' (and other forms of TLA revenue raising such as road tolling) will become a national political issue (s). The 2005 election campaign on these matters has apparently begun already.

The Minister of Finance, Hon Michael Cullen on 10<sup>th</sup> November 2004 in a speech to the North Otago NZ Federated Farmers said, (in so many words on National Radio's Morning Report)



*'that many Councils were getting their rates and charging wrong ...  
on the basis that property rates were 'unfair' ...  
when measured on a cost benefit basis ...  
for low income ratepayers ...  
with little account being taken of ratepayer's varying abilities to pay...  
and with suggestions that 'a Commission' may be formed...  
to encourage a fuller debate on these issues'*

The moral being ... 'Watch this space' ... and read my lips?' Also note the emphasis on matters that this report itself emphasizes, such as ability to pay and fairness criteria.

What seems likely though, is that if more Central Government funding (and or toll roads) is to be obtained to meet Kiwi DC needs *in lieu* of the traditional local government funding sources, then it is clearly in the interests of the Kiwi Region to fully participate in the debate.

The Kiwi DC's place in the debate and its prospects of gaining added additional central government funding for worthy (public health, forestry, roading etc) causes, will be improved if it does two things concerned with 'its rating'.

Firstly, by comprehensively reviewing the Kiwi DC's rating policy settings, by following due process in this regard to achieve a set of logical, understandable and defensible rates policies it will be seen as getting its own house in order first ... before asking 'big brother' for added financial assistance, (and appeasing 'Mr Cullen') in the process.

Secondly, the rating process development being undertaken and disclosed within this report will reveal cases, where largely due to the low income circumstances of many of the Kiwi Region communities 'more and higher rates are not the answer' and added financial assistance is desperately needed. This report can be used to further these interests.

### ***Legislative review process***

To provide the necessary 'legislative' research base for the purposes of *this report* three initiatives were taken:

- The conduct of a line by line analysis, survey and comparison of the two Acts (above) with tentative assessments of the effects and likely policy or other responses **ref;** 'LGA 02 legislative review'
- Development of the rating survey **ref;** Appendix 4 'Rating Policy Innovation and Recent Developments Questionnaire' (which includes a number of legislative questions see above) and an analysis of the responses. The survey is given a separate section of its own in this report. The law-related responses of the survey are dealt with in this section.
- Attendance at a recent seminar and consideration of a paper entitled 'A review of legislative change affecting local government executives' **ref;** Simpson Grierson – J Salter 22 Nov 04.

The appendix **ref;** Appendix 3 'LGA 02 Legislative Review' comprises a detailed record and assessment of the two Acts. Provisions of one Act that refer to the others have been related to each other to the degree possible.



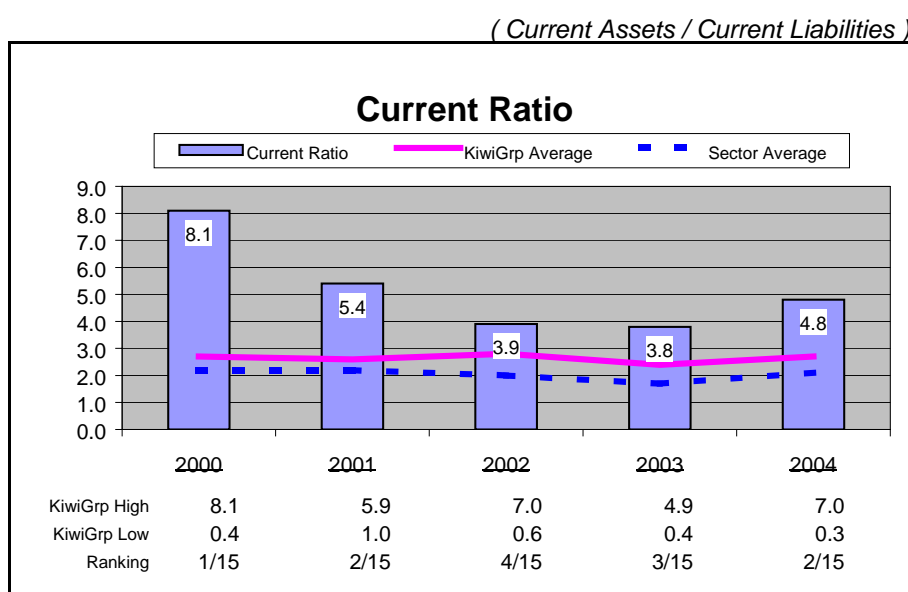
## 4. FINANCIAL RATIOS ... FINDINGS FOR 2005

### 4.0 Introduction

This section of the '*2005 Findings*' report involves the use of the actual results of an 'atypical' '*Kiwi*' District Council taken from this years '*Trendz*' reports, (the five years longitudinal analysis of the full '*Base Stats with Trendz*' reporting) The accompanying financial '*Trendz*' graphs refer.

As Treasury Management of the New Zealand Local Government sector is the focus of this section, its evidence of the '*2005 Findings*' report will be of particular interest to Council's financial management interests, auditors and others including the sectors financiers.

The commentary and findings added following each graph for each reported financial ratio identify issues relating to a cohort (in this case the Provincial/Rural Group) as well as the local government sector, (the whole sector – 74 TLA's) 'as a whole'.



### 4.1 Commentary and findings:

2005 results reflect liquidity (current ratio) levels which over the most recent five-year period appear to be 'comfortable' for the sector.

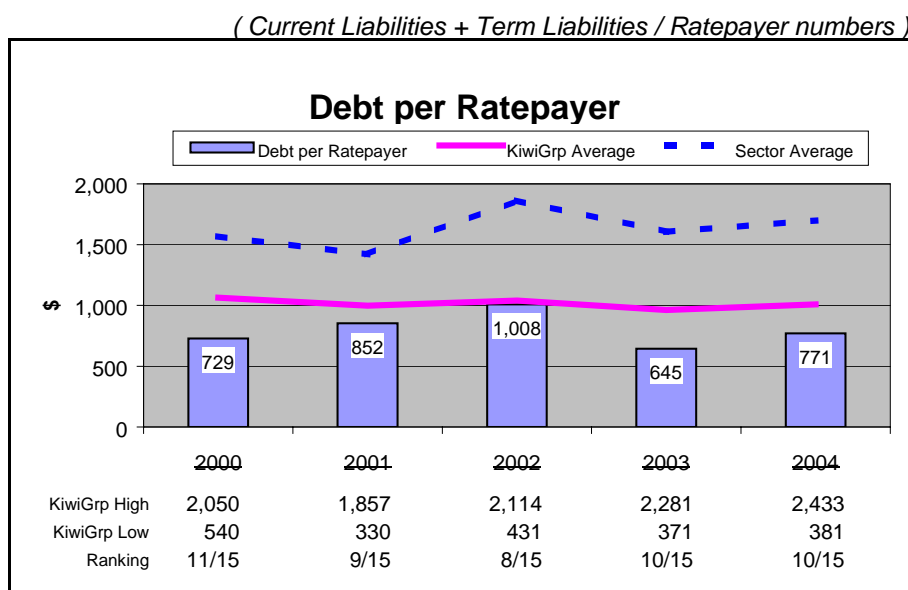
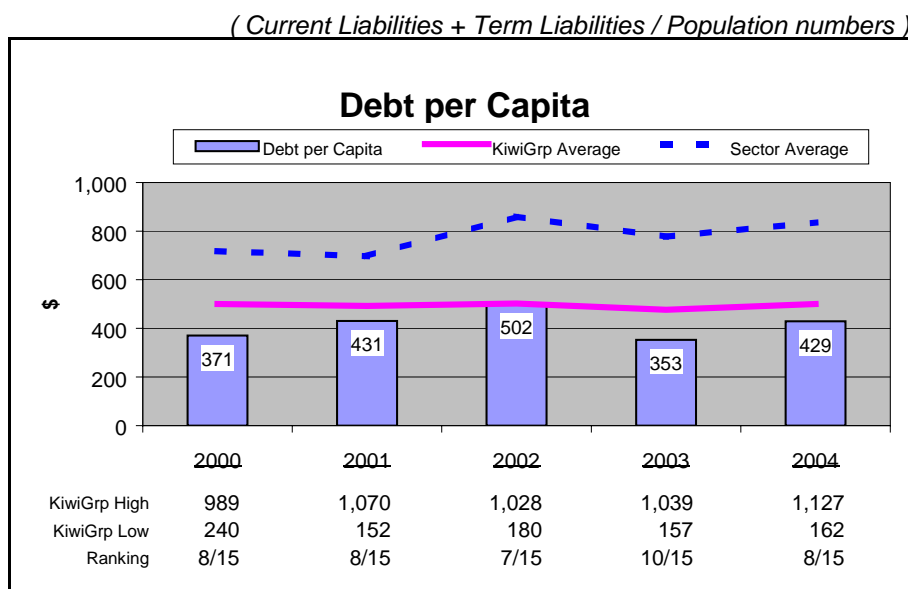
That is, current assets at twice the level of current liabilities. The more conservative ratio's run by the provincial/rural cohort are indicated on the graph with Kiwi District Council running a very strong/conservative level of current liquid assets at over twice the sector level, (currently 4.8 verses 2.0).

This ratio (as reflected by the graph above) continues to indicate levels of local government sector liquidity that the corporate sector would find excessively conservative but which no doubt reflect the needs of local government management to always have plenty of 'cash in hand'.<sup>1</sup> There may be scope in many Councils to more 'aggressively manage this measure with consequent gains from the investment of surplus cash or near cash assets.

<sup>1</sup> Council Management are used to circumstances where elected members peremptorily make decisions requiring unbudgeted use of cash reserves. As a result management will generally ensure there 'is plenty of it'



The high level of cash balances is also due to the current relatively 'short term' nature of Council investment monies on hand, invariably the quick asset cash and near cash assets backing needed for Council mandated and legally required reserves.



## 4.2 Commentary and findings:

These two debt related graphs are considered together. They vary only for their denominator, (one, total 'residents', the other 'ratepayers'). The ratio of ratepayers to residents continues to average – over the sector and for this cohort, exactly 2.0 or in other words one ratepayer for every two residents. Kiwi DC this year and for the last five years has proportionately (slightly) more ratepayers at 1.8 ratepayers per resident (or 10% more than the norm).

*Brief note on the 'Ratepayer ratio': this seemingly minor (10%) variation (of what is termed 'ratepayer density') is extremely significant for Council revenue raising budgets as in Kiwi DC's case, there are more ratepayers 'out there' (10% more), that is 10% more cheque books to tap.*



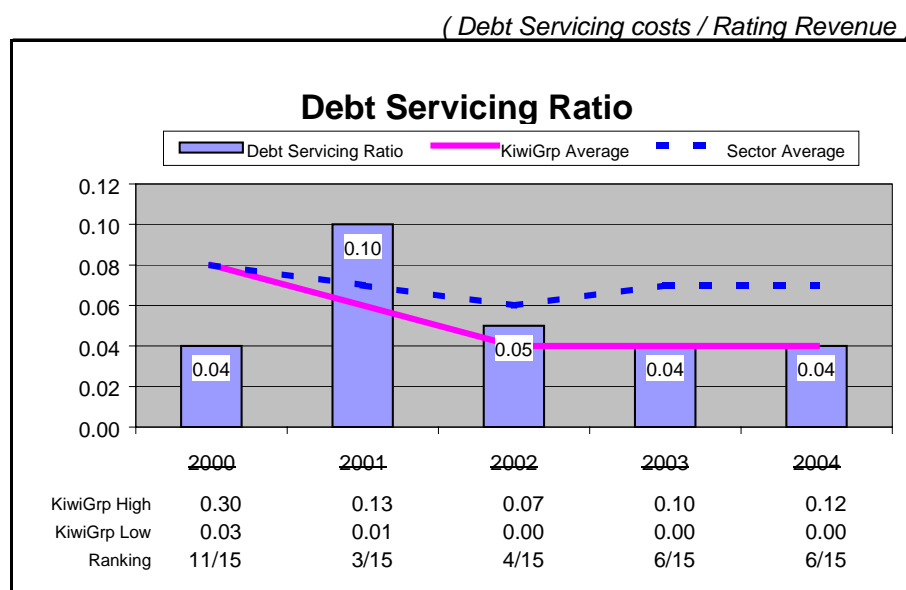
*And that is a lot of additional number of revenue 'sources', difficult to make up in the medium term from a normal growth rate of a ratepayer base.*

The trend of these two debt measures over the last five years track the following pattern. The three years, 2000 to 2002 (with a peak in 2002 of \$1,900 per ratepayer) is reflective of typical 'actual' debt levels, the result of triennium expenditure plans. In the last two years the same (electoral cycle) pattern has been emerging.

The imminent growth of sector debt levels given the evidence of current LTCCP's (2004 to 2014) must be of major concern as the proposed debt levels in some cases, based on the sectors historical debt data will prove to be unsustainable certainly in the short to mid term and possibly longer if expected long term economic growth were to slow.

For example, one urban-rural District is proposing to 'quadruple' its existing debt levels within four or five years and debt per ratepayer could reach as high as \$4,500. Other Councils, principally those experiencing huge demands for infrastructural asset creation are typically expecting peaks of debt per ratepayer of over \$3,000. Given that tolerable maximum debt levels for the sector have tracked for the last ten years at no more than \$1,500 per ratepayer, higher levels than this and those planned will enter hitherto 'uncharted territory'.

'Something has to give', for based on recent history and given present limited Council funding sources these levels of debt will prove to be 'unsustainable' or at best 'politically unacceptable'.



#### 4.3 Commentary and findings:

Debt servicing ratios follow subtly different and varied trends (plural) from the other debt parameters.

This is due to the fact that the debt-servicing ratio is affected by a number of variables, the most influential of which seems recently to have been lower than (historically) atypical borrowing interest rates.





The 'flat' line of this graph of the Kiwi District Council and its cohorts in recent years, reflects slightly higher debt levels certainly, but these levels have been serviced with money borrowed over periods of very low interest rates that have (to 2004) steadily declined further.

'Individual' Council study would be needed of each case to determine the relative 'weight' of the various factors, that is, of the relative debt levels, interest rates and of Council property based 'rates' all of which contribute to the results of this measure.

In summary therefore, the steady increase for the sector of this measure, (about 20% over the last three years to 2004), whilst reflecting the rise in debt has also been accompanied by lowering interest rates.

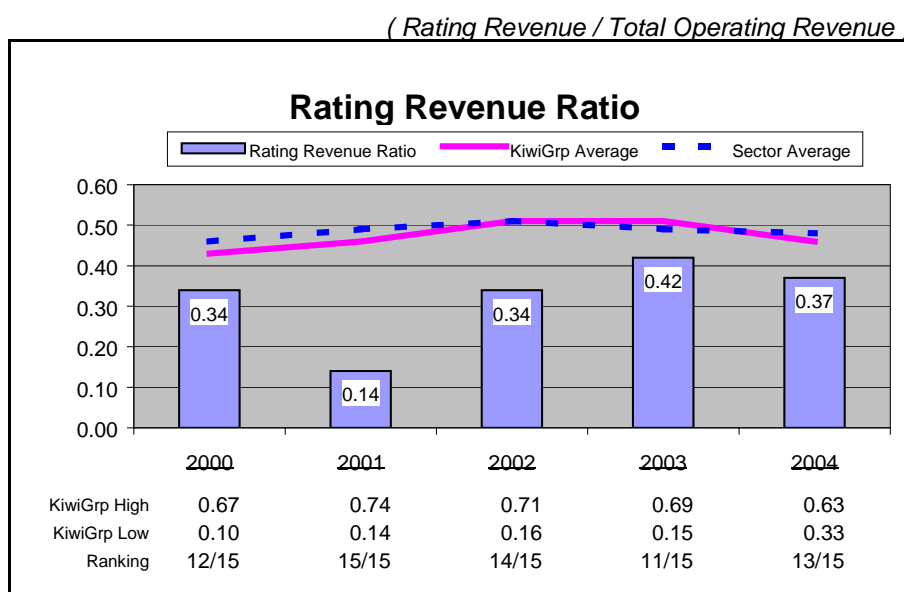
Interest expense in total over the sector (the debt servicing element of this ratio) for the whole sector over the five years to June 2004 has declined by 7% from \$190 M to \$176 M, (reported Term Debt to June 2004 totalled \$2.263 B an apparent 7.7% average borrowing interest rate for the sector for that year). Property rates also a contributor to this measure have probably declined proportionately also (see more below).

In this context (as for any multi-variate analysis ... difficult to analyse in a general sense) what we can be reasonably certain of is that:

- Debt levels have increased over the last two years and are set to go much higher.
- 'Weighted interest' rates over the whole local government sector have lowered from 7.3% in 2003 to the present (June 2004) 6.8% but these can be expected to rise slowly over the next two or more years if forecasts are to be believed (some opinion differs on this it must be added), probably again 'to the high sevens'.<sup>2</sup>
- Rates, (true property based rates that is) have continued to fall, given greater use of 'new' that is alternative revenue raising tools including the imposition of targeted separate charges and financial contributions. Note however the caveat, true in dealing for all so termed 'Rates' issues, that is, the definitions of Council 'Rates', ('approved' incidentally by the sector's auditors!) continues to give major definitional problems for 'the public' including analysts.

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<sup>2</sup> The rise of interest rates within the sector, should they eventuate will be due, not merely to market forces, they will also tend to rise as Councils are re rated by the credit agencies because Council debt levels are scheduled to reach unprecedented (high) levels ...the risk factor will figure, for the first time in the sectors financing equation.



#### 4.4 Commentary and findings:

Further to the commentary (above) relating to the declining proportion of rates amongst Council total revenues this graph, in spite of the 'definitional difficulties' (above) seems 'clear enough' to support a conclusion that rates are declining as a proportion of Council revenues.

Both the Provincial/Rural cohort and sector average Rating Revenue ratios have been steadily lowering ... from 50% of total Council revenues in 2002 to around 45% in 2004. With current LTCCP evidence in support, this ratio is likely to lower still further at the present extrapolation of the trend to below 40%, by say 2007/2008 due to the continuing switch of revenue raising from rates to charges together with still more 'user pays' (for example, refuse charges, consent fees and the like).

The sometimes (often misleading) and contradictory public debate about 'rates being too high and/or inappropriate as a revenue tool' is unhelpful based on this evidence, their decline as a proportion of total revenue is seldom mentioned.

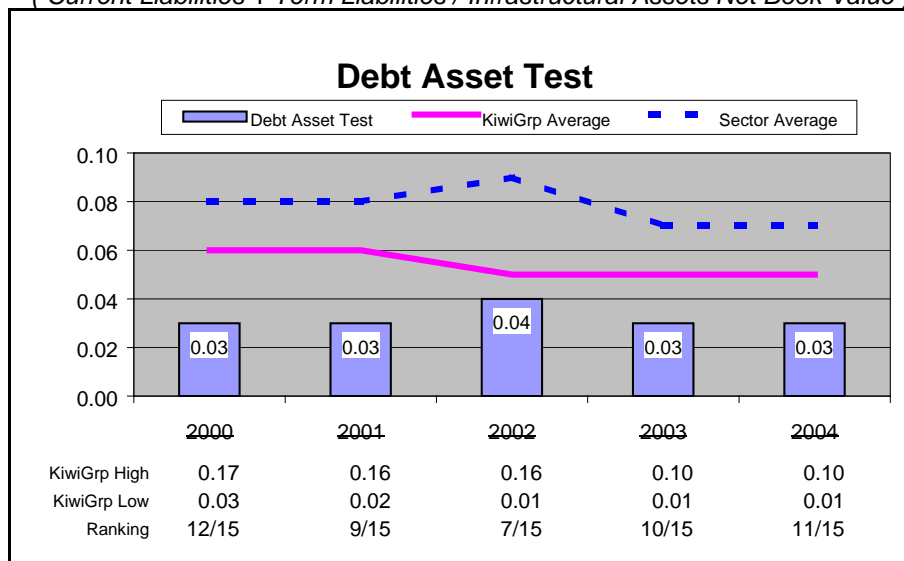
'Rates'<sup>3</sup> rigorously defined, (lets be clear on its definition as ... pure general non-specific 'property based' rates that is) continue to decline in proportion to other forms of revenue raising. Separate charges and targeted charges, the latter also property based, continue to increase.

The rates debate is worth having but it's evidence-based logic is being lost amongst the rhetoric, those who blame all the woes upon 'rates' – according to the evidence rates are not the 'ogre' that they are made out to be, they are becoming less significant not more so ...according to the 'evidence' of the **'Base Stats'** reporting.

<sup>3</sup> Rates as properly defined in a general sense exclude property based rates better described as 'Charges' that is amounts levied using for instance a targeted 'rate' to pay for some Council services such as water or wastewater. So termed 'true general rates' properly defined are raised for non specific general funding reasons often most closely aligned with notions and measures of the public benefits that they are set to fund.



( Current Liabilities + Term Liabilities / Infrastructural Assets Net Book Value )



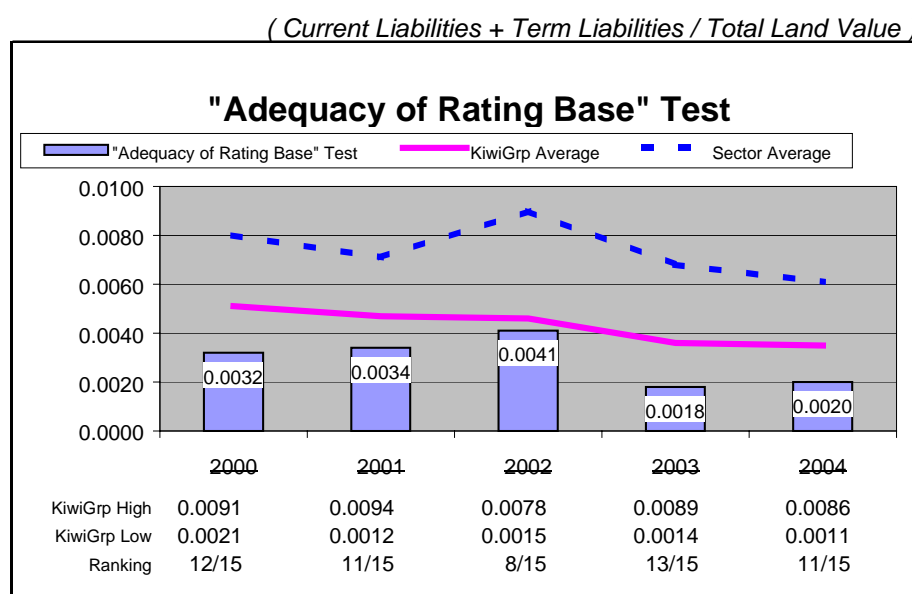
#### 4.5 Commentary and findings:

Note the aggregation of reported current and term liabilities (the 'Debt' element) of this ratio – or 'Test'. A very interesting finding shows up from the interpretation of the Debt Asset Test **'Trendz'** graph.

The 'Debt/Asset Test' (or ratio) measures the level of (in this instance increasing) asset investment, that is the creation of infrastructural assets measured alongside Council debt levels (also rising).

It is fair to say that Council debt levels are mostly related to infrastructural asset developments so that based upon the consistent evidence of all of the trend lines of this graph ('flat' over the last two or three years) the evidence indicates that proportionately:

- Council debt levels are being kept at a constant level relative to infrastructural asset values (confirming the relativity of debt to infrastructural assets).
- The previously noted 'wild fluctuations' of recent infrastructural asset revaluations appear, on balance to have evened out and have not upset the relativity of this test and
- Provincial/Rural cohort Councils run debt levels lower (at 5% of infrastructural asset values) than does the whole of sector (at 7%).



#### 4.6 Commentary and findings:

Note: the findings based upon the evidence of the 'Adequacy of Rating Base Test' graph are little different if 'capital' property values are substituted for land values.

If evidence be needed in support of the contention, so often heard within financial analyst circles within the New Zealand local government sector,

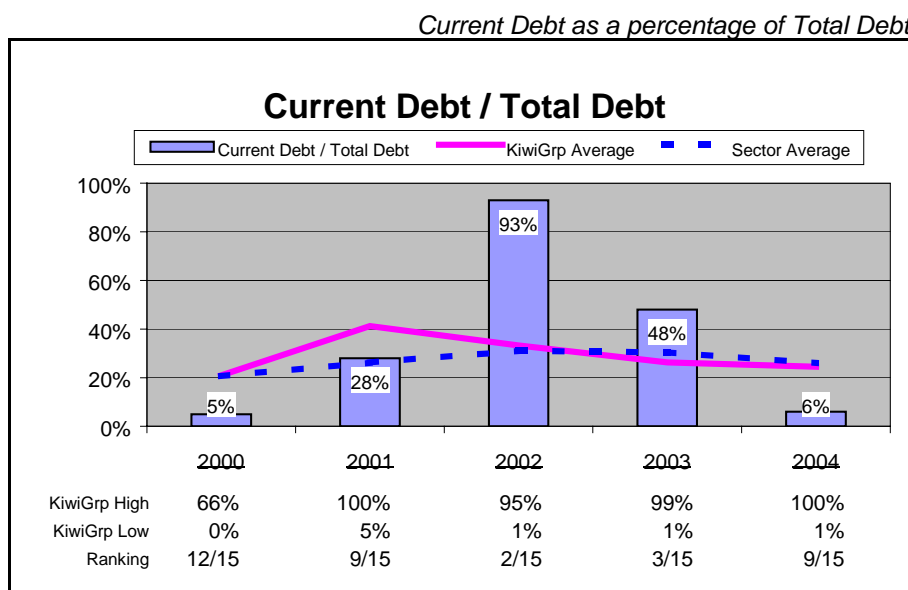
*'that the rating property base is proving inadequate to meet Council expenditure needs' ... then here it is.*

This graph measures what is termed the 'adequacy' of the rating base, that is the ability or resilience, or both of the asset base (measured by land values in this case) to support the level of debt being carried by Councils.

In spite of unprecedented increases in land values of late (and even greater ones in late 2004/early 2005), the higher proportionate levels of Council total debt of the last two or three years is occurring (proportionately) at a greater rate than are asset values for all three trend lines.<sup>4</sup>

To the extent then that land values (in this case the same goes for capital property values) are the taxing or rating base for raising Council revenues and servicing debt, the inadequacy of this property base on the evidence of this graph is becoming ever more apparent. And what is more, with debt levels set to rise over the next five or more years (more than double might be a good guess), this situation is likely to worsen, (footnote comments refer).

<sup>4</sup> Whilst this comment may seem speculative (and it is), it will be interesting to see over the next five years how this relativity between debt and the asset base that supports it plays out (alters markedly?). For whilst debt is set to rise steeply so are property valuations. Their relative rates of increase will determine the outcome ... and don't forget that added asset value does not necessarily equate with a ratepayers ability to pay ... of higher (say) debt related charges for example!



#### 4.7 Commentary and findings:

Again all three trend lines of this ratio show consistency and some degree of good reliability of this data set's evidence is therefore presumed (because of its consistency). In this case, the levels of current debt compared to total debt have, over the last three years for all of the sector declined remarkably.<sup>5</sup>

The 'mix' of present Council funding strategies (that is, the proportions of current, near current and term debt 'tranches') including this 'current debt' effect, are now reviewed.

Council funding, that is those sources of funding coming under the heading of borrowed funds, the subject of Council Treasury Management Policies (TMP) and prudential ratios seem to have the following characteristics, (note; other graphs of the **'Base Stats with Trendz'** reporting not duplicated here support many of the following contentions).

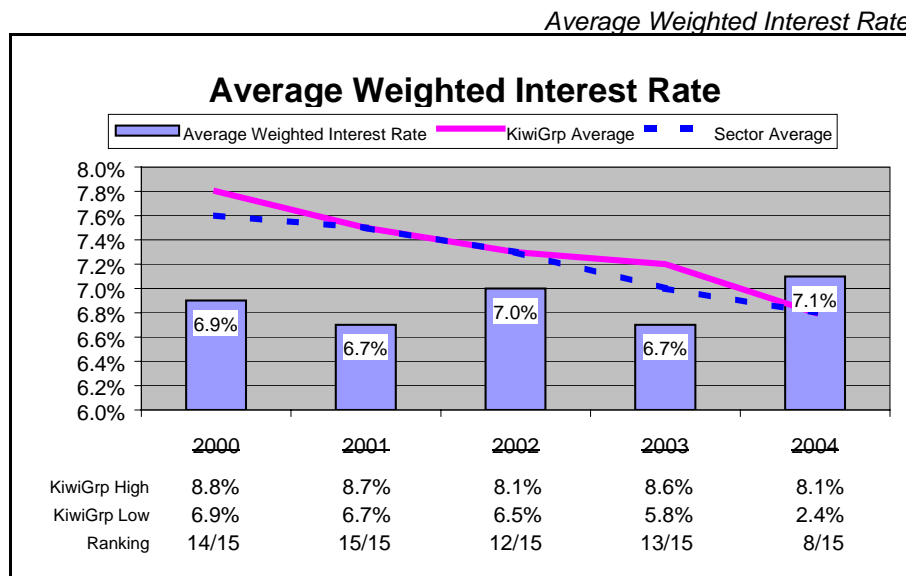
- Current term debt (debt due for repayment within 12 months) is declining to (historically) very low levels.
- This has occurred over the same time period that current ratio/liquidity measures have remained high implying that liquidity has been maintained in spite of the fact that current debt, an alternative source of liquidity through overdraft funding has declined, (due perhaps to a wish or preference to stay liquid using surplus operational cash flows that are on hand rather than overdraft).<sup>6</sup>
- Medium term (2 to 5 years) debt appears to be being replaced with larger tranches of longer term (5 plus years) funding.
- Councils that have maintained higher levels of medium term debt generally have lower weighted average interest costs.
- Councils may be being pushed by market forces (or prudential requirements) into more costly longer-term debt positions.

<sup>5</sup> Of course, as is the case for all of these financial measures, individual Councils may vary, sometimes widely from sector wide aggregated measures/averages etc. Subscribers to the **'Base Stats with Trendz'** reports can obtain this separate Council detail.

<sup>6</sup> Just how 'sane' this mix of funding and liquidity in fact is, would require an assessment to be made at an individual Council level of analysis. On the face of it and on a sector wide basis this situation does not look 'too bright'. On a TMP basis, short term investment of surpluses of operational cash may not be being managed optimally.



- Councils that have structured their debt using debenture trust deed arrangements gain significant better interest rate (basis point) borrowings.
- Councils that have gained credible credit ratings (at some cost it must be noted) over the longer term can expect to achieve better borrowing costs than those who have not.
- The best Council borrowing interest rates however still are significantly less attractive – higher than corporate interest rates as Councils continue to be prohibited from borrowing off shore at rates much lower than those available in New Zealand.<sup>7</sup>



#### 4.8 Commentary and findings:

Publicly reported weighted interest rate calculations are at times 'bewildering' that is their basis of calculation vary and cannot be readily verified due to inconsistency.

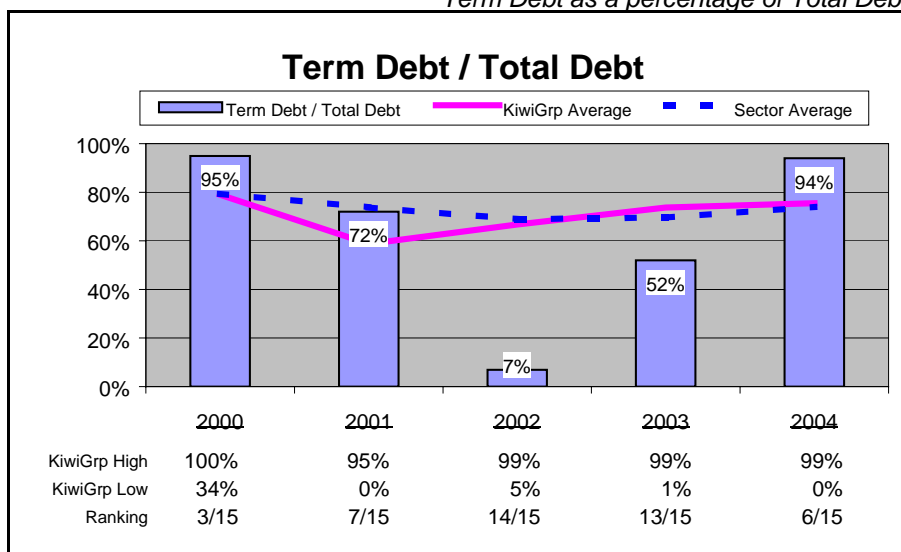
Nonetheless, the evidence of this graph is sufficient to confirm the findings *see Commentary and findings 5.3* – that is, interest rates have steadily declined, see above graph – the five year trend of interest rates over the whole sector.

Other commentary (above) refers to the implications and outlook of these interest rates for the sector.

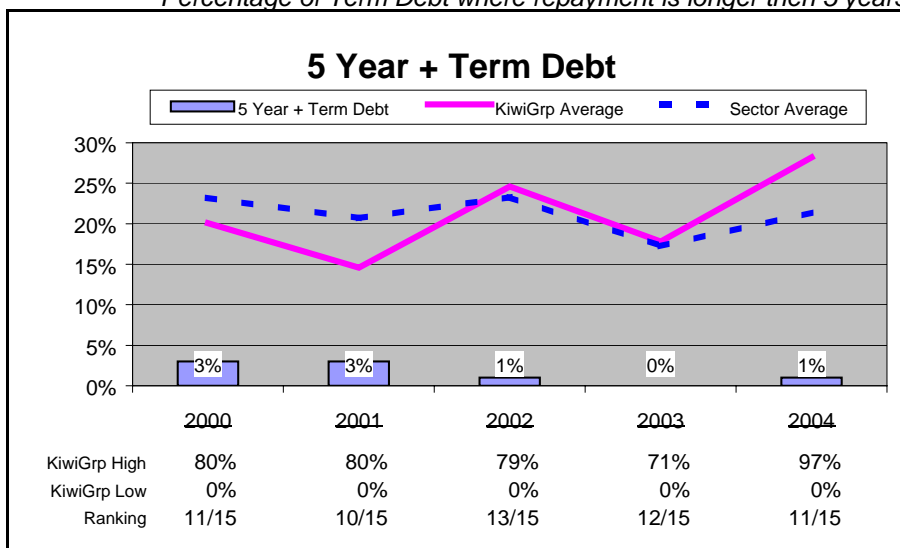
<sup>7</sup> Currency hedging costs may alter this assessment, these would need to be considered on a 'case by case basis'



*Term Debt as a percentage of Total Debt*



*Percentage of Term Debt where repayment is longer then 5 years*



#### 4.9 Commentary and findings:

The evidence of these two graphs reconfirms earlier findings – see *Commentary and findings 5.7*. The graphs are included for information purpose only.

#### 4.10 Conclusions

Arising from the analysis of this section, the abiding single most significant financial trend and concern for all 74 New Zealand Councils relates to Council funding needs using Debt. Proposed debt levels are just plain 'scary' as scheduled totals are set to at least double in the next (say) five years. The ability of the sector to sustain these levels of debt remains seriously in question. The challenges relating to these hitherto unprecedented debt levels is 'Can they be serviced (or not) – from within existing and traditional revenue raising mechanisms including all forms of 'rates'?

No doubt (it is hoped) that the Joint Officials Group 'JOG' study due to report in June 2005 *ref: Appendix 5 – The 'JOG' exercise – 'Identifying funding pressures on Councils Questionnaire* will provide more concrete evidence and possibly some suggested solutions on these issues – and the issues concerning the sectors funding, in this election year are due for and probably will get a thorough and (hopefully) better informed' airing ... one hopes.



## **The Funding Impact Statement (FIS) and the implications of S 101 of the Act**

The FIS contained in LGA 02 para 13 of Schedule 10 and Section 101 of the Act, 'Financial management' are very significant for the rating review. Both represent to some degree the 'goalposts' that are to be aimed at.

In the case of the FIS, its content is both very detailed and prescriptive. As pointed out in the legislative review section of this report *ref; LGA 02 Legislative Review* a checklist approach will achieve a 'compliance' result for the Acts prescriptions. Note, the FIS now contains all of what were previously 'special order' content, such as particulars of differentials, targeted rates details etc.

The more difficult part of the FIS exercise arises because of the 'lack of good practice guidelines' at this early stage in interpreting the Act's requirements to meet the required specifics of the items within the content of the FIS, (for example, the specifics of how the *liability* for a targeted rate is to be calculated ...a matter covered 'specifically' by S.101 and others).

The interpretation and good practice issues include the need to discern the meaning of a key section of the Act dealing with financial management of Councils, this is principally S.101 and succeeding sections of sub part 3 of the Act and its schedules.

S.101 poses specific and significant issues of interpretation and possible practice, significant enough to deserve some reference within this draft report.

The issues involve every clause of S.101, particularly sub section (3). In summary, the issues of this section and the likely responses are included in the following table:

<b>Issues of the Act's S.101</b>	<b>Suggested best practice</b>
<b>Activities</b>	The ' <b>Activity</b> ' level relating to a funding need is the level at which rating policy is applied. For example the GDC has 78 different activities identified within this framework, each accounting for some Council funding (which in total aggregates to 100% of Council proposed activity based expenditures). Each of the 78 activities is then examined with the process (below) needed to determine valid and fair funding for each separate activity in accordance with the Act.
<b>'Linkages'</b> of the section involving outcomes and benefits etc S 101 (3).	At 'every' step in the rating policy development process it is now mandatory ( <i>a' la</i> mandatory by following the best transparent and accountable decision making process of LGA 02) and: <ul style="list-style-type: none"><li>• On an activity by activity basis</li><li>• <b>Link</b></li><li>• Community outcomes with</li><li>• Identifiable benefits</li><li>• Record the Council's and other's actions that contribute to achieving the desired outcomes</li><li>• Identify the costs and benefits that arise (and associate one with the other) and</li><li>• Select the appropriate tool (funding mechanism) giving reasons 'why' for all of the above.</li></ul>





<b>Steps</b> in the rates policy setting process.	<p>Two <b>steps</b> which seem to be interpreted (by Councils surveyed) as:</p> <p><b>Step 1:</b> Mere 'Consideration' of each activity:</p> <ul style="list-style-type: none"> <li>• from a descriptive base for each activity,</li> <li>• giving reasons why it the activity is engaged in,</li> <li>• identifying the benefits that accrue from it (a less demanding exercise than the old public/private benefit split)</li> <li>• settling on the appropriate tool(s) that is rates or fees or charges and</li> <li>• describing each tool in detail (for example targeted rates with LV or CV, differentials etc etc.</li> </ul> <p><b>Step 2:</b> An apportionment of the benefits of each activity into 'QBL' outcomes and then modifications of Step 1 based upon 'fairness' criteria, giving reasons.</p> <p>These two steps address the S 101 (3) (b) requirements relating to assessing the 'overall impact' upon 'communities', that is 'fairness' and 'outcome impacts' upon the four 'well beings' of 'current and future social, economic, environmental, and cultural outcomes.</p>
<b>Consultation</b>	Subject to the very extensive consultative provisions of the Act.
<b>Other process</b>	Ditto

## 7.0 A Ward based rating schema for the District

This topic is an exception to the rule made for this report (that is for the report to merely inform) by considering the specific option of 'Ward' rating, a bold step taken by 'picking', on the balance of probabilities 'a likely winner', that is, the good prospect that the Council will move to institute a Ward based view of rating for the District. There are good reasons to believe that the Ward idea will be 'a likely winner'.



This position admittedly is 'jumping the gun' but if at least on a tentative basis it was considered 'likely' that Ward-based rating would come in, then much time and effort would be saved by an early identification of this prospect.

This would start the process of addressing the not inconsiderable difficulties associated with such a plan including those relating to managerial issues, systems, and the inevitable knotty political implications. But at least these would be on 'the radar screen'.

The implications of Ward rating are considerable, to say the least and will require very careful moderation.

If Ward rating was in mind then the consideration of more detailed strategies, for example of rating differentials, on the basis of rating (area/usage etc), targeting etc could be designed to meet sub district - Ward objectives and these would form valid Ward based comparative models for iterations and evaluations compared with other more '*status quo*' and District wide options.



Limited 'research' of Ward issues has been conducted, principally with the Rodney DC their views (below) have arisen out of these discussions. Note, the issues of existing District Ward boundaries and of community board implications have not been taken into consideration.

The table below identifies (cursorily) the costs and benefits of a Ward rating proposal.

<b>Cost or Benefit of Ward rating</b>	<b>Commentary</b>
<b>Costs (unranked in order of importance)</b>	
Political costs	Loss of District (and regional) focus, danger of breakaways, governance issues and possible limitation of whole of district cross subsidisation opportunities.
Managerial costs	Structure at Ward level requires significant additional administration on this basis. Management attitudes?
Systems costs	Considerable, revamp of the general ledger, of the RID?, of all reporting and financial management and internal audit. Ward based rating codes may not 'coincide'.
<b>Benefits (ranked from highest value to lower)</b>	
Ratepayer interest group pressure would decline.	There is clear evidence that ratepayers who are more immediate neighbours (within a common 'Ward' boundary) are more prepared to fit in with and accept inevitable rating aberrations and inequalities compared to the heat generated by more distant and district wide rating inequalities. As 'the biggest' issue confronting the District within the rating area is arguably the discontent arising from cost benefit disparity (push has come to shove) with pressure groups representing these points of view, the Ward solution will, it is submitted do the most to exacerbate the problems. (RDC experience cited here).
Rating tool selection is significantly improved.	The tailored targeting of LGA 02 rating tools (differentials, targeted rates, even separate UAGC's) etc much more fit with lower than District wide rating at the community (or Ward <i>qua</i> community) level.
True (lower Ward level) outcome achievement is enhanced.	Local community supported activities receive focused Ward level attention and accountability.
Service centre activities align more closely with Ward level overall Kiwi DC management.	Local community level service centre activities receive focused Ward level attention and accountability. Local initiatives over the vast District area become much more 'local' which appears to accord with LGA 02 philosophy and possibly also with more 'local' community sentiment.
QBL accountability and actions will (probably) be more focused.	Local community level QBL related well being activities (including Iwi) receive focused Ward level attention and accountability. Local initiatives over the vast District area become much more 'local' which appears to accord with LGA 02 philosophy and possibly also more 'local' community sentiment.



## APPENDIX 2

### **Rodney Times** *Letters TO THE EDITOR*

*Rodney Times Dec 7th 2004*

## **Dirt track needed for horses in Coatesville**

I have recently moved my horse to a new property in Coatesville, from where I can ride to the forest.

I enjoy riding in the forest and so does my horse, but I am a bit concerned about the fact that a main road goes through the forest which has loose gravel on it.

The first time I rode in the forest I was with a friend, so before we got to the main track we stopped before any harm could be done; as we were galloping, this could have been extremely dangerous.

My concern is that a horse could get hit by a car because of the sudden exit to the main road, suffer a stone bruise, stiff muscles or even a chill from having to stop suddenly and then walk for a time to the next track.

The solution I suggest is to put a dirt track next to the road for the horses to canter along. It is also dangerous for people walking along the road, as they could get bowled over by horse riders by mistake.

In surveying a number of people, the response is the same; the situation is extremely dangerous for both horse riders and walkers. It would seem that it has been a problem for at least the last eight years. I think it's time for a safer resolution.

**Victoria Baudinet  
Coatesville**

## **Let's put up with the inconvenience**

I have been very conscious of the difficulties existing on Whangaparaoa Road.

However, all the moaning is doing no good. The council, in my opinion, is doing a great job of searching for the best

# **Land values are not a fair system for rates**

Quotable value has again valued Rodney properties and the Rodney District Council will base its rate charges on the land values so determined. Such a method is, in many respects, unfair.

The land value of sections on the Hibiscus Coast is determined, ironically, to a large extent, by whether or not the land has a sea view. It follows then, that any property without the sea view has a lesser land value and, as rates are based on land value, those owners pay less rates per unit area than those with a view, even though both properties receive the same council services.

If any professional or trades person, or any organisation other than council,

charged for the same service with a differential based on ones' land value there would be an uproar, but the council persists in this practice. It must be conceded that rates are a cost charged for services provided by council, otherwise rates are no more than an asset tax.

In the past, user pays was recognised when waste and water charges were assessed and charged separately from the general rate.

There is no such thing as a free lunch and services must be paid for but fairness is maintained if, as far as possible, people pay for the services they each receive. Again the fixed charge for a standard service is a measure which should be adopted as far as possible.

The Government impost of GST on rates has also long been a cause for debate.

A review of ones rates shows that roading rates are approximately 25 per cent of the rates charged and they are, again, calculated on land value. What relevance, may one ask, does ones land value have to ones road usage.

Consider the road rating impost on a couple of geriatrics, without a car, occupying a house on a full section and their younger next door neighbours, with cars, who have half the land in a cross leased section, and pay half as much.

The disparity between the road usage and the roading rates paid is patently obvious.

An alternative, fairer

method of obtaining roading rates needs consideration. A small fuel surcharge in place of the roading rate would be fairest for the amount one paid would relate to ones road usage. Non drivers would pay a charge on the cost of delivery services provided by others. A levy on vehicle licensing could be considered but this would not have the same relevance to actual road usage.

The time must surely have come for the Rodney District Council and others to give thought to some alternative basis for rate collection which is fairer and which embodies more than now, the principle of user pays.

**Bernard Kyle  
Hatfields Beach**





<b>Local Government Act 2002</b>	<b>Local Government (Rating) Act 2002</b>	<b>Comments</b>
<b>10. Purpose of local government</b> The purpose of local government is--- (a) to enable democratic local decision-making and action by, and on behalf of, communities; and (b) to promote the social, economic, environmental, and cultural well-being of communities, in the present and for the future.	<b>3 Purpose</b> The purpose of this Act is to promote the purposes of local government set out in the Local Government Act 1974 by--- (a) providing local authorities with flexible powers to set, assess, and collect rates to fund local government activities; (b) ensuring that rates are set in accordance with decisions that are made in a transparent and consultative manner; (c) providing for processes and information to enable ratepayers to identify and understand their liability for rates.	The combination of these two sections results <u>in a higher standard of process being required</u> and a consideration of well being outcomes than has been the case in the past. The process must be totally transparent, consultative and should demonstrate flexibility (open-mindedness).
<b>11. Role of local authority</b> The role of a local authority is to--- (a) give effect, in relation to its district or region, to the purpose of local government stated in section 10; and (b) perform the duties, and exercise the rights, conferred on it by or under this Act and any other enactment.	<b>10 Who is ratepayer?</b> For the purposes of this Act, a ratepayer is the person who is named as a ratepayer in the rating information database and the district valuation roll. <b>23 Procedure for setting rates</b> (1) Rates must be set by a resolution of the local authority. (2) Rates set by a local authority must--- (a) relate to a financial year or part of a financial year; and (b) be set in accordance with the relevant provisions of the local authority's annual plan for that financial year.	As representatives of ratepayers (or their identifiable communities), Councils must now act following consultative process with its community's within the LTCCP (Rating Act's Annual) planning context for the setting of rates. Note: 'Annual' plans were superseded by the subsequent LGA 02 requirements replacing "Annual" with ten year - LTCCP (plans).
<b>14. Principles relating to local authorities</b> (1) In performing its role, a local authority must act in accordance with the following principles: (a) a local authority should--- (i) conduct its business in an open, transparent, and democratically accountable manner; and (ii) give effect to its identified priorities and desired outcomes in an efficient and effective manner; (b) a local authority should make itself aware of, and should have regard to, the views of all of its communities; and (c) when making a decision, a local authority should take account of--- (i) the diversity of the community, and the community's interests, within its district or region; and (ii) the interests of future as well as current communities; and	<b>LGA 02 'Principles' relate to <u>all Council process including rating decision-making.</u></b>	The two Acts mesh with respect to the following concepts/constructs: <ul style="list-style-type: none"> <li>• Council to conduct its business in an open, transparent, and democratically accountable manner;</li> <li>• a local authority should make itself aware of, and should <u>have regard to, the views of all of its communities</u></li> </ul> When making a decision, (including one involving rating) a local authority should take account of--- <ul style="list-style-type: none"> <li>• <u>the diversity of the community,</u></li> <li>• <u>the likely impact of any decision on each aspect of well-being</u></li> </ul>



<b>Local Government Act 2002</b>	<b>Local Government (Rating) Act 2002</b>	<b>Comments</b>
<p>(iii) the likely impact of any decision on each aspect of well-being referred to in section 10:</p> <p>(d) a local authority should provide opportunities for Maori to contribute to its decision-making processes:</p> <p>(2) If any of these principles, or any aspects of well-being referred to in section 10, are in conflict in any particular case, the local authority should resolve the conflict in accordance with the principle in subsection (1)(a)(i).</p>		
<p><b>38 Outline of Part 4</b> (Governance and management of local authorities and community boards)</p> <p>This Part---</p> <p>(a) identifies the principles and requirements for the governance and management of local authorities; and</p> <p>(b) provides for the establishment of community boards and their governance arrangements.</p>	<p><b>The Rating Act must be administered within the 'governance' template adopted by each Council.</b></p>	<p>The effect of these governance (and other related) provisions in so far as they apply to Community Boards, whether Boards are established or not, and 'meshed' with the decision making sections (above), can be said to apply to consideration of <u>community</u> interests whatever the level of community aggregation. That is <u>at the most disaggregated level at which it is possible to discern a 'community' and its special circumstances and interests.</u></p>
<p><b>39 Governance principles</b></p> <p>A local authority must act in accordance with the following principles in relation to its governance:</p> <p>(a) a local authority should ensure that the role of democratic governance of the community, and the expected conduct of elected members, is clear and understood by elected members and the community; and</p> <p>(b) a local authority should ensure that the governance structures and processes are effective, open, and transparent; and</p>	<p><b>The Rating Act must be administered within the 'governance' template adopted by each Council.</b></p>	<p>The effect of these governance (and other related) provisions 'meshed' with the decision making sections (above), can be said to apply to consideration of <u>community</u> interests what ever the level of community aggregation. That is at the most disaggregated level at which it is possible to discern a 'community' and its special circumstances and interests.</p>
<p><b>40 Local governance statements</b></p> <p>(h) consultation policies; and</p> <p>(i) policies for liaising with, and <u>memoranda</u> or agreements with, Maori; and</p>	<p><b>Special consideration of the Tangata Whenua interests in a rating context is explicit and is interconnected/stated within both Acts. See for example detailed provisions in the Rating Act for remissions for rates on Maori Freehold land etc.</b></p>	<p>Land of cultural value to Maori receive special consideration <u>whether owned by Maori or not</u>. 'Memoranda' for example contemplates land not only in the direct freehold ownership of Maori but also to cover <u>land with special cultural significance</u> to the Tangata Whenua.</p>



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<p>(l) key approved <u>planning and policy</u> documents and the process for their development and review; and</p> <p>(m) <u>systems for public access to it and its elected members</u>; and</p> <p>(n) <u>processes for requests for official information</u>.</p>	<p><b>LGA 02 'Principles' and 'planning and policy' relate to <u>all Council process including rating decision-making</u>.</b></p>	<p>These sections refer to the framework and process <u>and rating tools</u> referred to in the Rating Act at the decision-making sections specified below. The provisions for <u>granting more public access to the rating process</u> is made explicit by LGA 02.</p>
<p><b>76 Decision-making</b></p> <p>(1) Every decision made by a local authority must be made in accordance with such of the provisions of sections 77, 78, 80, 81, and 82 as are applicable.</p> <p>(2) Subsection (1) is subject, in relation to compliance with sections 77 and 78, to the judgments made by the local authority under section 79.</p> <p>(3) A local authority---</p> <p>(a) must ensure that, subject to subsection (2), its decision-making processes promote compliance with subsection (1); and</p> <p>(b) in the case of a significant decision, must ensure, before the decision is made, that subsection (1) has been appropriately observed.</p> <p>(5) Where a local authority is authorised or required to make a decision in the exercise of any power, authority, or jurisdiction given to it by this Act or any other enactment or by any bylaws, the provisions of subsections (1) to (4) and the provisions applied by those subsections, unless inconsistent with specific requirements of the Act, enactment, or bylaws under which the decision is to be made, apply in relation to the making of the decision.</p>	<p><b>3 Purpose</b></p> <p>The purpose of this Act is to promote the purposes of local government set out in the Local Government Act 1974 by---</p> <p>(a) providing local authorities with flexible powers to set, assess, and collect rates to fund local government activities;</p> <p>(b) ensuring that rates are set in accordance with decisions that are made in a transparent and consultative manner;</p> <p>(c) providing for processes and information to enable ratepayers to identify and understand their liability for rates.</p> <p><b>23 Procedure for setting rates</b></p> <p>(1) Rates must be set by a resolution of the local authority.</p> <p>(2) Rates set by a local authority must---</p> <p>(a) relate to a financial year or part of a financial year; and</p> <p>(b) be set in accordance with the relevant provisions of the local authority's annual plan for that financial year.</p> <p>(3) A local authority may set a rate that is not provided for in its annual plan only if---</p> <p>(a) the local authority is satisfied that the rate is required to meet an unforeseen and urgent need for revenue that cannot reasonably be met by any other means, having regard to the manner in which it has, in its annual plan, allocated the costs of the function to which the need for revenue relates; and</p> <p>(b) the local authority has given at least 14 days' public notice of its intention to set the rate.</p> <p>(4) Notice under subsection(3)(b) must include---</p> <p>(a) the information in relation to the rate that would otherwise have been required to be included in the local authority's annual plan; and</p>	<p>This section of LGA 02 Section 76 (Decision-making), and sections of the Rating Act, Section 3 (Purpose) and 23 (Procedure for setting rates) <u>define the key relationships</u> between Local Government decision-making and the manner in which Rating decisions should proceed.</p> <p><u>They place considerably more emphasis than in the past on all the features of what the LGA 02 determines to be good decision making.</u> In summary... A long list contained principally in Sections 77 to 82 (below).</p>



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	<p>(b) a statement of the nature of the unforeseen and urgent need for revenue and the reasons why that need cannot reasonably be met by any other means, having regard to the manner in which the local authority has, in its annual plan, allocated the costs of the function to which the need for revenue relates.</p> <p>(5) The local authority must, within 20 working days after making a resolution, send a copy of it to the Secretary of Local Government.</p>	
<p><b>77 Requirements in relation to decisions</b></p> <p>(1) A local authority must, in the course of the decision-making process,---</p> <p>(a) seek to identify all reasonably practicable options for the achievement of the objective of a decision; and</p> <p>(b) assess those options by considering---</p> <p>(i) the benefits and costs of each option in terms of the present and future social, economic, environmental, and cultural well-being of the district or region; and</p> <p>(ii) the extent to which community outcomes would be promoted or achieved in an integrated and efficient manner by each option; and</p> <p>(iv) any other matters that, in the opinion of the local authority, are relevant; and</p> <p>(c) if any of the options identified under paragraph (a) involves a significant decision in relation to land or a body of water, take into account the relationship of Maori and their culture and traditions with their ancestral land, water, sites, waahi tapu, valued flora and fauna, and other taonga.</p>	<p><b>23 Procedure for setting rates (above).</b></p>	<p>The LGA 02 Sections can be related both to all Local Government process <u>inclusive of 'Rating' decision-making</u>. Details of this process are included in the Sections 77-82 below. Many of these Sections are directly relevant to the new Rating environment since the enactment of LGA 02.</p> <p><b>Under each of the following Sections <u>commentary</u> is added that gives an assessment upon <u>Rating</u> related decision-making of the generic decision-making provisions of LGA 02.</b></p>
<p><b>78 Community views in relation to decisions</b></p> <p>(1) A local authority must, in the course of its decision-making process in relation to a matter, give consideration to the views and preferences of persons likely to be affected by, or to have an interest in, the matter.</p> <p>(2) That consideration must be given at---</p> <p>(a) the stage at which the problems and objectives related to the matter are defined.</p>	<p><b>23 Procedure for setting rates (above).</b></p>	<p><u>This section (S 78) has the effect of redefining the level at which the interests of individuals or smaller groups below that of the traditional 'community' are required to be considered.</u> The responsibility lies with the Council to consider albeit 'community views' but adds the</p>



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<p>to the matter are defined:</p> <p>(b) the stage at which the options that may be reasonably practicable options of achieving an objective are identified:</p> <p>(c) the stage at which reasonably practicable options are assessed and proposals developed:</p> <p>(d) the stage at which proposals of the kind described in paragraph (c) are adopted.</p> <p>(3) A local authority is not required by this section alone to undertake any consultation process or procedure.</p>		<p>'consideration of the <u>views and preferences of persons likely to be affected</u>'. Another important aspect of S. 78 is the requirement to consider 'options' <u>plural</u> so that a 'do nothing status quo' option <u>singular</u> will not be sufficient.</p>
<p><b>79 Compliance with procedures in relation to decisions</b></p> <p>(1) It is the responsibility of a local authority to make, in its discretion, judgments---</p> <p>(a) about how to achieve compliance with sections 77 and 78 that is largely in proportion to the significance of the matters affected by the decision; and</p> <p>(b) about, in particular,---</p> <p>(i) the extent to which different options are to be identified and assessed; and</p> <p>(ii) the degree to which benefits and costs are to be quantified; and</p> <p>(iii) the extent and detail of the information to be considered; and</p> <p>(iv) the extent and nature of any written record to be kept of the manner in which it has complied with those sections.</p> <p>(2) In making judgments under subsection (1), a local authority must have regard to the significance of all relevant matters and, in addition, to---</p> <p>(a) the principles set out in section 14; and</p> <p>(b) the extent of the local authority's resources; and</p> <p>(c) the extent to which the nature of a decision, or the circumstances in which a decision is taken, allow the local authority scope and opportunity to consider a range of options or the views and preferences of other persons.</p>	<p><b>23 Procedure for setting rates (above).</b></p>	<p>The level of materiality within which any Council sponsored/ mandated process is confined or restricted with judgments, but the extent of the detail with respect to compliance with decision-making is <u>not</u>. The Section 79 requirements (albeit with the use of Council determined 'discretion') particularises the extent of the detail of the process required, including process involving rating policy setting and <u>its</u> process.</p>





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<b>80 Identification of inconsistent decisions</b> (1) If a decision of a local authority is significantly inconsistent with, or is anticipated to have consequences that will be significantly inconsistent with, any policy adopted by the local authority or any plan required by this Act or any other enactment, the local authority must, when making the decision, clearly identify--- (a) the inconsistency; and (b) the reasons for the inconsistency; and (c) any intention of the local authority to amend the policy or plan to accommodate the decision.		A new section that 'raises the bar' if and when exceptions are permitted. This is of particular applicability to rating decisions where exceptions may be made in the normal course of Council, that is consideration of special interests or exceptions. For instance exceptions and exclusions made on the basis of non-mandated or optional cultural, economic, environmental and social well being imperatives.
<b>81 Contributions to decision-making processes by Maori</b> (1) A local authority must--- (a) establish and maintain processes to provide opportunities for Maori to contribute to the decision-making processes of the local authority; and (b) consider ways in which it may foster the development of Maori capacity to contribute to the decision-making processes of the local authority; and (c) provide relevant information to Maori for the purposes of paragraphs (a) and (b). (2) A local authority, in exercising its responsibility to make judgments about the manner in which subsection (1) is to be complied with, must have regard to--- (a) the role of the local authority, as set out in section 11; and (b) such other matters as the local authority considers on reasonable grounds to be relevant to those judgments.	<b>23 Procedure for setting rates (above).</b>	Another new section that applies to the special consideration of rating of Maori land. This is of particular applicability to rating decisions where exceptions may be made in the normal course of Council consideration of special interests or exceptions. For instance exceptions and exclusions made on the basis of mandated (Maori land interests) and other Maori related but non-mandated or optional cultural, economic, environmental and social well being imperatives.
<b>82 Principles of consultation</b> (1) <u>Consultation</u> that a local authority undertakes in relation to any decision or other matter must be undertaken, subject to subsections (3) to (5), in accordance with <u>the following principles</u> : (a) <u>that persons who will or may be affected</u> by, or have an interest in, the decision or matter should be provided by the local authority with reasonable access to relevant information in a manner and format that is appropriate	<b>23 Procedure for setting rates (above).</b>	This absolutely key Section 82 must be <u>the cornerstone/basis of all rating decision making</u> . Its content will form a checklist of matters to be addressed through out all rating process and deliberations. The key words are underlined in the section opposite. The 'bar has been raised' to a new, demanding and higher level. Note: re



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<p>to the preferences and needs of those persons:</p> <p>(b) that persons who will or may be affected by, or have an interest in, the decision or matter should be <u>encouraged by the local authority to present their views</u> to the local authority:</p> <p>(c) that persons who are invited or encouraged to present their views to the local authority should <u>be given clear information by the local authority</u> concerning the purpose of the consultation and the scope of the decisions to be taken following the consideration of views presented:</p> <p>(d) that persons who wish to have their views on the decision or matter considered by the local authority <u>should be provided by the local authority with a reasonable opportunity to present those views</u> to the local authority in a manner and format that is appropriate to the preferences and needs of those persons:</p> <p>(e) that the views presented to the local authority should be <u>received by the local authority with an open mind</u> and should be given by the local authority, in making a decision, due consideration:</p> <p>(f) that persons who present views to the local authority should be <u>provided by the local authority with information concerning both the relevant decisions and the reasons for those decisions.</u></p> <p>(2) A local authority must ensure that it has in place processes for <u>consulting with Maori</u> in accordance with subsection (1).</p> <p>(3) The principles set out in subsection (1) are, subject to subsections (4) and (5), to be observed by a local authority in such manner as the local authority considers, in its discretion, to be appropriate in any particular instance.</p> <p>(4) <u>A local authority must, in exercising its discretion</u> under subsection (3), <u>have regard to--</u></p> <p>(a) the requirements of section 78; and</p> <p>(b) <u>the extent to which the current views and preferences of persons who will or may be affected</u> by, or have an interest in, the decision or matter are known to the local</p>		<p>the use of the Council 'discretion' in these matters. There is clearly <u>not</u> an unfettered Council delivered power of discretion contemplated by this section, for the tenor of the whole Act and the specific statement in statute of the need to provide adequate 'reasons' will, it is submitted still place considerable responsibility upon Councils to use their discretion sensibly.</p>



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<p>authority; and</p> <p>(c) the nature and significance of the decision or matter, including <u>its likely impact from the perspective of the persons who will or may be affected</u> by, or have an interest in, the decision or matter; and</p> <p>(d) the provisions of Part I of the Local Government Official Information and Meetings Act 1987 (which Part, among other things, sets out the circumstances in which there is <u>good reason for withholding local authority information</u>); and</p> <p>(e) <u>the costs and benefits of any consultation process or procedure.</u></p> <p>(5) Where a local authority is authorised or required by this Act or any other enactment to <u>undertake consultation in relation to</u> any decision or matter and the procedure in respect of that consultation is prescribed by this Act <u>or any other enactment</u>, such of the provisions of the principles set out in subsection (1) as <u>are inconsistent with specific requirements of the procedure so prescribed</u> are not to be observed by the local authority in respect of that consultation.</p>		
<p><b>84 Special consultative procedure in relation to long-term council community plan</b></p> <p>(3) Where a statement of proposal to which subsection (1) or subsection (2) applies relates to a proposal for the making of a decision to which section 97 applies, that statement of proposal must (unless the making of that decision was explicitly provided for in the long-term council community plan last adopted by the local authority) include---</p> <p>(a) the details of the proposal; and</p> <p>(b) the reasons for the proposal; and</p> <p>(c) an analysis of the reasonably practicable options, including the proposal, identified under section 77(1); and</p>	<p><b>23 Procedure for setting rates</b></p> <p>(1) Rates must be set by a resolution of the local authority.</p> <p>(2) Rates set by a local authority must---</p> <p>(a) relate to a financial year or part of a financial year; and</p> <p>(b) be set in accordance with the relevant provisions of the local authority's annual plan for that financial year.</p> <p>(3) A local authority may set a rate that is not provided for in its annual plan only if---</p> <p>(a) the local authority is satisfied that the rate is required to meet an unforeseen and urgent need for revenue that cannot reasonably be met by any other means, having regard to the manner in which it has, in its annual plan, allocated the costs of the function to which the need for revenue relates; and</p> <p>(b) the local authority has given at least 14 days' public notice of its intention to set the rate.</p> <p>(4) Notice under subsection(3)(b) must include---</p>	<p>Self-explanatory 'process' related rating provisions.</p>



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	<p>(a) the information in relation to the rate that would otherwise have been required to be included in the local authority's annual plan; and</p> <p>(b) a statement of the nature of the unforeseen and urgent need for revenue and the reasons why that need cannot reasonably be met by any other means, having regard to the manner in which the local authority has, in its annual plan, allocated the costs of the function to which the need for revenue relates.</p> <p>(5) The local authority must, within 20 working days after making a resolution, send a copy of it to the Secretary of Local Government.</p>	
<p><b>90 Policy on significance</b></p> <p>(1) Every local authority must adopt a policy setting out---</p> <p>(b) any thresholds, criteria, or procedures that are to be used by the local authority in assessing the extent to which issues, proposals, decisions, or other matters are significant.</p>	<p><b>The Rating Act does not stray into 'significance' policy areas at all. But its Section 3 'Purpose' and other sections for example Section 23 (4) (b)</b></p> <p><i>'(b) a statement of the nature of the unforeseen and urgent need for revenue and the reasons why that need cannot reasonably be met by any other means'</i></p> <p><b>do so indirectly. The effect upon these sections of LGA 02 needs to be considered, (see comments column).</b></p>	<p>The full impact of 'significance' policies with respect to rates could fill a book on the subject. Consideration, it is submitted needs to be given to '<u>rating</u>' significance under the following headings:</p> <ul style="list-style-type: none"> <li>significance will apply not just to the financial effects of rating but will apply to the significance for the <u>reasoning</u> underlying rating decisions.</li> <li>application of the 'principles of significance' may relate to the more philosophical reasons for rating settings including for example the cost benefit relationships verses the redistributive and taxation related bases for rates settings.</li> <li>The Act's (LGA 02's) disaggregation of communities ( Section 78 above) and the Section 79 (above) judgments applying to materiality and the Section 81 et al (above) provisions applying to Maori land all inform ( and</li> </ul>



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		complicate) the policy settings of significance that any Council has power to decide . How these play out in rating settings will require excellent judgments (decision making). The more political issue of where a particular Council stands (its posture left/right or elsewhere) will influence how its rating base is operated.
<p><b>91 Process for identifying community outcomes</b></p> <p>(1) A local authority must, not less than once every 6 years, carry out a process to identify community outcomes for the intermediate and long-term future of its district or region.</p> <p>(2) The purposes of the identification of community outcomes are---</p> <ul style="list-style-type: none"> <li>(a) to provide opportunities for communities to discuss their desired outcomes in terms of the present and future social, economic, environmental, and cultural well-being of the community; and</li> <li>(b) to allow communities to discuss the relative importance and priorities of identified outcomes to the present and future social, economic, environmental, and cultural well-being of the community; and</li> <li>(c) to provide scope to measure progress towards the achievement of community outcomes; and</li> <li>(d) to promote the better co-ordination and application of community resources; and</li> <li>(e) to inform and guide the setting of priorities in relation to the activities of the local authority and other organisations.</li> </ul> <p>(3) A local authority may decide for itself the process that it is to use to facilitate the identification of community outcomes under subsection (1), but the local authority---</p> <ul style="list-style-type: none"> <li>(a) must, before finally deciding on that process, take steps---</li> <li>(i) to identify, so far as practicable, other organisations and groups capable of influencing</li> </ul>	<p><b>3 Purpose</b></p> <p>The purpose of this Act is to promote the purposes of local government set out in the Local Government Act 1974 by---</p> <ul style="list-style-type: none"> <li>(a) providing local authorities with flexible powers to set, assess, and collect rates to fund local government activities:</li> <li>(b) ensuring that rates are set in accordance with decisions that are made in a transparent and consultative manner:</li> <li>(c) providing for processes and information to enable ratepayers to identify and understand their liability for rates.</li> </ul>	<p>The advent of <u>Outcome</u> identification, measurement and reporting, a bit akin to the discussion (above) re significance, introduces another complex dynamic to the <u>rates</u> policy development and setting environment. It may involve such structural adjustments to administration of rates along <u>both</u> Community and Outcome driven lines. For example, the effect upon Community's of rates settings may in addition, include consideration of the Community's wishes with respect to its social, economic, environmental and cultural Outcome related priorities. A complex matrix indeed. And one which may necessitate new structures of Council administration within, <i>inter alia</i> Community Board or separate community based financial and administrative divisions (managerial ones too) with systems to cater for these needs. As a consequence of these influences, differential rating, user pays and property based rates and UAGC settings will be variously affected.</p>



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<p>either the identification or the promotion of community outcomes; and</p> <p>(ii) to secure, if practicable, the agreement of those organisations and groups to the process and to the relationship of the process to any existing and related plans; and</p> <p>(b) must ensure that the process encourages the public to contribute to the identification of community outcomes.</p>		
<p><b>93 Long-term council community plan</b></p> <p>(6) The purpose of a long-term council community plan is to---</p> <p>(a) describe the activities of the local authority; and</p> <p>(b) describe the community outcomes of the local authority's district or region; and</p> <p>(c) provide integrated decision-making and co-ordination of the resources of the local authority; and</p> <p>(d) provide a long-term focus for the decisions and activities of the local authority; and</p> <p>(e) provide a basis for accountability of the local authority to the community; and</p> <p>(f) provide an opportunity for participation by the public in decision-making processes on activities to be undertaken by the local authority.</p>	<p><b>3 Purpose</b></p> <p>The purpose of this Act is to promote the purposes of local government set out in the Local Government Act 1974 by---</p> <p>(a) providing local authorities with flexible powers to set, assess, and collect rates to fund local government activities;</p> <p>(b) ensuring that rates are set in accordance with decisions that are made in a transparent and consultative manner;</p> <p>(c) providing for processes and information to enable ratepayers to identify and understand their liability for rates.</p>	<p>Rating process now sits firmly within the LTCCP process and context.</p>
<p><b>101 Financial management</b></p> <p>(1) A local authority must manage its <u>revenues</u>, expenses, assets, liabilities, investments, and general financial dealings <u>prudently</u> and in a manner that <u>promotes the current and future interests of the community</u>.</p> <p>(3) The funding needs of the local authority must be met from those sources that the local authority determines to be appropriate, following consideration of,---</p> <p>(a) <u>in relation to each activity to be funded</u>,---</p> <p>(i) the <u>community outcomes</u> to which the activity primarily contributes; and</p> <p>(ii) the <u>distribution of benefits between the community as a whole, any identifiable part of the community, and individuals</u>; and</p> <p>(iii) <u>the period</u> in or over which those benefits are</p>	<p><b>3 Purpose</b></p> <p>The purpose of this Act is to promote the purposes of local government set out in the Local Government Act 1974 by---</p> <p>(a) providing local authorities with flexible powers to set, assess, and collect rates to fund local government activities;</p> <p>(b) ensuring that rates are set in accordance with decisions that are made in a transparent and consultative manner;</p> <p>(c) providing for processes and information to enable ratepayers to identify and understand their liability for rates.</p>	<p>Rating process now sits firmly within the LTCCP process and context and as well forms the basis of the Funding Impact statements integral to the Section 101 LGA 02 Financial Management provisions. See underlined Section 101 matters that relate to Rates. Another checklist is warranted. <u>The level of 'benefits' and 'individuals' is introduced</u> see sub para (3) (a) (i). This provision could have the startling result of the need for Councils to demonstrate the relationship between the two with any inconsistencies being given new prominence. Sub para (v) also place</p>





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<p>expected to occur; and</p> <p>(iv) the extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity; and</p> <p>(v) <u>the costs and benefits, including consequences for transparency and accountability, of funding the activity distinctly from other activities; and</u></p> <p>(b) <u>the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural well-being of the community.</u></p>		major demands upon accurate utility and other cost centre related accounting processes.
<p><b>102 Funding and financial policies</b></p> <p>(1) A local authority must, in order to provide predictability and certainty about sources and levels of funding, adopt the funding and financial policies described in subsection (4).</p> <p>(4) A local authority must adopt---</p> <p>(a) a revenue and financing policy; and</p>	<p><b>3 Purpose</b></p> <p>The purpose of this Act is to promote the purposes of local government set out in the Local Government Act 1974 by---</p> <p>(a) providing local authorities with flexible powers to set, assess, and collect rates to fund local government activities;</p> <p>(b) ensuring that rates are set in accordance with decisions that are made in a transparent and consultative manner;</p> <p>(c) providing for processes and information to enable ratepayers to identify and understand their liability for rates.</p>	See Section 101 (above).
<p><b>102 Funding and financial policies</b></p> <p>(1) A local authority must, in order to <u>provide predictability and certainty about sources and levels of funding</u>, adopt the funding and financial policies described in subsection (4).</p> <p>(4) A local authority must adopt---</p> <p>(a) a revenue and financing policy; and</p>	<p><b>3 Purpose</b></p> <p>The purpose of this Act is to promote the purposes of local government set out in the Local Government Act 1974 by---</p> <p>(a) providing local authorities with flexible powers to set, assess, and collect rates to fund local government activities;</p> <p>(b) ensuring that rates are set in accordance with decisions that are made in a transparent and consultative manner;</p> <p>(c) providing for processes and information to enable ratepayers to identify and understand their liability for rates.</p>	Self explanatory to some degree except that for rating purposes <u>the degree of 'certainty and predictability' (for the ten year period of the LTCCP with modifications) is a high standard.</u> No doubt with an eye to the need for economic certainty and the requirement to be not just fair but also to be certain, the risk management aspect for business (and personal) cost benefit assessments is considered worthy of special consideration.
<p>(5) A local authority may adopt all or any of the following policies:</p> <p>(a) a rates remission policy;</p> <p>(b) a rates postponement policy.</p> <p>(6) A policy described in this section may be amended only as an</p>	<p><b>103 Revenue and financing policy</b></p> <p>(1) A policy adopted under section 102(4)(a) must state---</p> <p>(a) the local authority's policies in respect of the funding of operating expenses from the sources listed in subsection (2); and</p>	The revenue and financing policy of LGA02 is, in summary the direct connection of all conceptual and other direct connections to Rating matters within the LGA02 (Rating). Section



Local Government Act 2002	Local Government (Rating) Act 2002	Comments
amendment to the long-term council community plan.	(b) the local authority's policies in respect of the funding of capital expenditure from the sources listed in subsection (2).	103 (2) below itemises the various rating mechanisms (tools) and the manner in which they may be applied.
(2) The sources referred to in subsection (1) are as follows: (a) general rates, including---	<b>13 General rate</b> (1) A local authority may set a general rate for all rateable land within its district. (2) A general rate may be set--- (a) at a uniform rate in the dollar of rateable value for all rateable land; or (b) at different rates in the dollar of rateable value for different categories of rateable land under section 14.	<b>The following sections are directly interrelated and are recorded for information purposes.</b>
(i) choice of valuation system; and	<b>13 General rate</b> (3) For the purposes of this section, the rateable value of the land (a) must be--- (i) the annual value of the land; or (ii) the capital value of the land; or (iii) the land value of the land; and (b) must be identified in the local authority's annual plan as the value for setting a general rate.	(See above).
(ii) differential rating; and	<b>14 Categories of rateable land for setting general rate differentially</b> For the purposes of section 13(2)(b), categories of rateable land are categories that--- (a) are identified in the local authority's annual plan as categories for setting the general rate differentially; and (b) are defined in terms of 1 or more of the matters listed in Schedule 2.	(See above).
(iii) uniform annual general charges:	<b>15 Uniform annual general charge</b> (1) A local authority may set a uniform annual general charge for all rateable land within its district, being--- (a) a fixed amount per rating unit; or (b) a fixed amount per separately used or inhabited part of a rating unit. (2) A uniform annual general charge is a rate for the purposes of this Act	(See above).
(b) targeted rates:	<b>16 Targeted rate</b>	(See above).





Local Government Act 2002	Local Government (Rating) Act 2002	Comments
	<p>(1) A local authority may set a targeted rate for a function if the function is identified in its annual plan as a function for which a targeted rate may be set.</p> <p>(2) Subsection(1) does not prevent a local authority from setting a targeted rate for several functions, or setting several targeted rates for 1 function.</p> <p>(3) A targeted rate may be set in relation to---</p> <p>(a) all rateable land within the local authority's district; or</p> <p>(b) 1 or more categories of rateable land under section 17.</p> <p>(4) A targeted rate may be set---</p> <p>(a) on a uniform basis for all rateable land in respect of which the rate is set; or</p> <p>(b) differentially for different categories of rateable land under section 17.</p> <p><b>17 Categories of rateable land for setting targeted rate</b></p> <p>For the purposes of section 16(3)(b) and (4)(b), categories of rateable land are categories that---</p> <p>(a) are identified in the local authority's annual plan as categories for setting the targeted rate; and</p> <p>(b) are defined in terms of 1 or more of the matters listed in Schedule 2.</p> <p><b>18 Calculating liability for targeted rate</b></p> <p>(1) The calculation of liability for a targeted rate set under section 16 must utilise only a factor or factors that---</p> <p>(a) are identified in the local authority's annual plan as factors that must be used to calculate the liability for the targeted rate; and</p> <p>(b) are listed in Schedule 3.</p> <p>(2) Despite subsection(1), the liability for a targeted rate may be calculated as a fixed amount per rating unit.</p> <p>(3) To avoid doubt, if targeted rates are set differentially, the rates concerned do not have to be calculated using the same factors for each category of land.</p>	



Local Government Act 2002	Local Government (Rating) Act 2002	Comments
<ul style="list-style-type: none"> <li>(c) fees and charges:</li> <li>(d) interest and dividends from investments:</li> <li>(e) borrowing:</li> <li>(f) proceeds from asset sales:</li> <li>(g) development contributions:</li> <li>(h) financial contributions under the Resource Management Act 1991:</li> <li>(i) grants and subsidies:</li> <li>(j) any other source.</li> </ul>		<p>The following Sections LGA02 Section 103 (c) to (j) identify <u>other</u> funding mechanisms that are <u>not</u> part of <u>Rating</u> revenue.</p> <p><b>Comment: This concludes the process and associated connections between LGA 02 and the LGA 02 (Rating), that is the similarities in the two Acts and the concepts of the two Acts and the more direct connections for example Section 103.</b></p>
<p><b>108 Policy on remission and postponement of rates on Maori freehold land</b></p> <p><b>109 Rates remission policy</b></p> <ul style="list-style-type: none"> <li>(1) A policy adopted under section 102(5)(a) must state--- <ul style="list-style-type: none"> <li>(a) the objectives sought to be achieved by the remission of rates; and</li> <li>(b) the conditions and criteria to be met in order for rates to be remitted.</li> </ul> </li> <li>(2) In determining a policy under section 102(5)(a), the local authority may consider the matters set out in Schedule 11. (<i>Matters relating to rates relief on Maori freehold land</i>)</li> <li>(3) For the purposes of this section, the term rates includes penalties payable on unpaid rates.</li> </ul> <p><b>110 Rates postponement policy</b></p> <ul style="list-style-type: none"> <li>(1) A policy adopted under section 102(5)(b) must state--- <ul style="list-style-type: none"> <li>(a) the objectives sought to be achieved by a postponement of the requirement to pay rates; and</li> <li>(b) the conditions and criteria to be met in order for the requirement to pay rates to be postponed.</li> </ul> </li> <li>(2) In determining a policy under section 102(5)(b), the local authority may consider the matters set out in Schedule 11.</li> <li>(3) For the purposes of this section, the term rates includes penalties payable on unpaid rates.</li> </ul>		<p>The Sections 108, 109 and 110 provide exemptions or variations to the incidence of rates in special circumstances.</p>



## APPENDIX 4

### **Rating Policy Innovation and Recent Developments**

#### **Questionnaire**

(Estimated time for completion 30 minutes)

<p>The purpose of this questionnaire is to determine the current thinking and practice relating to rating policies following the enactment of the 2002 legislation, (Rating Act and LGA 02).</p> <p>Some practitioners hold the view that new rating practices, based upon the more permissive and altered rating framework can now be developed and implemented.</p> <p>This survey/questionnaire attempts to record these initiatives. Upon its completion participants will be provided with the results and findings, 'gratis'.</p>	
<b>Question 1</b>	<b>Yes/No</b>
<p>Do you agree that the 'new legislative environment' provides practitioners with the opportunity to develop and introduce significantly different rating policies? [See Larry Mitchell legislative comparison 16 page document].</p>	
<b>Question 2</b>	
<p>Please detail examples of these recent 'innovations' (if any). Where applicable, please indicate the status of these developments, considering receipt of legal advice, their, (the new or altered policies) inclusion within recent altered or proposed rating policy developments and the motivation for their development. Note: remission and postponement and other policy initiatives <u>are</u> considered under this heading.</p> <p><b>Details:</b>.....</p> <p>.....</p> <p>.....</p> <p>.....</p>	
<b>Question 3</b>	<b>Tick or Yes/No</b>
<p>Has your Council, (either currently or over the last five or so years) achieved any or all of the following rating policy developments? (tick or Y/N each one if applicable)</p>	
<ul style="list-style-type: none"> <li>• A reduction in the proportion of total revenue derived from <u>property based</u> rates?</li> </ul>	
<ul style="list-style-type: none"> <li>○ Is this proportion now below 50% of total revenue?</li> </ul>	
<ul style="list-style-type: none"> <li>○ Is this proportion now below 40% of total revenue?</li> </ul>	
<ul style="list-style-type: none"> <li>○ Is this proportion now below 30% of total revenue?</li> </ul>	



<ul style="list-style-type: none"><li>• Does your Council have a <u>mixed</u> capital and land value based rating schema?</li></ul>	
<ul style="list-style-type: none"><li>• Do flat charges for Council's direct services to ratepayers , (utilities) <u>excluding</u> consumption/usage charges and the UAGC in total and on average?</li></ul>	
<ul style="list-style-type: none"><li>○ Exceed in total, property based rates or</li></ul>	
<ul style="list-style-type: none"><li>○ Roughly equate in total with property based rates</li></ul>	
<ul style="list-style-type: none"><li>○ Fall short in total of property based rates</li></ul>	
<ul style="list-style-type: none"><li>• A reduction/or an increase upon the dependency of <u>differential</u> rating settings used to 'smooth' rating policy and valuation shifts?</li></ul>	
<ul style="list-style-type: none"><li>• Does your UAGC comprise separate identifiable and cost based components or does it fulfill a 'top up' function (to a maximum allowed – the 30% rule)?</li></ul>	
<b>Question 4</b>	
<p>Given the potential to raise significant additional revenue from 'contributions' do you plan and/or expect in future the proportion of total Council revenue derived from property based rates to fall?</p> <p><b>Details:</b>..... ..... ..... .....</p>	
<b>Question 5</b>	
<p>What is the lowest component group of ratepayers that your Council would contemplate establishing a separate rating treatment/differential for? Consider Ward, Community, land usage grouping such as forestry or tourism?</p> <p><b>Details:</b>..... ..... ..... .....</p>	



**Question 6**

What is the nature of the environmental, social, historical and/or cultural '*quid quo pro*' or privately funded public benefit does or would your Council react to by granting favoured rating treatment, (separate differentials for example)?

**Details:**.....

.....  
.....  
.....

**Question 7**

Please provide your estimate of your Councils 'average residential rate and charges' for 2004/05. This should indicate if regional rates are included in the total or not and should be inclusive of gst. Note: the limits to the finite accuracy and comparability of this data will be covered by caveats and the approach/protocols adopted by Napier City for their annual residential rates survey will largely be followed for this information.

**Details:**.....

.....  
.....  
.....

Please complete this questionnaire and forward to **Larry Mitchell, PO Box, Puhoi** for analysis.



## THE 'JOG' EXERCISE – IDENTIFYING FUNDING PRESSURES ON COUNCILS QUESTIONNAIRE

### Background Information

*At the 9<sup>th</sup> Central/Local Government Forum in December 2004, a revised Joint Officials Group (JOG) was mandated to undertake further work to help identify the magnitude, drivers and sustainability of fiscal pressures on local government. The revised JOG has representation from LGNZ, Treasury, Department of Internal Affairs (DIA), and 6 local authority representatives.*

This questionnaire has been developed to assist with this work, and is being sent to a representative cross section of 16 sample councils throughout New Zealand. Its purpose is to help gather information to develop a clear picture of the funding pressures facing local authorities in New Zealand. We will also be using information published in LTCCP's to help complete this work. The information gathered will be analysed by the JOG and presented to the 10th Central/Local government forum in June 2005.

Thank you for your time in completing this questionnaire. Your assistance in this important matter is greatly appreciated.

### Part 1 – Preparation of LTCCPs

1. What was the actual CAPEX for your Council for the financial years 1999/00 ~ 2003/04?

Year	Actual CAPEX (\$)
1999/00	
2000/01	
2001/02	
2002/03	
2003/04	

2. What was the actual OPEX for your Council for the financial years 1999/00 ~ 2003/04?

Year	Actual OPEX (\$)
1999/00	
2000/01	
2001/02	
2002/03	
2003/04	

3. Unfunded CAPEX 2004 ~ 2014

The purpose of this question is to assist us to identify potential capital expenditure not currently identified in Councils LTCCP's. To do this, please provide an estimate of CAPEX for A) and B) below.

- A Please provide an estimate of CAPEX by project type for projects which your Council has **resolved to consider** in further detail but has not currently provided full funding for in LTCCP CAPEX forecasts. We would prefer this information, if possible, per year, but if this is not possible, please provide an estimated total per project type for the next ten years.



Project Type	Estimate of Capex									
Year	04/05	05/06	06/07	08/09	09/10	10/11	11/12	12/13	13/14	TOTAL
Transport										
Water (includes Storm, Waste & Drinking water)										
Refuse										
Community Infrastructure										
Other (eg ICT)										

- B Please provide an estimate of CAPEX by project type for significant projects which you are aware will need consideration within the next ten years, but which your Council has not yet resolved upon.

We would prefer this information, if possible, per year, but if this is not possible, please provide an estimated total per project type for the next ten years.

Project Type	Estimate of Capex									
Year	04/05	05/06	06/07	08/09	09/10	10/11	11/12	12/13	13/14	TOTAL
Transport										
Water (includes Storm, Waste & Drinking water)										
Refuse										
Community Infrastructure										
Other										

- What method does your Council use to account for asset renewal and depreciation? (eg Straight Line; Diminishing Value; Economic life; Engineering life)
- What do you foresee as the biggest financial pressure on your Council within the next ten years? (eg: Growth; Transport; Storm/Wastewater; new regulatory responsibilities)



## Part 2 – Rating

6. What level of nominal and percentage rates increase has your Council imposed over the past 5 years?

### RESIDENTIAL

Year	Nominal rates increase	% rates increase
2000/01		
2001/02		
2002/03		
2003/04		
2004/05		

### BUSINESS

Year	Nominal rates increase	% rates increase
2000/01		
2001/02		
2002/03		
2003/04		
2004/05		

7. In your view are there sectors of your community who find current rate levels unfordable? If so:
- What percentage of your community do you estimate this to be?
  - What have you based this on? (ie level of defaulting on rates payments; amount of rates rebates etc)
  - Are there any particular characteristics which define this sector of the community? (eg age; employment status; ethnicity)
8. What is your view of the community's willingness to pay rate increases generally? If you can, please provide data to support your view ie percentage of submissions opposing rate increases; surveys your council may have conducted into the issue; media reports etc.
9. To what extent has your Council's interpretation of the communities willingness to pay influenced the setting of previous rates levels?





### Part 3 – Revenue Raising

10. What is the current split between different revenue raising tools that your Council uses?

#### RESIDENTIAL

Revenue raising tool	Percentage of total revenue
Rates	
Fees and Charges	
Financial Contributions	
Investment	
Other	

#### BUSINESS

Revenue raising tool	Percentage of total revenue
Rates	
Fees and Charges	
Financial Contributions	
Investment	
Other	

11. Are there any additional revenue raising tools, which could provide a practical means of raising alternative revenue for local government that you would like to see made available to the sector?

### Part 4 – Debt Profile

12. Could you please insert into the following table the requested information on the financial position of your Council

Current debt to equity ratio		
Current per capita debt		
Proposed level of debt to equity ratios	2004/05	
	2005/06 – and years to 2014	

Thank you for taking the time to complete this questionnaire. Your assistance in this important matter is greatly appreciated.



# The New Zealand Herald

16 February 05

## Opinion

### **Editorial: City council steeped in fiscal laxity**

16.02.05

The year following local body elections is often unpleasant for ratepayers. Newly elected councils quickly decide that if they are going to ramp up their rates this is the year to do it - as far from the next election as possible. Auckland City Council is leading the charge this time, announcing an average rates rise of 11 per cent, no less. If that figure is frightening it should not be surprising. City voters chose a council predominantly of the old-fashioned, tax-and-spend left at the election last October.

Typically, the council intends to revise the rating scale to hit higher-valued properties harder and to reduce uniform charges, both steps a reversal of actions of the previous council. Since the left-wing majority was largely elected from wards with lower valuations their voters might be content that the costs of their choice will fall more heavily on others.

But all residents ought to be concerned at this revenue grab, not just for its magnitude but for the financial laxity it represents. The Banks council commissioned a study of council operations to form the basis of its effort to cut costs by reducing peripheral activities. No such exercise appears to have preceded this council's decision to exact more revenue.

Perhaps the new mayor, Dick Hubbard, and the new council members have somehow satisfied themselves that the organisation is already operating at maximum efficiency, with no room for better use of existing revenue. Or perhaps they have been content to take the officers' word for that. If so, they have much to learn about local government.

No sector of activity has been more sheltered from the demands of a competitive economy. Local government employees have to a large degree managed to resist the disciplines the Treasury has imposed on the central Government service and costs of local government generally have steadily risen far faster than inflation overall.

Mayors and their executive officers are always quick to attribute their rising rates to the increasing activities imposed on them from Wellington, although in the next breath they plead for power of "general competence" to be relieved of the legislative restriction of their role. Now they are making another concerted effort to lobby the Government for alternative sources of funds. Heaven forbid that this comfortable and sheltered sector is ever given an easier supply of finance.

Rates might not be a perfectly fair form of taxation but like any direct tax they at least force the spending body to answer to those who must meet its costs. The more they are given a share of centrally collected revenue, or given the right to levy non-voters such as tourists, the less accountable they will be to electors.

Short-sighted electors might not mind that loss of accountability if they were relieved of some of the costs of their local services, but they would pay the price of local government profligacy in the long run. Tourist taxes and the like would exact a cost in economic activity and the weakening of electoral discipline on local government would further inflate its burden on everyone.

It is never a good sign when a new council resorts to the old ruse of raising rates drastically in the year after an election. It is an admission that the council's reasons for wanting extra revenue will not stand up to much scrutiny, hence the hope that the grab will be forgotten by the end of the council's term.

The Hubbard council rather hopefully calls its expanded budget a "congestion-buster", on the grounds that most of the extra money will be used to accelerate improvements to several of the city's arterial roads. If a few bus lanes, plus enhanced facilities for cycling, walking and parking, could unlock isthmus gridlock, ratepayers might happily accept the bill. But it is most unlikely that those projects will bust anything except confidence in the city's new government.



# The New Zealand Herald

21 February 05

## National News

### Fraser Colegrave: Raise income and company taxes and dump local rates

General rates levied by councils have become the centre of spirited debate, with the underlying current of unrest reaching its peak during the 2003 Auckland Regional Council rates debacle.

Detractors of property-based rates cite many flaws in present rating systems. Indeed, even from a cursory glance, rating systems can appear inefficient and inequitable.

They are inefficient mainly because of the enormous transaction costs involved. At present, we have 74 territorial authorities and 12 regional councils all using separate rating systems to raise revenue, and all for a population of only 4 million. It just doesn't make sense.

They are inequitable for a number of reasons, most fundamentally because the contribution of each ratepayer bears little relationship to benefits received from council services or the ability to pay.

Individual usage (and hence the benefit) of council services is almost impossible to measure so cannot be used as a basis for funding - although it is often purported to be.

Reliable measures of ability to pay elude councils, forcing them to rely on property values (that is, wealth) as a proxy. This can place unfair burdens on certain sectors of society, such as senior citizens, who are often characterised as being asset-rich but income-poor.

A meeting of 60 mayors and council officers in Wellington to discuss new avenues for local government funding signalled the intentions of local and central governments to work collaboratively on these issues. This initiative is to be applauded.

However, notwithstanding the possible introduction of tourist-targeted taxes, such as a bed tax, it is unlikely the recommendations put forward by that work will depart significantly from the status quo.

Put differently, we are not likely to see the end of property-based rates for quite some time.

In fact, we need to take a further step back and consider property-based rates (and other forms of local government funding) in the wider context of government taxation. There is no obvious reason for local and central government tax to be contemplated separately.

Consider these two questions. Why do we even need to raise funds for local government through property-based rates in the first place? Why can't it all be raised through income tax and company tax?

Admittedly, I am at odds to answer these questions convincingly. It seems possible that abolishing rates and replacing them with slightly higher income and company tax rates could be hugely beneficial to New Zealand.

A back-of-the-envelope calculation suggests the \$2.3 billion raised by councils as general rates in 2003 could be raised by increasing income and company tax rates by less than 1.7 cents.

Of course, we could also easily impose a differential so that businesses pay more than residents, or vice versa.

Centrally collected funds could be allocated among councils using a needs-based formula, such as that used to fund public-health organisations. The amount paid to each council for core services, such as libraries and rubbish collection, would depend on the size and demographic composition of the population it served.

A separate pool of funds would be maintained to fund capital works, which don't bear such strong relationships with population and demography and, hence, are not amenable to distribution via formulas.

Although there would invariably be difficulties during the transition from one system to another, the abolition of property-based rates would confer a host of long-term benefits.

First and foremost, the rationalisation of local and central government revenue collection would provide huge savings on administrative expenses and improve efficiency. The vast costs of operating and maintaining 86 collection systems would be overcome.

Of course, these efficiency improvements would need to be weighed against the potential losses associated with higher marginal tax rates, which can provide perverse incentives to work. However, in times of low unemployment, efficiency improvements would be the winner.

Second, centrally raised council revenue would negate many of the equity concerns associated with property-based rates. Most obviously, it would forge a direct link between the funding contribution of ratepayers and their ability to pay.

Finally, devolving revenue-raising responsibilities from councils would free up resources and allow them to concentrate more closely on the way they spend the money, rather than how they raise it. This would, arguably, allow councils to improve the efficiency of spending and maximise the social wellbeing of ratepayers.

Although the replacement of rates with slightly higher income and company taxes is unlikely to be a silver bullet, it could provide a way forward.

And given the mayoral forum's desire to "think outside the square", it would seem silly not to consider this option.

\* Fraser Colegrave is a director of Covec, an applied economics practice in Auckland.