



LOCAL GOVERNMENT INFORMATION SERIES



**OBSERVATIONS AND TRENDS FROM 2009/19 LONG-TERM
COUNCIL COMMUNITY PLANS**

2009/15

1. Local councils are an important contributor to the economic, social, environmental and cultural well-being of communities across the country. As such it is important to understand any issues and trends that may impact on the ability of councils to continue to deliver services in the future, and on the costs and service levels for citizens and ratepayers.
2. Under the Local Government Act 2002, councils are required to produce long-term council community plan (LTCCP) at least once every three years. These plans are meant to:
 - describe what a council does;
 - provide a long-term (ten year) focus for decision-making;
 - act as a basis for accountability to the community; and
 - provide an opportunity for public participation in decision-making through the process of preparing and adopting a plan¹.
3. All councils produced an LTCCP in 2006 (covering the period 2006 to 2016), and again in 2009 (covering the period 2009 to 2019).
4. Due to their forward-looking approach, LTCCPs can identify issues facing the sector as a whole in the future. The Department of Internal Affairs (the Department) has conducted a range of analysis and made observations based on data gathered from the 2009/19 LTCCPs. For convenience, LTCCPs are referred to in this document by the year they were produced so that 2009/19 LTCCPs become 2009 LTCCPs.
5. Councils provide services in different ways, depending on the nature of their constituents and a range of other factors. The intention of this report is to add value by providing a factual basis to start to identify and understand trends in the local government sector as a whole and for sector groupings.
6. This report is not intended to be read as a council-by-council analysis. In some cases the decisions of individual councils have been used to illustrate some of the trends observed. These examples have been identified on the basis of interpretation of text in the 2009 LTCCPs by the Department.
7. Looking at the sector as a whole helps to provide a more comprehensive picture of the potential issues facing local government in New Zealand. It may also assist in identifying any common factors or drivers, leading to a more informed response on the part of councils and (if appropriate) the Government, and better informed citizens and ratepayers.

¹ summarised from Section 93 of the Local Government Act 2002.

INTRODUCTION

8. In May 2009, the Department of Internal Affairs reported to the Minister of Local Government on the trends observed in the draft 2009 LTCCPs. This report included analysis of high-level financial information, and a range of non-financial observations from the documents themselves.
9. The Department has now completed data gathering from the final 2009 LTCCPs. Updated summaries of the high-level financial and non-financial information extracted from individual LTCCPs will be available as part of the Local Government Information Series². These documents provide the basis for the analysis presented in this report.

Methodology and assumptions

10. Local authorities are based on geographic areas, and relate to local populations. It is therefore important to understand how the planned actions of a council relate to the current and future population of that council area. Using population is also a way to compare councils of different sizes.
11. Population information was obtained from Statistics New Zealand's estimates (for current population) and population forecasts (for an indication of the population at the end of the ten year plan period). Two ways of looking at population in relation to local authority finances are:
 - per head of usually resident population; and
 - per dwelling.
12. Most tables and figures in this report are presented on a per dwelling basis. This is due to the fact that local authority income derives mainly from property rates which are therefore more aligned to a dwelling than to an individual. Using a per dwelling basis also attempts to capture people who own property in more than one council, so that the data includes both occupied and unoccupied dwellings.
13. It is important to recognise that not all council income is derived from the residential (dwellings) sector. All councils receive income from their non-residential (industrial and commercial) rating base and councils with a large proportion of these types of properties can spread their costs over a broader spectrum of users. A more appropriate basis for comparison would therefore be the number rateable properties. While some councils provide this information on their websites, it is not readily available across all councils and is therefore not used in this report. The revised local authority census in 2009 (paragraph 132) will collect this information.
14. The analysis in this report also does not account for the non-resident population of council areas. These additional people can create a range of extra pressures in areas with high day or short-stay visitor numbers, such as Queenstown Lakes District.
15. In addition to considering current numbers, it is important to look at likely changes in population. Population growth estimates across the country show there will be major changes in the communities some councils service (Table 1). This will have a flow-on impact on council funding and operations. The types of changes will vary from council to council and include:

² published on www.localcouncils.govt.nz

- high population growth placing pressure on councils to provide more services;
- population decline meaning fewer people to fund existing services;
- an ageing population (particularly if they are predominantly on fixed incomes) may create problems with affordability and changes to the types of services that councils may need to provide; and
- changes to ethnic composition may influence the way councils interact with their communities.

16. The size of a population can also influence some of the comparisons that can be made. Places with very small or very large populations tend to distort the trends for the sector as a whole. For this reason, the following assumptions are commonly used in this report:

- data for Chatham Islands District is often excluded due to the very small population and the fact they receive a large proportion of income from the Government; and
- regional councils are often analysed separately as they tend to have larger populations receiving a comparably smaller range of services.

HIGH		MODERATE		NEGATIVE	
Queenstown-Lakes	20.7%	Wellington	9.2%	Timaru	-0.5%
Manukau	19.2%	Palmerston North	8.7%	Southland District	-0.5%
Selwyn	18.2%	Whangarei	8.2%	Opotiki	-0.6%
Rodney	17.6%	Hurunui	8.1%	Horowhenua	-0.7%
Tauranga	17.5%	Tasman	8.0%	Tararua	-1.0%
Waimakariri	17.0%	Waipa	7.8%	Central Hawkes Bay	-1.3%
Franklin	16.0%	Christchurch	7.0%	Grey	-1.3%
Waitakere	15.3%	Central Otago	6.7%	Westland	-1.6%
MODERATE-HIGH		Far North	6.0%	Wanganui	-1.8%
Auckland City	14.6%	Manawatu	5.7%	Otorohanga	-2.7%
Papakura	13.3%	Nelson	5.5%	Buller	-2.9%
North Shore	13.0%	Hastings	5.1%	Waitomo	-3.1%
Hamilton	12.5%	Thames-Coromandel	5.1%	South Taranaki	-3.3%
Western Bay of Plenty	12.2%	LOW		Chatham Islands	-3.4%
Kapiti Coast	11.5%	Marlborough	4.8%	Clutha	-3.5%
Waikato District	10.8%	Ashburton	4.4%	Invercargill	-3.5%
		Kaikoura	3.8%	Hauraki	-4.0%
		Taupo	3.6%	Stratford	-4.6%
		Porirua	3.3%	HIGH-NEGATIVE	
		Rotorua	3.2%	Waimate	-5.6%
		Dunedin	2.6%	Gore	-5.8%
		Hutt City	2.0%	Waitaki	-6.1%
		Napier	1.8%	Ruapehu	-6.2%
		Carterton	1.7%	South Waikato	-6.4%
		New Plymouth	1.6%	Wairoa	-6.9%
		Whakatane	1.6%	Rangitikei	-7.1%
		Gisborne	1.4%	Kawerau	-7.9%
		Upper Hutt	1.2%		
		South Wairarapa	0.8%		
		Matamata-Piako	0.7%		
		Mackenzie	0.3%		
		Kaipara	0.1%		
		Masterton	0.0%		

Table 1 – Estimated change in the number of dwellings by territorial authority over the ten years of the LTCCP. Note that these forecasts are based on the medium fertility 5 year projections produced by Statistics New Zealand and extrapolated from the numbers of dwellings (occupied and unoccupied). It is acknowledged some councils may have used different projections and that these figures also do not account for growth in non-residential properties. However due the lack of any alternate of sector-wide data, and potential issues with comparability, the dwelling projections in Table 1 has been used to provide an initial measure of consistency between councils.

17. It is important to recognise the potential impact that council population size can have on analysis. Over 25% of the population of New Zealand currently resides in just three cities (Auckland City, Manukau City and Christchurch City). Larger councils tend to dominate financial trends. For this reason, a number of the analyses in this report use ratios (such as per dwelling) to provide a more equitable basis for analysis.
18. In this report, local authorities have been grouped using the Local Government New Zealand (LGNZ) classification of metropolitan (also referred to as metro councils), provincial, rural and regional councils. While this is a self-selected grouping, it represents an industry perspective. A list of councils by classification is provided in Appendix 1. Scope for development of a more objective classification scheme exists, particularly one that recognises the comparative size and population density of a council. The Department will be looking into this over the next year.
19. It should also be noted that the Department has in some cases identified specific councils as an example of a certain actions. These councils are identified on the basis of inferred observations from the LTCCPs and not on any detailed examination.

2009 to 2019 change graphs

20. Individual councils are expected to show some variation over the ten years of the plan, from year 1 (2009/10) to year 10 (2018/19). A particular type of graph is trialled in this report to look at the relative movement between these years.
21. In this graph, the 2009 values are given across the horizontal axis and 2019 values down the vertical axis. If a council had no change from year 1 to year 10 the value would remain the same for both years and the data point would plot on the dividing line. Data points on the upper side of the dividing line indicate a relative increase from 2009 to 2019, while those on the lower side represent a relative decrease over the same period (Figure 1).
22. While these graphs show the situation at the beginning and end of the LTCCP period, they are not able to pick up changes within the ten years. The maximum amount of change may therefore not always be displayed in these graphs.

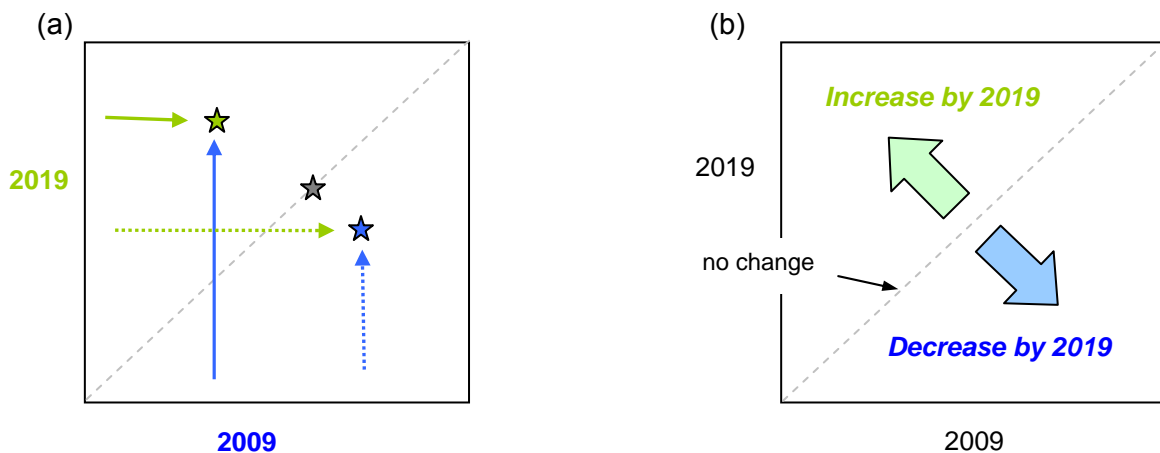


Figure 1(a) – Graph showing variation between 2009 and 2019 in relation to the relative position of data points for individual councils; (b) overall trends seen in data plots.

PART 1 - The LTCCP process

23. In addition to analysis of financial statements, written material from the LTCCPs was also reviewed. This involved scanning the high-level direction statements from the Mayor or Chairperson and/or Chief Executive, and any discussions of major challenges and projects.
24. In general, council LTCCPs show a consideration of wider economic and social issues, the results of community consultation, and the audit process. Some of the more general themes identified include:
- the economic downturn has impacted on the way councils are undertaking planning and looking to deliver services;
 - councils are aiming to balance affordability with ongoing levels of service;
 - the focus will be on maintaining infrastructure;
 - long-term planning is important, particularly around major assets; and
 - councils recognise they have an important leadership role in their communities.

Audit

25. Under the Local Government Act 2002, an audit is conducted on both the draft and final LTCCP. Half of the councils that received a qualified audit on their draft LTCCP were also qualified for their final. Table 2 shows the main changes in audit status from the draft to the final LTCCP.

	<i>Draft 2009 LTCCP</i>	<i>Final 2009 LTCCP</i>
Non-standard (qualified)		
Financial prudence	2	1 (Queenstown Lakes)
Treatment of inflation	1	1 (Timaru)
Financial issues	1	0
Underlying assumptions	1	1 (Tararua)
Performance measurement framework	3	1 (Central Otago)
“Except for” ³	1 (Taupo)	1 (Waimate)
Subtotal non-standard (qualified)	9	5
Emphasis of matter		
Financial issues	2	3
Assumptions	2	1
Auckland issues	0	10
Subtotal emphasis of matter	4	14

Table 2 – Summary of changes to audit qualifications from draft to final LTCCP. In the “except for” category different councils were qualified for the draft and final.

26. The following points can be noted with regard to changes between the draft and final LTCCPs.
- All ten councils⁴ likely to be affected by the changes to Auckland governance received an ‘emphasis of matter’ qualification due to the impending change to a “supercity” in 2010. This did not reflect on the quality of a particular council’s forecasts, rather it is related to the uncertainty of some assumptions in the light of future changes by the Auckland Transition Authority and the subsequent Auckland Council.
 - After receiving an unqualified audit for its draft, Waitomo District received an ‘emphasis of matter’ for its final LTCCP based on a decision to provide an

³ a council receives an unqualified statement “except for” a particular issue

⁴ includes all eight Auckland councils, Environment Waikato and the Waikato District

additional \$2m capital for Inframax (a council-controlled trading organisation).

- Waimate District received a qualified audit for its draft around a number of financial issues (treatment of inflation, debt funding, performance measures and financial strategy). The final LTCCP received an “except for” qualification based on the quality of information provided in the draft as a basis for consultation. The audit process appears to have resulted in a final document that provides improved confidence for ratepayers about Waimate District’s ability to meet future demands.
 - Of the two councils receiving a qualified audit for financial prudence in their draft LTCCP, Tauranga City received an unqualified final audit (after raising rates revenue), while Queenstown Lakes District retained its qualified opinion for this matter (although the council indicates this will need to be addressed in their 2012 LTCCP).
 - Timaru District received a 2009 audit qualification around the treatment of forecast inflation, it received a similar qualification for its 2006 LTCCP.
27. Seven councils did not meet the 30 June 2009 statutory timeframe for adopting their final LTCCP. These councils were: Horizons Regional Council, Environment Southland, South Taranaki District, Whakatane District, Westland District, Wairoa District, and Waimate District. Waimate District Council was the last council to adopt its final LTCCP on 25 September 2009. In some cases these councils indicated they were aware of the fact they were likely to exceed the statutory timeframe, but wanted to ensure their decision-making process had sufficient time.

Submission process

28. The number of submissions received by councils on their LTCCPs ranged from 13 (Chatham Islands District) to over 19,800 (Manukau City). The median was around 375. The following general and high-level observations were identified with regard to the 2009 LTCCP submission process:
- Taupo District and Thames-Coromandel District made their draft LTCCPs public in December 2008 to encourage submissions from ratepayers who are not permanent residents.
 - Some councils indicated they received a record number of submissions, whether this was due to greater engagement or the impact of a specific issue has not been determined.
 - Rural and provincial councils tended to have higher numbers of submissions per household than metropolitan councils.
 - Most submissions were about local issues such as requests for service or decisions made by the council in its draft LTCCP to alter a particular service. From the limited analysis undertaken by the Department, few submissions were directly made in relation to audit qualifications or formal performance measures.
 - Specific issues drive the number of submissions received with organised “petitions” generating a large number of submissions (although their contribution to the final debate remains unclear).
 - Councils that provided submission forms based on “tick-boxes” tended to have submissions centred on the material in the boxes, while submission forms with opportunity for “open-ended” questions tended to elicit a more comprehensive range of feedback.
29. In the final LTCCP, most councils indicated the range of changes made to the draft as a result of the submission process. In some cases it was difficult to determine what, if any, changes had occurred between draft and final. Understanding the

changes (and the reasons) resulting from the submission process is an important way to encourage public confidence in the decision-making process.

PART 2 – Changes between draft and final LTCCPs

30. The analysis and commentary in this section deals with the changes between the draft and the final LTCCPs only. The changes are those identified from high-level financial statements and therefore reflect changes at a gross level. It is acknowledged that councils may have changed other components of their LTCCPs, such as Revenue and Financial Policies, as a result of submissions. These types of changes will not generally have been picked up in this commentary.
31. While some individual councils may have made relatively major changes, across the sector as a whole the magnitude of changes to financial figures between the draft and final LTCCPs was not significant (Table 3). The consultation process mainly resulted in adjustments to timing, and minor additions or deletions to programmes. The degree of change may be indicative of the work councils put into preparing a draft LTCCP to reflect council capacity and public sentiment.
32. Changes reported by councils due to the submission process include:
- delaying (although not cancelling) major rating or funding proposals to allow for further discussion (e.g. Environment Southland, Environment Canterbury, Southland District);
 - extending time frames for the introduction of major funding changes to give more time for adjustment (e.g. Horowhenua District, Horizons Regional Council);
 - reinstating proposals to reduce operational spending in areas such as pest control (e.g. Horizons Regional Council, Environment Canterbury, Environment Southland);
 - reinstating funding for community or recreation programmes (e.g. New Plymouth District, Waitomo District);
 - additional funding for operational programmes in areas such as the environment (e.g. Hutt City), economic development (e.g. Kaikoura District) and culture (e.g. Hastings District, Whangarei District). Note changes to the capital programme are discussed below;
 - deciding to undertake further studies or develop strategies to address points raised by submissions (e.g. Selwyn District, Hauraki District, Westland District); and
 - deferring decisions on some projects (e.g. Whakatane District).

Expenditure

33. There was little appreciable change in operating expenditure across the sector from draft to final 2009 LTCCPs (Table 3). A slight increase in expenditure over the early period of the plans was balanced by a decrease in the latter years.

All councils	change at y1	change at y3	change at y10	change over decade
Direct costs	1.4%	0.6%	0%	0.3%
Interest expenses	-2%	0.6%	-3.7%	-0.5%
Operating costs	1.1%	0.6%	-0.4%	0.2%
Depreciation	0%	0%	-0.1%	0%
Total operating expenditure	0.9%	0.4	-0.3	0.2%

Table 3 – Summary of changes in expenditure from draft to final 2009 LTCCPs.

34. Direct costs are the cost to the council of providing a range of services such as waste collection and parks. This category includes staff salaries, and payments to suppliers and contractors and operational expenses such as energy. Capital expenditure includes funds for the purchase (and construction) of plant, property and equipment and for intangible assets such as software.
35. The largest movement in direct costs was seen in regional councils, with a 2.3% increase over the 10 year period. This change is likely to be the result of decisions to reinstate a number of operational programmes (e.g. pest control) that were identified for reduction or deletion in the draft LTCCP.
36. Overall capital expenditure increased by \$400m from the draft to the final LTCCPs. The majority of this additional capital spending is scheduled to occur in the first two years of the plans with forecast expenditure increasing from \$3,400m to \$3,700m in both 2009/10 and 2010/11. This is followed by a relative decrease in forecast capital expenditure in the latter years of the plans.
37. Changes that might account for the increase in capital expenditure include:
 - bringing forward or increasing expenditure on water or wastewater schemes (e.g. Christchurch City, Whangarei District, Opotiki District);
 - bringing forward spending on community or arts facilities (e.g. Waitaki District);
 - bringing forward new sports facilities (e.g. Papakura District, Hurunui District);
 - funding for projects that do not appear to have been specifically funded in the draft LTCCP (e.g. Christchurch City, Invercargill City, Hamilton City); and
 - increasing contributions to sport or amenity projects (e.g. North Shore City, Hutt City, Rodney District).
38. Changes that might account for the decrease in capital expenditure years include:
 - cancelling planned new civic buildings (e.g. Rangitikei District, Otago Regional; Queenstown Lakes District), or delaying additions to current buildings (e.g. Ashburton District);
 - cancelling (e.g. Selwyn District, Gore District, Tasman District) or delaying (e.g. Queenstown Lakes District, Waipa District) sports facilities;
 - deferring community facilities (e.g. Ashburton District) and amenity projects (e.g. Tararua District); and
 - changes to planned wastewater systems (e.g. Gisborne District, Western Bay of Plenty District).
39. As a result of concern over rising expenditure, some councils intend to undertake funding or cost of service reviews in the next year (e.g. South Taranaki District, South Wairarapa District, New Plymouth District).

Income

40. The biggest change in income between the draft and final LTCCPs was around increased investment and subsidy income (Table 4). These changes relate to the actions of a few councils and highlight the need to consider council size when looking at changes, as the actions of a few large councils can have a significant impact on sector-wide totals
41. There was only minimal increase of 0.1% in forecast **rates income** for the sector from draft to final LTCCP (Figure 2). When the 2006 LTCCPs were released the

Office of the Auditor General⁵ identified that forecast rates income decreased by around 1.7% between the draft and final documents.

All councils	change at y1	change at y3	change at y10	change over decade
Rates	0%	0.4%	-0.2%	0.1%
Development contributions	-7.4%	-7.9%	5.4%	-1.7%
Subsidies	7.9%	8.8%	0.7%	4.6%
Investment income	28.2%	0.2%	-1.1%	2.5%
Other income	-0.8%	-2.8%	-0.7%	-1.3%
Total operating income	2.2%	0.4%	0%	0.4%
Vested assets	0.7%	-0.8%	1.6%	3.4%
Asset revaluations	9.1%	12.9%	12.8%	10.7%
Total comprehensive income	3.7%	2.5%	2.5%	2.5%

Table 4 – Summary of changes in income from draft to final 2009 LTCCPs.

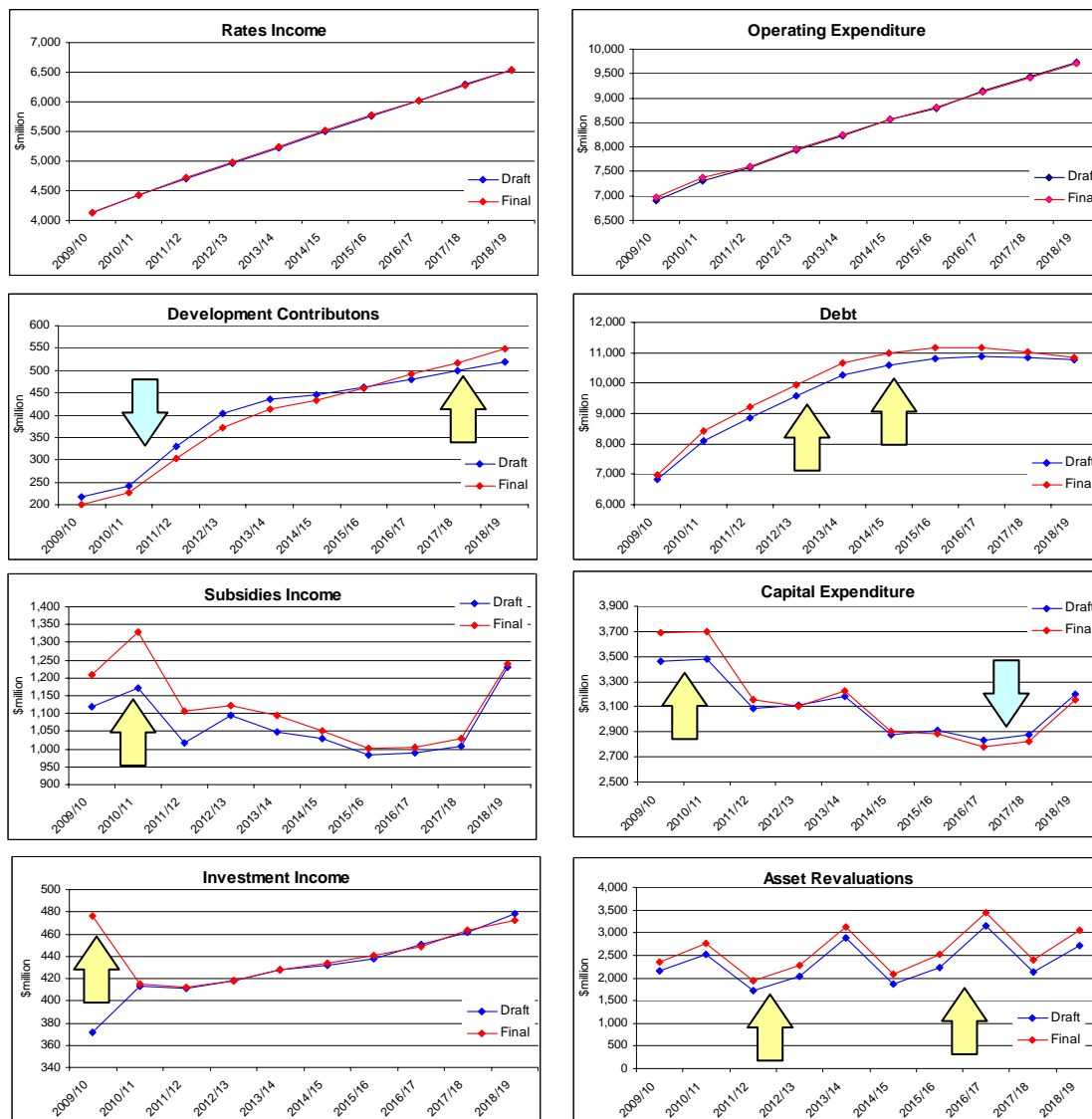


Figure 2 – Changes from draft to final 2009 LTCCPs for a range of financial parameters over the ten years of the plan. Major changes are marked by the blue (decrease from draft) and yellow (increase from the draft) arrows.

⁵ Matters arising from the 2006-16 Long-Term Council Community Plans - B.29[07c]

42. The largest change in rates income for an individual council was 20.5% for West Coast Regional (Figure 3). However as with most regional councils, while the percentage change may be large, the actual amount involved (\$6.5m) is significantly less than if this were a territorial authority budget. The next largest increase in rates income between draft and final LTCCP was 7.7% (\$90m) for Tauranga City. This was a result of changes made to address issues around financial prudence in the qualified audit of their draft LTCCP.

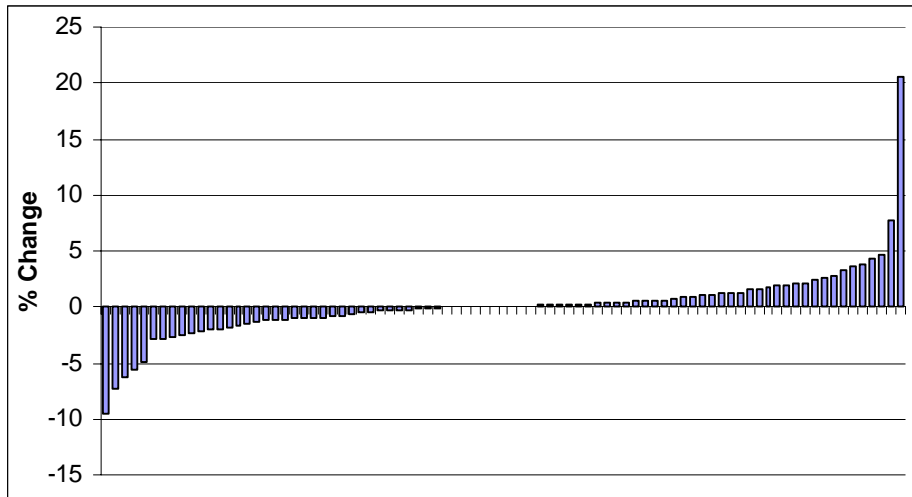


Figure 3 – Changes in rates income for all councils from draft to final LTCCP. The councils with the highest and lowest percentage changes are:

- Lowest - Timaru District (-9.5%), Tasman District (-7.3%), Otago Regional (-6.3%), Westland District (-5.6%), Western Bay of Plenty District (-4.9%), and Ashburton District (-2.8%).
- Highest - West Coast Regional (20.5%), Tauranga City (7.7%), Whakatane District (4.6%), Papakura District (4.2%), Thames-Coromandel District (3.8%), and Whangarei District (3.7%).

43. From draft to final LTCCPs there was an overall decrease (-1.7%) in **development contribution**⁶ income. This is seen as a reduction in the early part of the plan and an increase in the latter part (Figure 2). Councils appear to have revised their growth forecasts in the light of more recent economic information about the global recession, and that while it may take longer for the recovery to take effect, they still expect economic growth to reach similar (high) levels at the end of ten years.

44. The large change in **investment income** in 2009/10 is due to forecast increases of contributions from their subsidiaries by Auckland Regional (\$26m) and Christchurch City (\$80m). Forecast income from **subsidiaries** also increased by 4.7% (\$497m). Most of this increase occurs in the first three years of the plan (Figure 2). The largest movement between draft and final LTCCP was in Rodney District, which appears to have forecast an extra \$130m of funding from the New Zealand Transport Agency (NZTA).

45. Forecast **borrowings** are set to increase by 1.2% (\$148m) from draft to final LTCCPs.

⁶ likely to including income from financial contributions for most councils

PART 3 – Trends

46. This section outlines trends in a range of financial parameters over the ten years of the plans, and forms the basis for subsequent identification of issues. Before considering the trends, it is important to understand the current economic climate and other factors impacting on council operations, as these provide context for understanding the changes observed.

Macro-economic climate

47. Gross Domestic Product figures for the June 2009⁷ quarter showed economic activity in New Zealand increased by 0.1%. This follows five consecutive quarters of contraction running back to the end of 2007. In the twelve months to June 2009 every regional economy (except Gisborne) contracted⁸. The annual contraction in GDP of 1.8% for year ended June 2009 was described by Statistics NZ as “the largest annual contraction in economic activity since the series began in 1987”.

48. A range of information released in the last few months suggests the world economy is starting to experience a faster than expected pick-up in growth⁹. This is flowing through to higher confidence and possibly to a stronger recovery in New Zealand. Domestic retail spending appears to have stopped falling, following a rise in net immigration and a pick-up in the housing market over recent months. Sustained low interest rates and rebounding commodity prices boosted business confidence and economic activity in recent months.

49. While this recent data is showing positive signs, it is important to remember that these activity levels are increasing from a low base. Unemployment is likely to continue to rise and questions remain as to how sustainable the recovery will be once monetary and fiscal stimulus are withdrawn. Falls in world stock markets in late August and early September 2009 show investors remain nervous about the strength of the recovery.

50. The medium-term outlook for economic growth remains weak. The Reserve Bank¹⁰ expects household spending to grow only modestly given weak income growth and a reduced appetite by households to take on debt. Low levels of economic activity and a high New Zealand dollar are also likely to impact on business profits, which is likely to limit the scope for employment and investment to rebound quickly. The high currency will act to dampen export receipts as well as hindering the volume of exchange rate-sensitive goods.

51. Exactly how long disruptions in financial markets will continue and the length and depth of the impact on world growth is therefore uncertain. Any recovery is also likely to be complicated by the fact that the shock has hit at a time when a number of countries, including New Zealand, had large current account deficits.

52. Councils are therefore likely have to continue to operate in a period of low economic growth for at least the next two to three years. This means that household spending is likely to be constrained with limited appetite for cost increases.

⁷ Statistics New Zealand GDP June 2009 Quarter

⁸ National Bank Regional Trends August 2009

⁹ Treasury Monthly Economic Indicators August 2009

¹⁰ Reserve Bank Monetary Policy Statement September 2009

Cost drivers

53. As indicated in a previous report to the Minister of Local Government¹¹, there are several drivers of local government costs. These include:
- cost increases (inflation);
 - population growth;
 - compliance with government standards; and
 - maintaining and/or changing current levels of service.
54. Council costs are commonly compared with the Consumers Price Index (CPI). The CPI measures costs to a household (e.g. food, transport, alcoholic beverages and tobacco, health, and housing and household utilities, including rates). However the CPI does not factor in the cost of capital development and the operation of infrastructure, and therefore does not adequately reflect the drivers of costs facing councils for the delivery of their services. The CPI is a better proxy for the affordability of rates.
55. The Producers Production Index – Local Government and Civil Defence components (PPI) measures price changes in the costs of production such as the prices of materials, fuels and electricity, transport and communication, rent and lease of land, buildings, vehicles and plant (excluding labour and depreciation). This is seen as a better proxy for understanding the drivers of council costs.
56. The PPI showed an increase of 10.8% from June 2007 to June 2009 compared to 5.9% for the CPI. This degree of change may help explain the size of some of the reported increases in council operating expenditure. The national price adjusters for local government developed by Business and Economic Research Limited (BERL) also estimate an increase in costs of 31% over ten years. This is a significantly higher rate than the CPI forecast of 20-25% for the same period (Table 5).

	Roading	Property	Water	Energy	Staff	Pipelines	Earthmoving
Change over 10 years	28%	31%	36%	34%	31%	39%	40%

Table 5 - Example of forecast price level change adjusters for a range of different activities over the ten year period (from BERL).

57. Much of the forecast increase in council costs therefore appears to relate to increases in costs related to the provision of services. These differ from those incurred by a household (as indicated by the CPI). Councils are likely to face increasing pressure to provide the same levels of service while attempting to keep rates at 'affordable' levels.

Operating expenditure

58. Total **operating costs** (excluding depreciation) are forecast to increase by 7.8% over the first three years of the LTCCP (Table 6), and 35% over the ten years.

¹¹ dated 25 May 2009 (available on www.dia.govt.nz)

All councils	year 1 (2009/10)	year 3 (2011/12)		year 10 (2018/19)	
	\$m	\$m	change to y3	\$m	change to y10
Direct costs	5,128	5,386	5.0%	6,683	30.3%
Interest expenses	402	581	44.5%	770	91.4%
Operating costs	5,530	5,967	7.9%	7,453	34.8%
Depreciation	1,444	1,643	14%	2,246	55.5%
Total operating expenditure	6,974	7,610	9%	9,699	39%

Table 6 – Summary of changes to total council forecast expenditure over ten years.

59. Comparing the scale of changes in the 2009 LTCCPs with that from the 2006 LTCCPs (Figure 4) identified the following trends:

- forecast expenditure increased from 2006 to 2009;
- the rate of increase (slope of the line) in direct costs is similar between 2006 and 2009, suggesting similar cost drivers;
- the move in interest costs reflects the increase in debt (see Figure 22); and
- the rate of increase in depreciation payments is higher in the 2009 LTCCPs, possibly reflecting changes to planned capital expenditure.

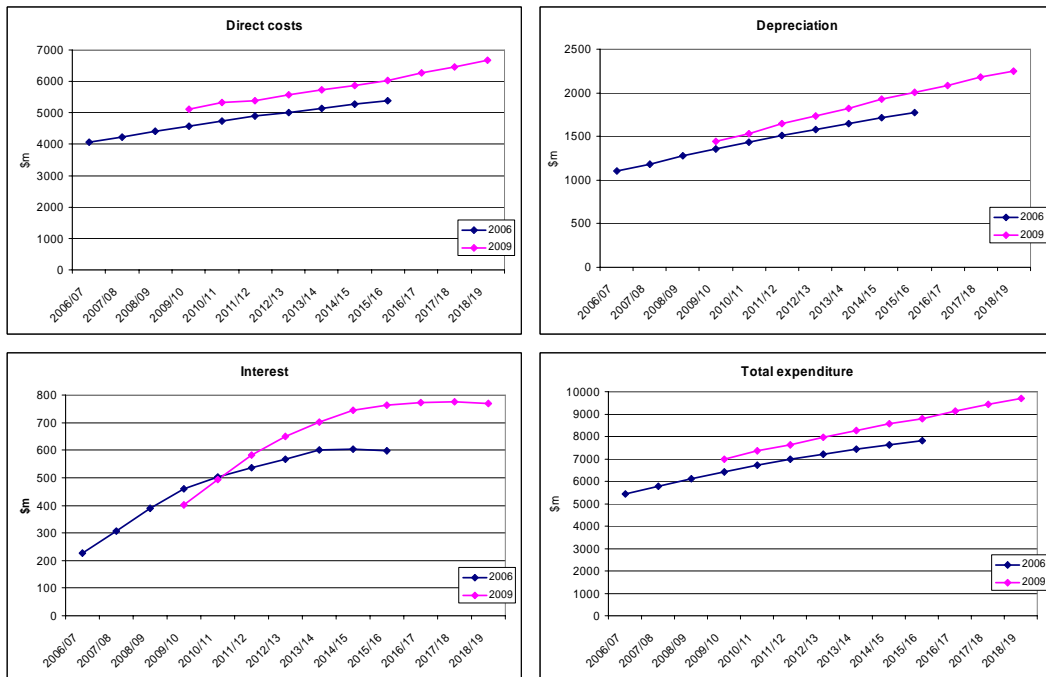


Figure 4 – Comparison of forecast components of expenditure between the 2006 and 2009 LTCCPs.

Direct costs

60. **Direct costs** comprise around 70% of total council operating expenditure. They are forecast to rise by only 5% over the first three years of the plan and 30% over the ten years (Figure 5). The highest rate of increase is seen in metropolitan councils (36%), with regional councils having the lowest (17%).

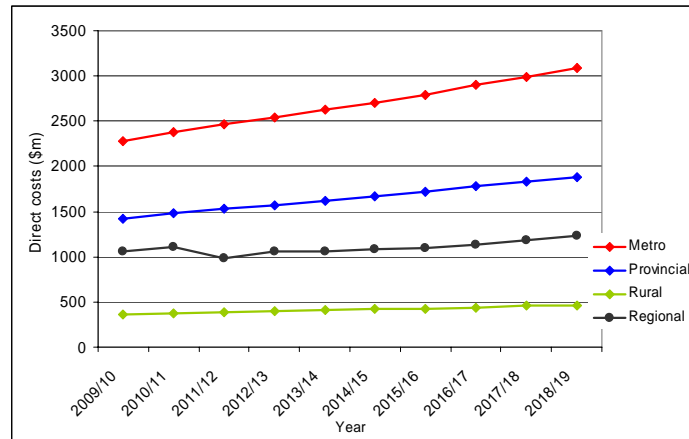


Figure 5 – Change in direct costs over the ten years of the plan by sector group.

61. The low rate of increase in direct costs for regional councils shows that some of these councils are looking to reduce their direct costs (per dwelling) over the ten years (Figure 6). This may also be influenced by that many regional council activities, such as flood protection, do not require external inputs such as power.

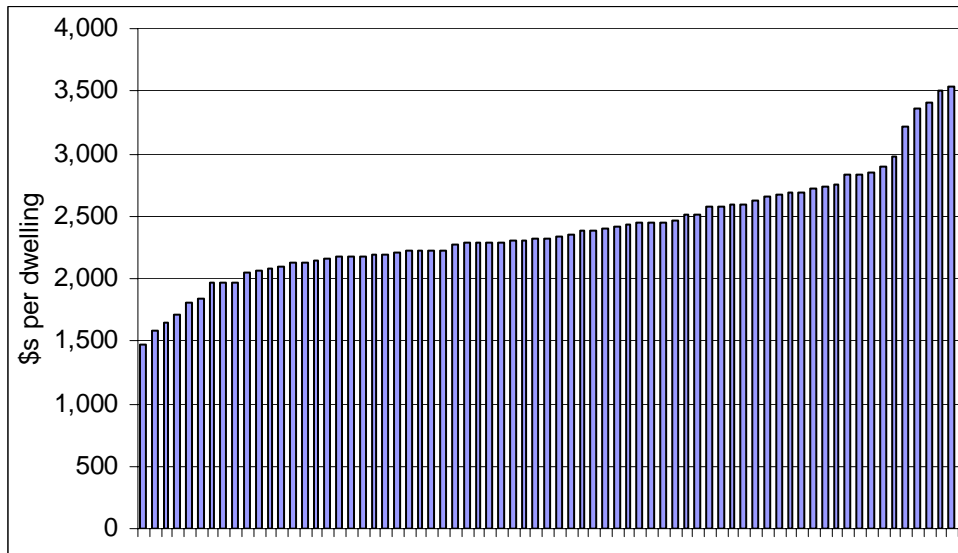


Figure 6 – Forecast direct costs per dwelling per council in 2009/10 (excluding regional councils). The highest and lowest councils are:

- Lowest - Kapiti Coast District, Papakura District, Horowhenua District, Tauranga City, Opotiki District, Upper Hutt City, Masterton District and Franklin District
- Highest - Wairoa District, Queenstown-Lakes District, Buller District, Hurunui District, Waitomo District, Wellington City, South Taranaki District and Nelson District

62. Some of the highest direct costs per dwelling are seen among rural and some provincial councils with low or negative population growth. This could potentially signal issues for some councils to fund ongoing service delivery (Figure 7).

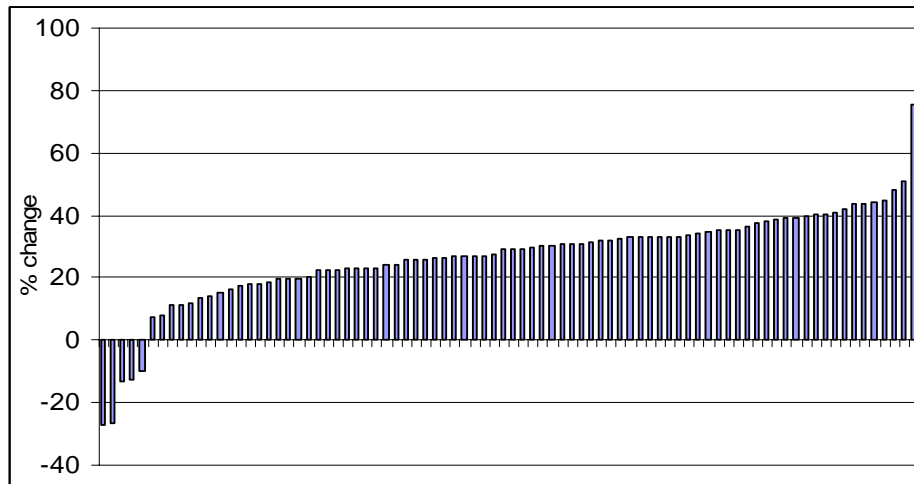


Figure 7 – Change in direct cost per dwelling per council over the ten year period. The highest and lowest councils are:

- Lowest – Northland Regional (-27.2%), West Coast Regional (-26.9%), Auckland Regional (-13.0%), Wellington Regional (-12.5%), Otago Regional (-9.7%), and Whangarei District (7.3%).
- Highest – Environment Canterbury (75.7%), Waitomo District (51.0%), Central Hawke's Bay District (48.3%), Stratford District (44.8%), Environment Bay of Plenty (44.3%), and Waipa District (43.9%).

63. As already indicated, councils are likely to face cost increases of around 31% over the ten years of the plan¹². This rate of increase compares favourably with the projected 30.3% increase in operating costs from LTCCPs (not including any allowance for population growth which would reduce this). Councils appear to be looking to manage and constrain their costs.

Interest

64. Interest costs comprise a relatively small proportion of total operating costs (8%). Over the ten years of the LTCCP, interest is forecast to rise by 91% as a result of increased use of debt by councils. There is a fairly good correlation across the sector between the rate of increase in debt and the rate of increase in interest expenses.

65. Councils have historically carried a low level of debt and the increase in debt is a way to address the intergenerational equity issues. This is discussed further in the section on debt.

66. Decreasing interest rates in the short-term (due to the economic recession) mean that councils could also reduce some interest expenses in the short-term. Nelson City indicated this factor had been taken into account when producing its final LTCCP. Longer-term projections by councils reflect a more conservative approach to forecasting, resulting in minimal changes.

Depreciation

67. Depreciation is essentially a charge for using an asset. It supports the principle of intergenerational equity by ensuring that each year ratepayers contribute an amount toward the cost of the asset. From the surplus cash funds generated by the inclusion of depreciation as an expense item, councils have a number of options in funding the eventual replacement of the asset. Councils are only required to

¹² BERL price level change adjusters to 2019

balance their budget (or explain why it is not balanced), they are not required to fund depreciation.

68. Councils have taken a range of approaches to funding depreciation. These include:
- partial funding of infrastructural assets – often excluding roading assets that receive a subsidy and some community facilities (e.g. Central Otago District, Kawerau District);
 - deferred funding – some councils indicate they will defer depreciation payments to the later years of the plan (e.g. Waitakere City, Ruapehu District, Stratford District) to reduce the impact on rates (e.g. Tararua District, Horowhenua District, Masterton District) or to repay debt (e.g. New Plymouth District);
 - cash reserves – some councils indicate they do not fully fund depreciation as they do not want large cash reserves (e.g. Kaikoura District, Rotorua District); and
 - not funding depreciation (e.g. Upper Hutt City).
69. Depreciation is forecast to increase by 56% over the ten years of the plans. This is similar to the 61% increase for the ten years of the 2006 LTCCPs. The largest increase is in metropolitan councils (61%), followed by provincial (55%) and rural (39%) councils.
70. Some councils indicate they intend to increase depreciation repayments in the latter years of the plan (e.g. Porirua City, Waitakere City, Kapiti Coast District, Masterton District). The larger rate of increase may be due to the completion of capital projects early in the period of the plan, with councils now looking to consolidate their financial position (Figure 8). It may also reflect decisions made to reduce rates by reducing depreciation in the short-term, as some councils indicate that the size of the subsequent rates increase (e.g. Gisborne District, Carterton District, Rangitikei District) or planned budget deficit (e.g. Grey District) is a result of the need to fund depreciation.

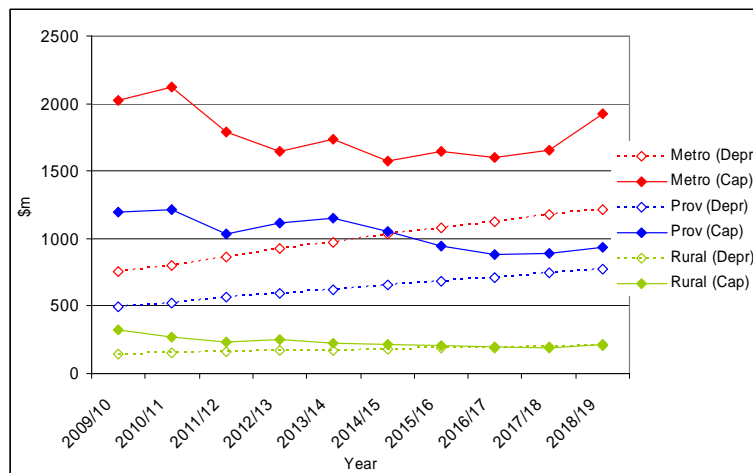


Figure 8 – Change in depreciation (dashed lines) over the ten year period by sector group compared to change in capital expenditure.

71. Without information on council investment in renewals¹³, it is difficult to comment on the rationale behind the levels of depreciation payments observed across the sector. It has not been possible to consistently extract this type of information from the 2009 LTCCPs.

¹³ for the replacement of existing infrastructure

Capital expenditure

72. Total capital expenditure is forecast to be \$31,400m over the ten years of the plans. This is broadly similar to the \$29,500m forecast in the 2006 LTCCPs. Accounting for inflation and population growth, this suggests councils are planning a reduced capital programme to that identified three years ago.
73. Capital spending is higher in the first two years of the plan, reaching levels of \$3,700m over both years. This is similar to the trend in both 2006 (Figure 9) and 2004 LTCCPs. After 2011/12, annual capital expenditure decreases to a low of \$2,800m in 2016/17 before climbing again to \$3,200m in the last year of the plan. Reduced capital spending in the middle part of the plan possibly reflects uncertainty over future programmes, and the fact that funding is intended to be used to repay debt incurred in the earlier years of the plan.

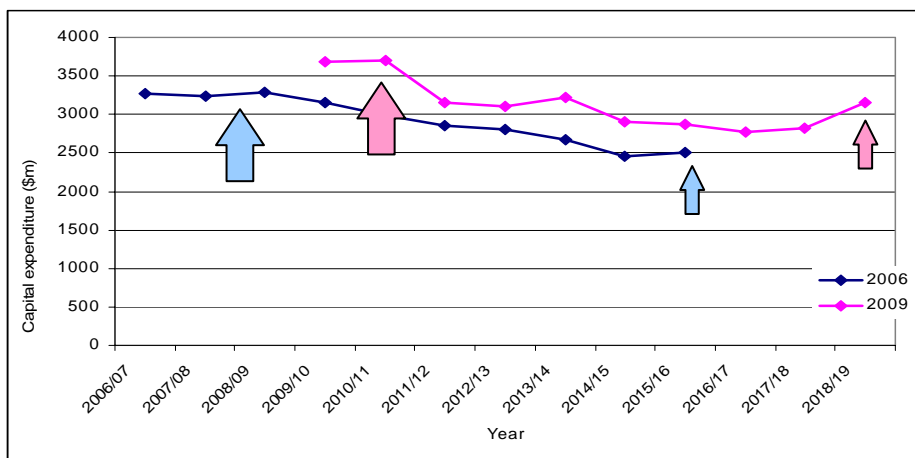


Figure 9 – Comparison of forecast capital expenditure between the 2006 and 2009 LTCCPs. Note the trend toward larger increases in expenditure in the first years of the plan (large arrows), with an increase or ‘spike’ in the last year (small arrows).

74. The “spike” in the final year of the plan (2018/19) is also similar to that seen in the 2006 LTCCPs. The increase may represent a number of “wish-list” projects that the councils will make a final decision on in a later LTCCP. This increase is being driven primarily by metropolitan councils. It is not possible to assess how many of these projects will actually be completed.
75. While the bulk of capital expenditure in the 2009 LTCCPs is associated with metropolitan councils (Figure 10), during the early years of the plan a higher proportion of capital expenditure per dwelling is associated with rural and provincial councils. This may reflect more immediate priorities for these councils around the provision of roading and water network infrastructure.

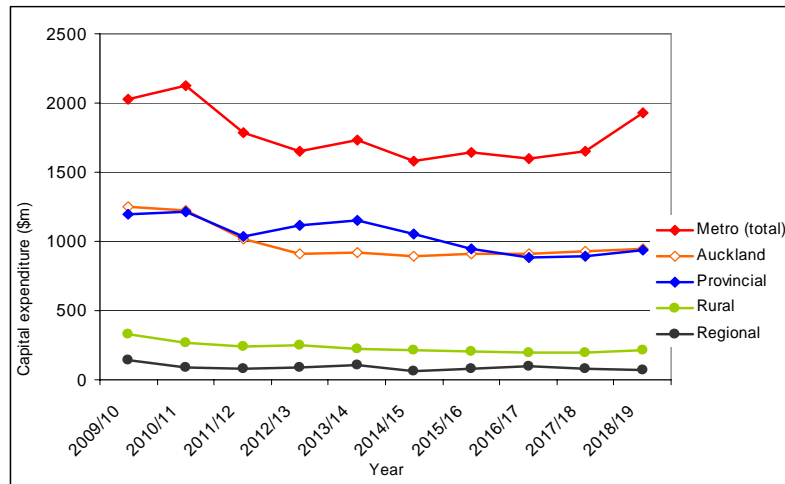


Figure 10 - Total capital expenditure by sector over the ten year period. Metropolitan councils (including Auckland councils) account for 54% of annual capital in year 1, rising to 61% by year 10. Auckland councils (also shown as a subset) account for around one third of all annual capital expenditure.

76. Capital expenditure is primarily funded through depreciation, debt and development contributions (Table 7), which together account for over 88% of the capital expenditure over the ten years. Most funding for capital (around 59%) comes from depreciation, although there is considerable variation across the sector (30% to over 80%). The approach taken to capital funding is variable. Several councils appear to plan to cover all their capital costs through depreciation while also creating additional reserves. A number of other councils indicate they will be funding all of their capital from debt, depreciation and development contributions, while other councils indicate they intend to fund all new capital development from debt.

Capital expenditure	\$31,410m
Funding for capital expenditure	
Increase in debt	\$5,118m (16.3%)
Development contributions	\$3,967m (12.6%)
Depreciation	\$18,613m (59.3%)
Total funding available	\$27,697m (88.2%)
Deficit	\$3,711m (11.8%)

Table 7 – Total capital expenditure over the ten year period in relation to funding streams.

77. Analysis of capital funding sources at a gross level suggests there is a \$3,711m “gap” (around 12% of the total requirement) to be funded from other income such as rates, subsidies or investments.

Funding

78. Under new accounting standards¹⁴, total comprehensive income includes changes to asset values. The income associated with asset revaluations varies over the ten years as it is linked to the revaluation cycle. This is the reason for the decrease in asset revaluations seen in Table 8. Accordingly, only operating income trends have been analysed as part of this report. Operating income includes rates development contributions, subsidies (eg. roading) and income from investments.

All councils	year 1 (2009/10)	year 3 (2011/12)		year 10 (2018/19)	
	\$m	\$m	change to y3	\$m	change to y10
Rates	4,125	4,719	14.4%	6,531	58.3%
Development contributions	201	304	51.5%	548	172.9%
Subsidies	1,208	1,107	-8.3%	1,239	2.6%
Investment income	476	412	-13.6%	473	-0.8%
Other income	1,614	1,741	7.8%	2,209	36.8%
Total operating income	7,625	8,283	8.6%	10,999	44.3%
Vested assets	189	229	20.7%	257	35.6%
Asset revaluations	2,356	1,939	-17.7%	3,065	30.1%
Total comprehensive income	10,171	10,450	2.7%	14,321	40.8%

Table 8 – Summary of changes to total council forecast income over ten years.

Rates

79. Due to variation in rating practices and the costs of services, the actual increase or decrease for an individual ratepayer will vary markedly within a council, and between different types of councils. In some cases, councils reported a range of rates increases in their LTCCPs that the “average ratepayer” might be expected to face.
80. For most councils, rates remain the single largest source of income. Total rates income includes both targeted and general¹⁵ rates. From observation of the text in LTCCPs, it appears that councils are looking to use a wider range of targeted rates to recover the costs of services from those benefiting from them.
81. A number of councils with multiple schemes are looking to change funding for water and wastewater from self-funding through individual targeted rates, to funding via a uniform targeted rate for all users of the service in the council area (e.g. Central Hawke’s Bay District, Ashburton District, Marlborough District, Horowhenua District, Clutha District). This is seen as a way to improve affordability for users of these smaller schemes.
82. Some councils indicate they are deferring maintenance and operational programmes for one to two years to keep rates down. These programmes include (but are not limited to): road resealing, minor road safety works, community arts and development funding, and environmental education.
83. In some cases, councils have also indicated that they intend to use their reserves (e.g. Wairoa District, Waimakariri District, Kawerau District), investments (e.g. Hauraki District), or run a small deficit (e.g. Central Hawke’s Bay District) to help offset rates requirements in the first years of the plan. While these actions will reduce the impact in the short-term, a question remains as to whether these actions are sustainable over the longer term.
84. Forecast growth in rates income for 2009 shows straight line growth over time. While this trend is generally similar to that from the 2006 LTCCPs (Figure 11), it appears that the slope of the line is steeper (i.e. increasing at a greater rate). By

¹⁵ General rates are set for the general purposes of the council, targeted rates are set for specific activities and often over specific areas.

the last year of the 2006 LTCCP, there is a \$356m gap between the two plans, compared to a \$5m gap in the first year of the 2009 Plan.

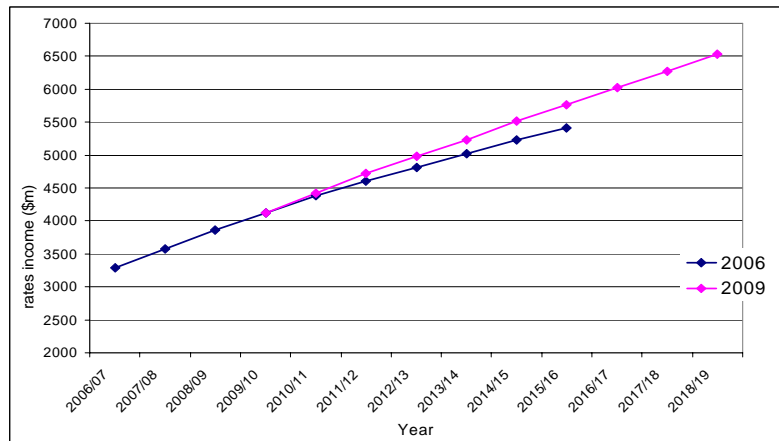


Figure 11 – Comparison of forecast income from rates between the 2006 and 2009 LTCCPs.

85. The average increase in rates income for the sector for 2009/10 is 6%, with a range of 0 to 36% for individual councils (Figure 12). The Otago Regional Council has the highest percentage increase (funding for a stadium and flood infrastructure), however in this case the actual level of rates levied are low so the large percentage increase translates into an increase of \$4.2m. Of note are some of the small rural councils (with low or negative population growth) which are forecasting large percentage increases in rates.

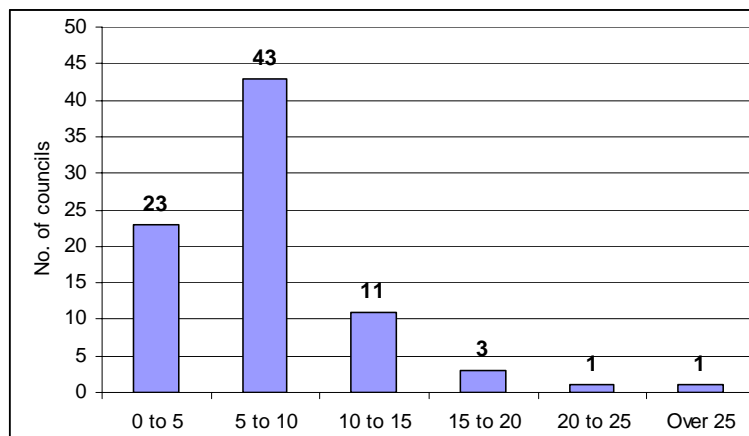


Figure 12 – Range of rates increases for 2009/10 (excluding Rodney District that changed its rates definition from the Annual Plan). Councils with the highest and lowest percentage increases are:

- Lowest – Wairoa District (0.08%), Buller District (0.18%), South Waikato District (1.5%), Napier City (3.1%), and Nelson City (3.2%).
- Highest – Otago Regional (35.9%), Kaipara District (24.8%), West Coast Regional (19.9%), Hawke's Bay Regional (18.4%), South Wairarapa District (17.1%), and Waitomo District (14.9%).

86. Average rates income is forecast to increase further in 2010/11 (7.2%) and 2011/12 (6.2%). It should be noted that some of these increases will be in the years leading up to the next (2010) local elections. Whether these rates of increase are politically acceptable remain to be seen. Some councils also indicated their ratepayers would be likely to experience much lower (or even negative) rates increases in the latter years of the plan. It is also not certain whether such changes will actually occur.

87. The highest percentage increases in rates income tend to be in areas experiencing population growth. This is not unexpected as there will be more people contributing rates (Figure 13A). The high population growth rates in many metropolitan councils are mirrored in the higher overall percentage increases in rates income for this sector group.
88. For all councils, rates per dwelling is forecast to increase over the ten years of the plan (Figure 13B). This may be more of an issue for councils with relatively large increases funded from a shrinking population. A full list of rates per dwelling for all councils is given in Appendix 2.

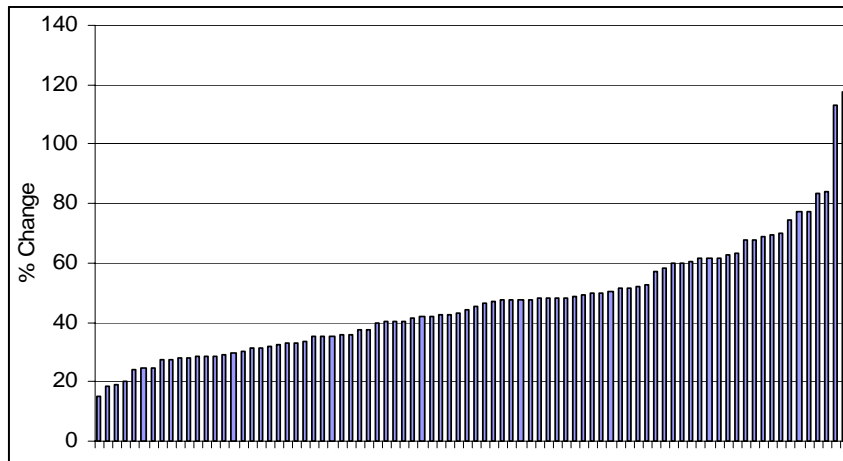


Figure 13A – Percentage change in rates/ dwelling per council over the ten year period. Councils with the highest and lowest rates of change are:

- Lowest – Mackenzie District, Otago Regional, Hurunui District, Northland Regional, Wellington City, and Hastings District.
- Highest – Waitakere City, Environment Bay of Plenty, Selwyn District, Southland District, Whakatane District, and Kapiti Coast District.

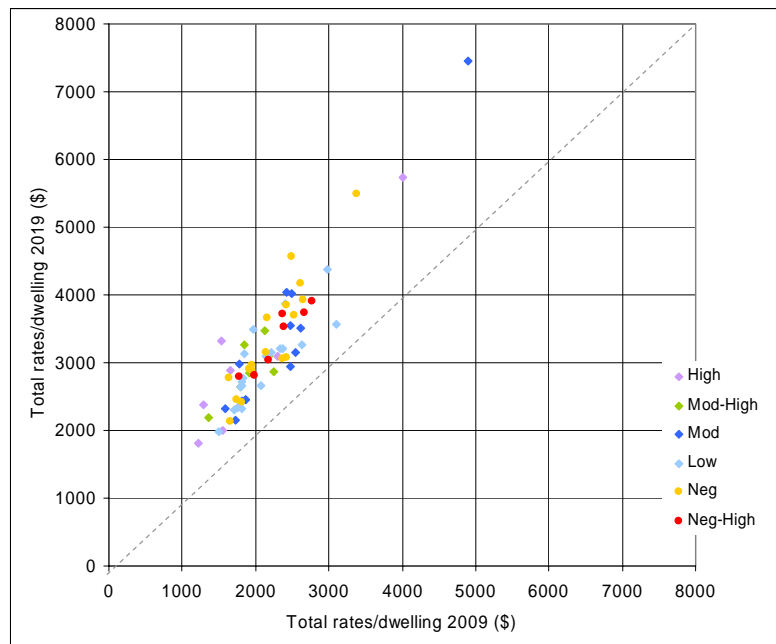


Figure 13B – Relative change in rates per dwelling over the ten year period sorted by growth in dwellings. Note that rates per dwelling is calculated on the basis of total rates income and is not reflective of the average rate likely to be paid by a householder.

89. Councils look set to become more reliant on rates as a source of income, with the proportion of total operating income from rates rising from 54% to 59% over the ten year period (Figure 14A). Some of the larger percentage increases are seen in councils with negative population growth (Figure 14B), this could have implications for rates affordability in the future.

90. Regional councils retain their traditionally low dependence on rates for income, although this increases from 45.7% to 55% from 2009/10 to 2018/19. This change may be linked with a forecast reduction in income from investments from these councils with rates being used to offset the shortfall.

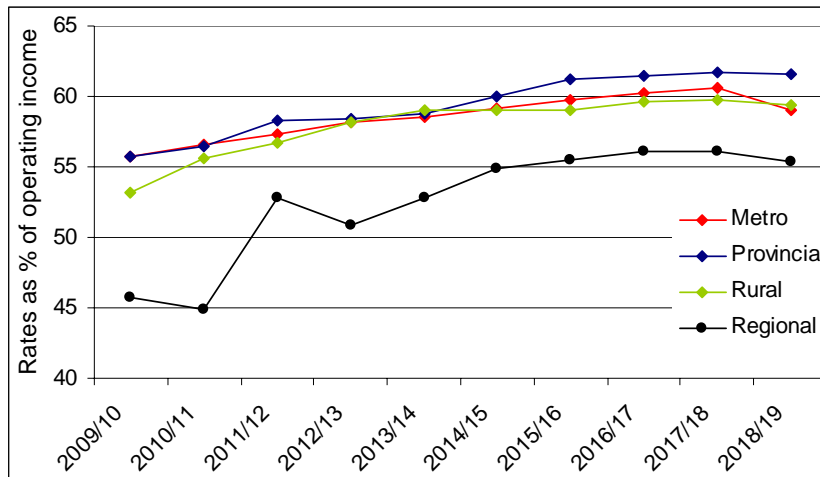


Figure 14A – Rates as a percentage of operating income over the ten year period. Councils with the highest and lowest percentages are:

- Lowest – Chatham Islands District (6%), Hawke's Bay Regional (39%), Taranaki Regional (40%), West Coast Regional (43%), Otago Regional (44%), and Hurunui District (44%).
- Highest – Opotiki District (74%), Upper Hutt City (76%), Thames–Coromandel District (78%), Auckland Regional (80%), Kapiti Coast District (82%), and Kawerau District (89%).

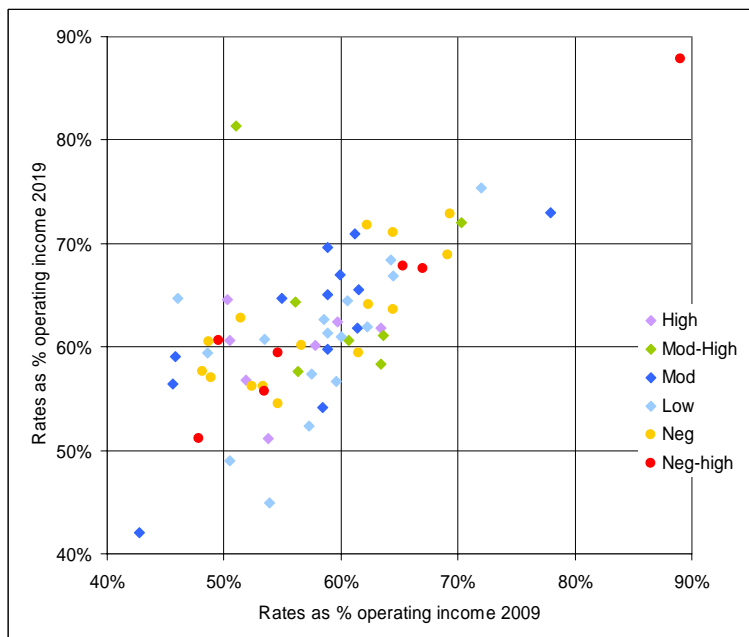


Figure 14B – Rates as a percentage of operating income 2009 compared to 2019 arranged by population growth.

Development contributions

91. Development contributions are collected by territorial authorities in order to recover a portion of infrastructure costs related to growth. As they are primarily used to fund capital development some discussion on their relative importance has already been covered. Financial contributions are collected to mitigate the effects of growth and can be both capital and operational in nature.
92. One of the issues related to understanding the use of development contributions is that of consistency of reporting. A number of councils with development contributions do not report them as a separate line item in their LTCCP. Previous analysis also showed some variation in the way these contributions are reported by councils¹⁶. Some councils may also collect financial contributions and not development contributions. Figures in this report (which may also include some financial contributions) are likely to be under-reported.
93. Across the sector¹⁷, development contributions comprise a relatively small proportion of council income, rising from 2.6% to 5% at the end of ten years. A number of councils expect to receive between 10% and 20% of their operating income from development contributions at various times during the ten years. These include Tauranga City, Queenstown Lakes District, Franklin District, Selwyn District, Papakura District, Hamilton City, Western Bay of Plenty District, Waipa District, Thames-Coromandel District, Kaikoura District. These councils are all likely to experience high population growth, with development contributions being used to fund the additional infrastructure required.
94. The impact of the economic downturn is seen in the reduced levels of forecast income from development contributions for 2009/10 compared to the same period in the 2006 LTCCPs (Figure 15). Over time the level of development contributions is forecast to rise to levels similar to those forecast in 2006.

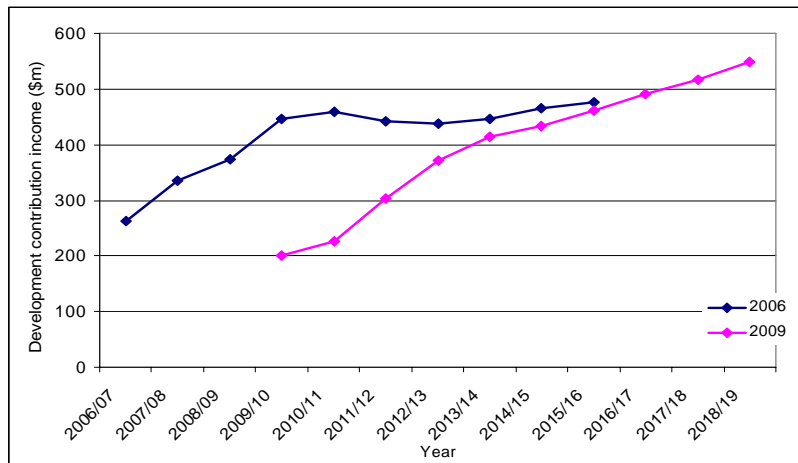


Figure 15 – Comparison of forecast income from development contributions between the 2006 and 2009 LTCCPs.

95. Councils have indicated a range of actions or issues associated with their use of development contributions. These include:
- changing expected levels of returns due to growth being less than expected (e.g. Franklin District, Hurunui District);

¹⁶ Local Government Information Series 2008/01 and 2008/02

¹⁷ excluding regional councils as they are not able to collect development contributions

- needing to use rates to fund an expected shortfall in income from development contributions (e.g. Tauranga City);
- recovering interest paid by council through development contributions (e.g. Thames-Coromandel District);
- needing to use debt to fund an expected shortfall in income (e.g. Far North District); and
- reducing levels of development contributions in order to encourage growth (e.g. Whangarei District).

96. Development contributions remain a volatile source of capital funding for councils, particularly for growth councils with a heavy reliance on this source of funding. If the forecast increases in contributions do not eventuate, some councils will need to either defer spending or raise funds from other sources. This may impact on future debt profiles.

Investments

97. Investment income includes interest, dividends, and net income from joint ventures. The highest proportions of operating income from investments are seen in regional councils (e.g. Hawke’s Bay Regional 37%, Environment Bay of Plenty 33% in 2009/10) due in part to the level of returns from port companies.

98. The average contribution of investments to territorial authority income is around 4.9%, with a range of 0% to 19%. In terms of dollar values, four councils account for nearly 50% of all investment income over the 10 year period. These councils are Christchurch City (\$845m), Auckland Region (\$492m), Auckland City (\$456m) and Dunedin City (\$349m). In contrast, 11 councils expect to receive less than \$1m, of which six are not expecting any investment income.

99. Over the ten year period, territorial authorities are expecting a gradual increase in investment income, while regional councils are expecting a decline (Figure 16). As already discussed, the “spike” in the first year is due to significant increases in expected income by Auckland Regional and Christchurch City.

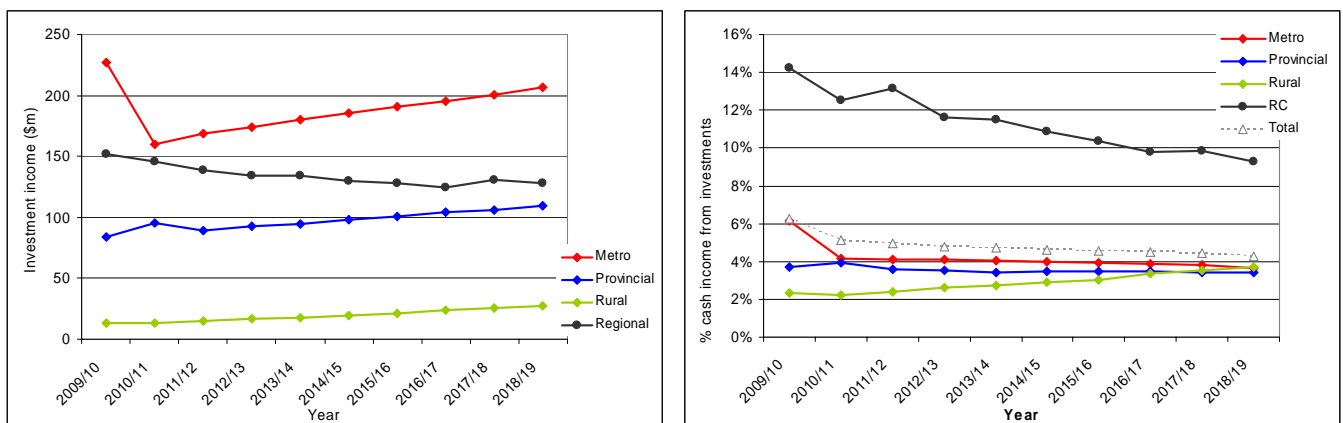


Figure 16 – (a) Change in investment income over the ten year period by sector group; and (b) as a proportion of operating income.

100. Forecast income from investments in the 2009 LTCCPs is less than for the same period in the 2006 LTCCPs (Figure 17). In addition, the trend for the ten years appears to be more conservative (straight line), possibly reflecting the impact of the global economic crisis. Councils may therefore have had to factor in the need for other sources of income (such as rates) to cover their increased costs.

101. Several councils indicated that the economic recession has reduced the expected level of returns from their investments (e.g. Waitomo District, Kawerau District, South Waikato District, Environment Waikato). A number of councils were also indicating they intended to raise revenue through the sale of assets. In some cases, consultation on the planned sale of assets has been delayed partly to provide a better return (e.g. Stratford District).

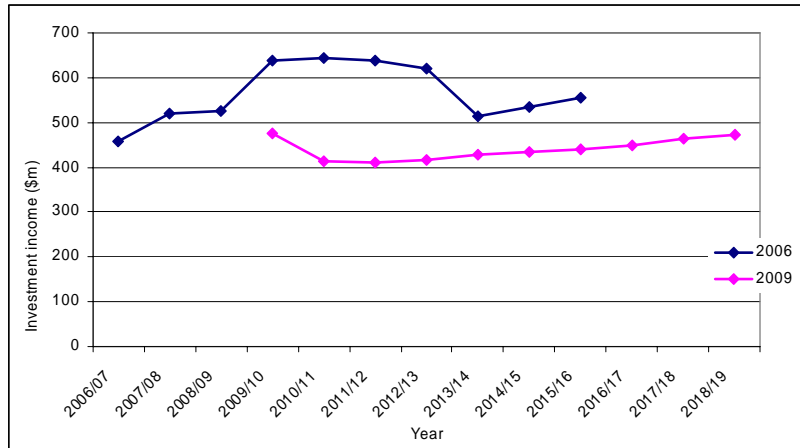


Figure 17 – Comparison of forecast investment income between the 2006 and 2009 LTCCPs.

Subsidies

102. Forecast income from subsidies is higher than for the same period in the 2006 LTCCPs (Figure 18). Given that the overall level of capital expenditure is likely to be reduced from that forecast in 2006, councils appear to be placing more importance on subsidies as a source of income.

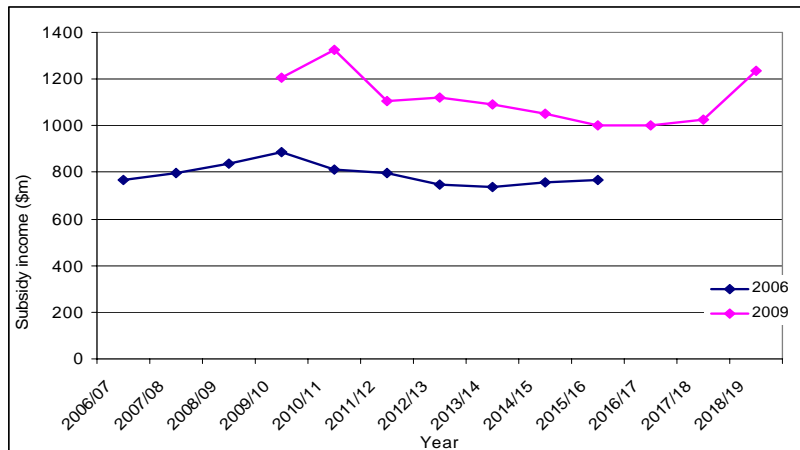


Figure 18 – Comparison of forecast subsidy income between the 2006 and 2009 LTCCPs.

103. The amount of forecast subsidy income is similar for metropolitan and provincial councils (Figure 19). The large increase in subsidy income for 2010/11 relates mainly to public transport-related funding for commuter rail (e.g. Greater Wellington). The observed decrease in regional council subsidy income also relates to Greater Wellington (which tends to dominate subsidy income for this sector) with a forecast 56% decrease from \$251m in 2010/11 to \$109m in 2011/12 as the rail project comes to an end.

104. The large increase in subsidy income in 2018/19 relates mainly to spending identified by Porirua City which increases from \$4.2m in year 9 to \$96.2m in year 10. Wellington City also has a large increase in from \$22.6m in year 9 to \$81.7m in year 10. These appear to be related to roading projects.

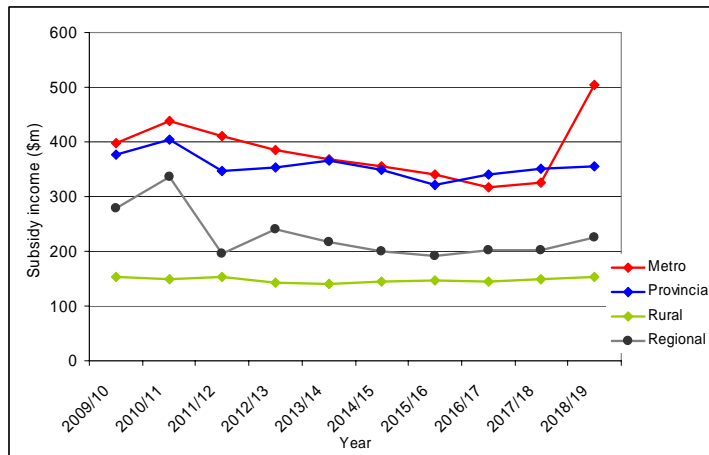


Figure 19 – Change in forecast subsidy income over the ten year period by sector group.

Other income

105. Most councils indicate they will be raising their fees and charges. This is being done to reflect cost increases and more fairly reflect the benefits users receive from council services. The level of data collection undertaken at present means this type of income is not able to be extracted. This will be possible with the planned LTCCP Survey (see Paragraph 132).

Debt

106. Since 2004, local government has been making increased use of debt (Figure 20). Debt is used for a range of purposes including helping to keep rates down, or replacing income from ‘volatile’ sources such as development contributions and investments. Councils may also be using short-term debt to smooth rates increases and to avoid major increases or decreases over time.

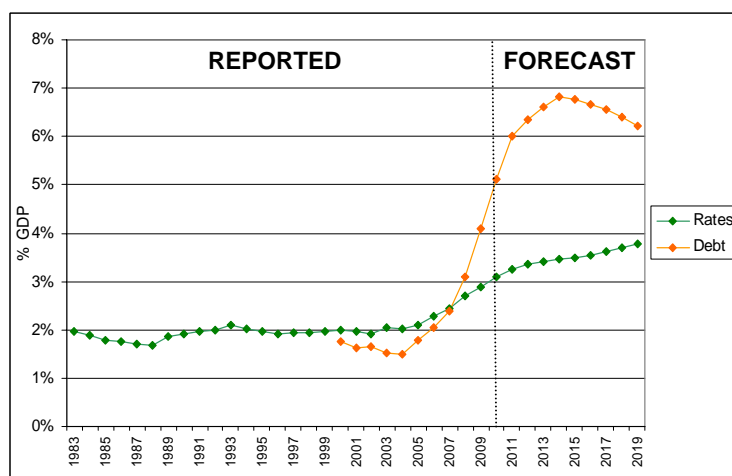


Figure 20 – Rates as a percentage of GDP (figures from Treasury) using reported and forecast data. Note that debt is the cumulative total of all debt held by a council.

107. The Rates Inquiry¹⁸ suggested that councils could look to use debt as a tool to fund development. The level of increase in debt over the next ten years hints that there has been a change in the attitude of many in the sector toward the use of debt.
108. Total public debt for the sector is forecast to increase by 98%, from \$5,490m at the beginning of July 2009 to \$10,800m at the end of June 2019. The peak in total debt (\$11,150m) occurs in 2016/17 (year 8). The majority of debt, and the largest percentage increases, occur in the metropolitan council sector.
109. Different approaches to (external) debt management were observed in the LTCCPs. These include:
- remaining debt-free (e.g. Clutha District, Kawerau District, Mackenzie District, Taranaki Regional, Environment Bay of Plenty, Environment Waikato, Northland Regional, Southland Regional) note these are either regional councils or small rural councils;
 - repaying existing debt over the period to become debt-free (e.g. Waimate District);
 - using debt for the first time (e.g. Selwyn District, Rangitikei District, Central Otago District; Otago Regional);
 - using debt in the short-term, with rapid repayment (e.g. Waikato District) in some cases starting from no-debt (e.g. Waitaki District, Hurunui District);
 - reducing overall debt at the end of the ten years of the LTCCP (e.g. Hutt City, Wanganui District, Napier City, Gore District, Otorohanga District, Tararua District; Horizons Regional);
 - having a self-imposed cap on debt (e.g. Whangarei District); and
 - reducing or deferring loan principle payments to keep rates down (e.g. Nelson City, New Plymouth District, Waitakere City).
110. The use of internal debt by council is uncertain as it is not generally reported in LTCCPs. However several councils indicated they were intending to rely on this source of funds for their capital programme (e.g. Napier City, South Wairarapa District, Clutha District, Greater Wellington).
111. The largest proportion of debt is raised over the early part of the plans, with 32% of total debt over the ten year period (\$4,130m) taken on in the first two years. This coincides with the period of greatest capital expenditure. Over time, the focus moves to debt repayment, with the peak in debt matching the years of lowest capital expenditure (Figure 21). This suggests councils will be consolidating their position and focusing on repayment in the latter years of the LTCCPs.

¹⁸ Funding Local Government - Report of the Local Government Rates Inquiry August 2007.

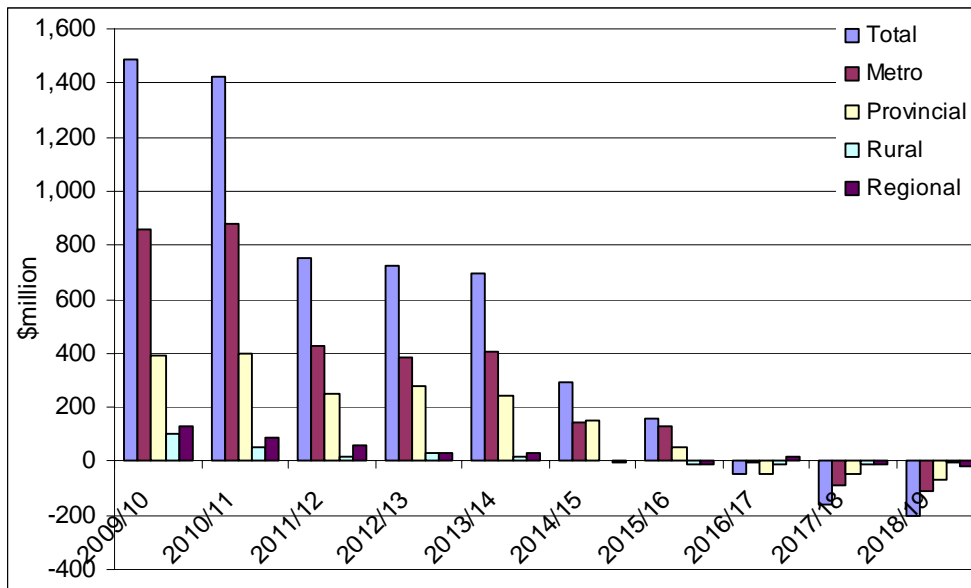


Figure 21 – Net total of borrowing and principal repayments (from cash flow statements). This graph shows that the sectors is taking on a large proportion of its debt towards the beginning the sector taking on \$1.5bn of debt in year 1 and \$1.4b in year 2. In the last three years, debt is reduced, with more principal debt repayments than borrowing.

112. While the overall level of debt is higher in 2009, the timing of local authority debt shows a similar trend to that in the 2006 LTCCPs (Figure 22). Based on the trends seen in these previous plans, estimates for future debt (in the 2012 LTCCPs) may be higher than forecast at 2009. This may raise issues about the sustainability of future local government funding.

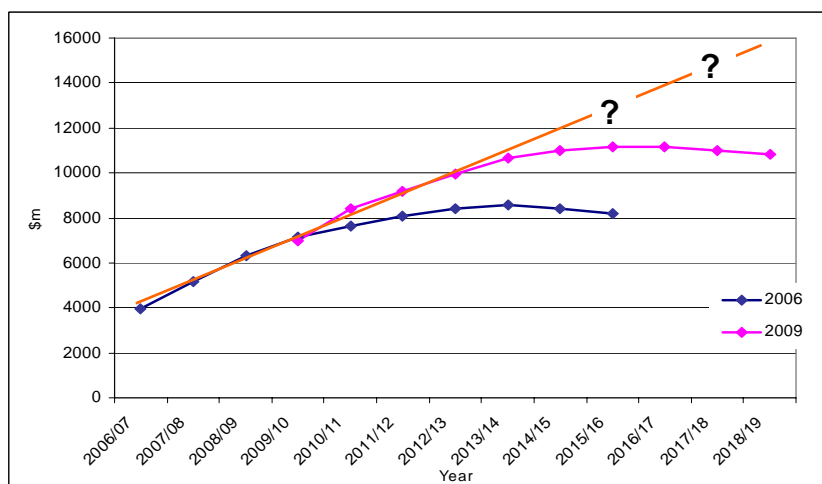


Figure 22 – Comparison of forecast public debt between the 2006 and 2009 LTCCPs. An extrapolated line (orange) is given for the possible situation in subsequent LTCCP (e.g. 2012).

113. Across all territorial authorities, the average debt per dwelling is forecast to increase by 41% from \$3,295 to \$4,658 (Figure 23). It should be noted that these are cumulative and not annual figures and that by using per dwelling they do not account for growth in non-residential properties. The observed range is variable, from \$0 for councils with no debt, to an estimated \$28,000 per dwelling by 2018/19 for Queenstown Lakes District (although it should be noted this council is aware of these high levels and will be seeking to address debt levels in its 2012 LTCCP).

114. The greatest percentage increases in forecast debt per dwelling¹⁹ over the ten years was 404% (Marlborough District), although the actual amount (\$5,436) was still not as great as other councils of a similar size. A full list of council debt per dwelling for all councils is given in Appendix 3.

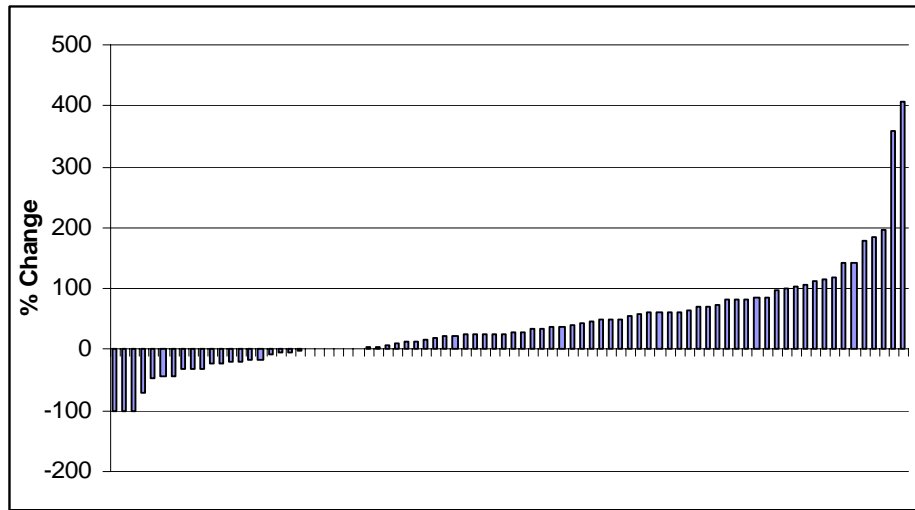


Figure 23A – Percentage change in debt/dwelling per council over the ten year period (excluding Central Otago District).

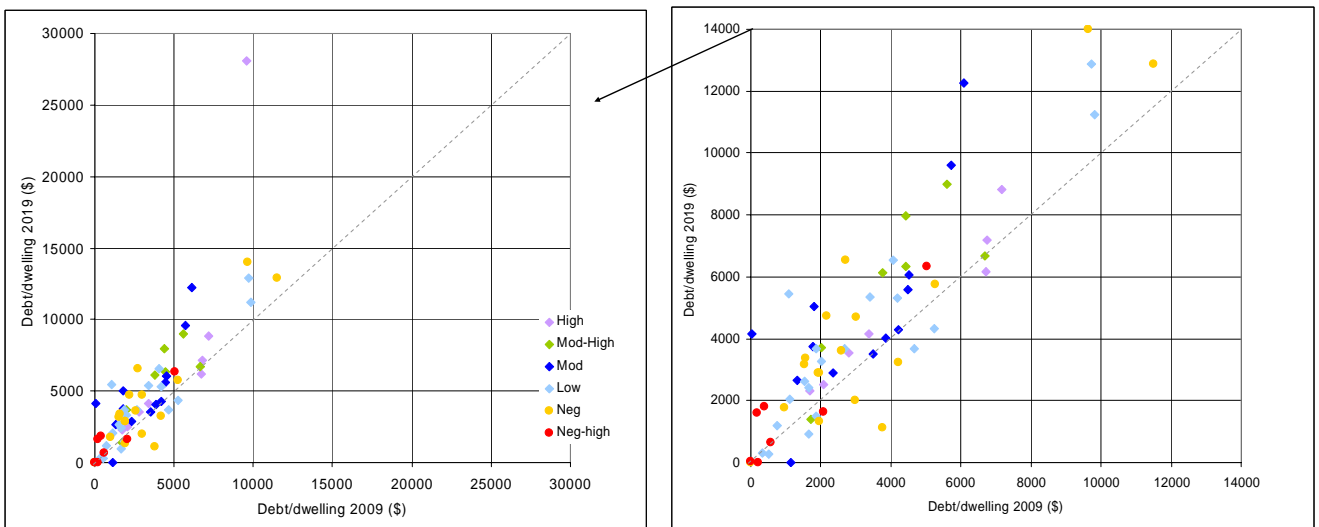


Figure 23B – Debt per dwelling in 2009 compared to 2019, arranged by population growth with the right-hand graph an enlargement of the main figure. A number of negative population growth councils show increasing debt per dwelling by 2019. Note the figure on the right is an enlargement of that on the left.

115. As a group, regional councils showed the highest percentage increases in debt per dwelling (62%), however given the scale of total local authority debt and the population they cover, the actual increase (from \$109 to \$245 per dwelling) is still well below the figures for most territorial authorities (Figure 24). In this case, the group trend is misleading, as number of regional councils remain essentially debt-free, while others have significant debt due to their involvement in capital intensive activities (e.g. Greater Wellington).

¹⁹ excluding Central Otago District, as starting from no debt creates a major percentage increase

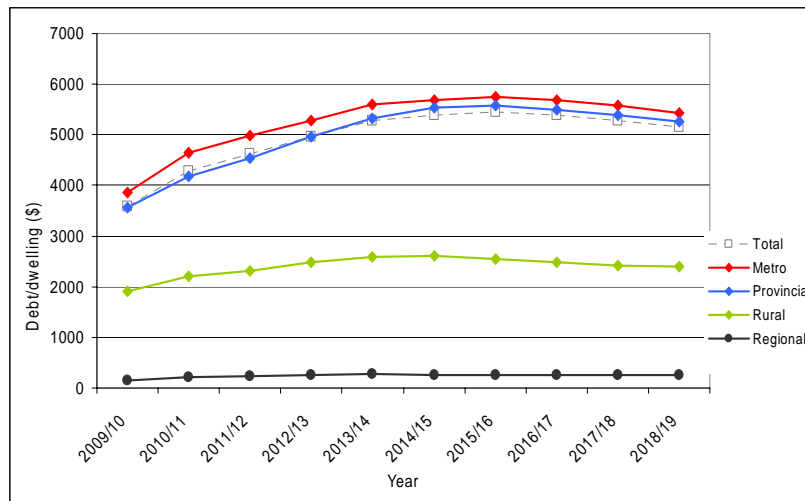


Figure 24 - Debt/dwelling over the ten year period by sector group.

116. Council liability and treasury policies identify a range of similar types of measures, although the actual values used for policy limits vary across the sector. The types of limits commonly used by councils include:
- interest as a percentage of rates;
 - debt/rates; and
 - debt/equity.
117. A number of councils have revised their treasury/liability policies to reflect their intention to take on more debt. Tauranga City and Queenstown Lakes District both received qualified audit opinions on their draft LTCCPs due to questions over the financial prudence of their forecast levels of debt. Other councils may get into a similar position due to pressures of growth.
118. The interest/rates ratio is often²⁰ used by councils to indicate the ability to service interest on borrowings using their most stable source of income. Some commentators use 20% as a prudent figure for this ratio. It appears that around 14 councils may surpass 20% at some point over the period of the plan (Figure 25A).
119. The debt/rates ratio is also used as an indicator of financial prudence. Fourteen councils have rates one third their debt (Figure 25B), with the two highest (Queenstown Lakes District and Waitakere City) forecast to have having rates one fifth their debt.

²⁰ a scan of council 2009 LTCCP Treasury Policies identified 52 out of 85 councils used a type of gross or net interest to rates revenue measure.

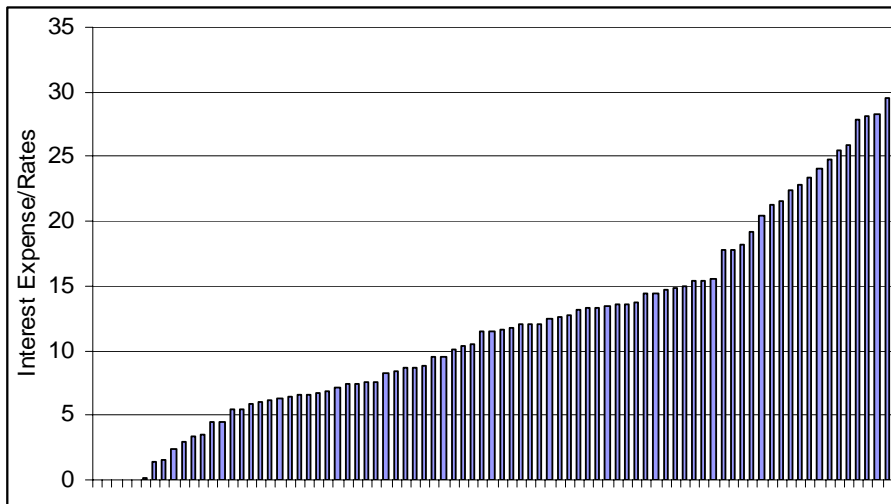


Figure 25A – Maximum interest/rates ratio per council over the ten year period. The highest ratios are Waitakere City (30), Queenstown Lakes District (30), Taupo District (28), South Taranaki District (28), Hamilton City (28), Kapiti Coast District (26), and Tauranga City (26).

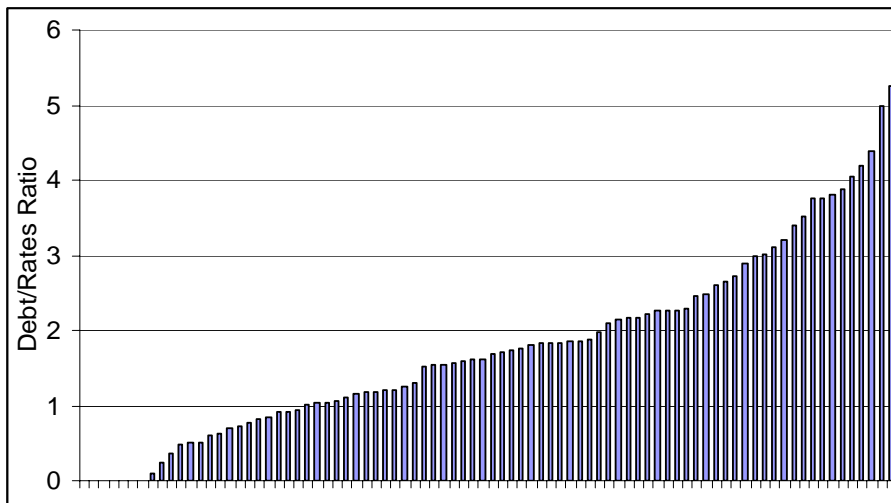


Figure 25B – Maximum debt/rates ratio per council over the ten year period.

120. Debt is seen as a prudent way to achieve intergenerational equity. However councils where the interest/rates ratio is greater than 15% may see a reduction in their ability to be able to respond to emergencies.

Assets

121. While local authorities are increasing their debt, they are also increasing their asset base (partly paid for through debt). The relative proportion of total assets to total liabilities remains relatively constant over the ten years of the plan (Figure 26).

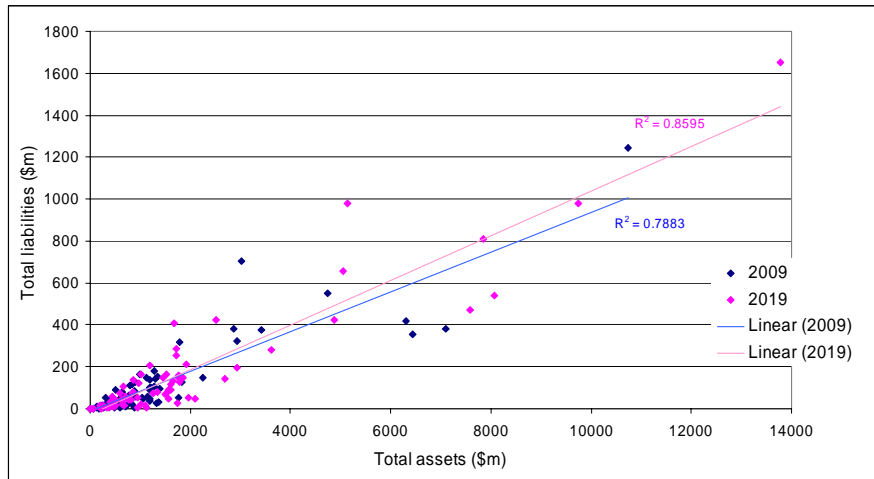


Figure 26 – Total assets against total liabilities for councils in 2009, and in 2019. The trend line shows a similar distribution of assets and liabilities for both periods. The R^2 numbers indicate the degree of correlation between the points (with 1 an ideal match).

122. Many assets held by councils are unlikely to be used in the same way that private sector equity is used to offset debt. Care should therefore be exercised when comparing debt levels and assets between the private sector and local government.

PART 4 - Conclusion

123. Councils deliver a range of important services to communities. The way these services are provided and funded varies across the local government sector. For this reason, it can be difficult to interpret some of the trends that appear to be facing the sector as a whole, as the situation for individual councils is likely to differ across the country.
124. Communities have come to expect their council will continue to provide these services at an appropriate cost and quality. However the cost of council services has been and is expected to increase at a greater rate than inflation as measured by the Consumers Price Index (CPI). While council costs are more aligned with the Producers Price Index (PPI), the ability of ratepayers to afford council services may be better aligned with the CPI. If council costs continue to increase, councils may need to consider how (or if) some services might be funded or provided differently in the future.
125. Some cost increases relate to central government expectations, some to changing community expectations and others relate to population changes. Future council expenditure will therefore need to account for population growth, decline, and the effect of ageing. These changes will impact on expected revenue and expenditure. While councils are aware of, and are have planning process in place to deal with any expected changes, across the sector the magnitude of these changes may be such that some issues need a revised perspective.
126. Councils have a relatively limited number of income streams to address increasing costs. Rates are the most significant and stable of these. Greater reliance on rates in the future is likely to face pressure from ratepayers to keep rates down. While the affordability of rates may impact to a greater extent on councils with large numbers of people on fixed incomes or negative population growth, all councils are likely to have to deal with this issue.
127. Councils with growing populations will also need to fund additional infrastructure. In addition to growth, councils may need to increase funding on infrastructure to deal with better asset management practices, previous deferrals of funding and changing standards and community expectations. The ongoing funding and development of infrastructure is an issue that is likely to impact on all councils.
128. It is apparent that councils are increasingly using debt to fund infrastructure development, although there are a wide range of responses to the use of debt across the sector. Debt is seen as an effective way balance intergenerational equity issues and reduce potential rates increases.
129. While levels across the sector as a whole may appear reasonable, individual councils with high levels of debt may experience problems in relation to the impact of increased debt servicing costs on existing operational programmes and their perceived ability to respond to an emergency situation.
130. While some issues and their implications have already been apparent to some commentators, the data collection and analysis undertaken by the Department provides further evidence on the likely scale of any impact. The issues include:
 - the increasing cost of services;
 - ongoing funding and development of infrastructure; and
 - the impact of changing population and affordability on local government funding.

131. It is important that any observations are backed by reliable information. One of the issues raised as part of this analysis is the ability to consistently compare council activities at a meaningful level. Specific points include the:
- completeness of information on income from development contributions;
 - inability to examine changes at an activity level; and
 - lack of information about the use of internal debt by councils.
132. The Department recognises that access to consistent and reliable information (in a timely manner) is important to improve council decision-making and provide the public with better information on the local government sector. In order to address this situation, the Department has undertaken a joint project with Statistics New Zealand to revise the Local Authority Census and to establish a new LTCCP Survey to be sent to council in October 2009. The resultant information will enable more detailed analysis than was possible using the high-level data that could be consistently extracted from the LTCCPs.
133. With the additional information available in 2010, the Department will continue work to consider further the trends and implications in areas such as increased use of debt, capital expenditure and funding, and issues facing small councils.
134. Through the local government TAFM (transparency, accountability and financial management) project, the Department is also looking at options to strengthen the consistency and depth of information reported by councils.

Appendix 1 - The Local Government New Zealand council classification

Metropolitan Councils

Council	Classification	Type
Auckland City	Metro	City Authority
Christchurch City	Metro	City Authority
Dunedin City	Metro	City Authority
Franklin District	Metro	District Authority
Hamilton City	Metro	City Authority
Hutt City	Metro	City Authority
Manukau City	Metro	City Authority
North Shore City	Metro	City Authority
Papakura District	Metro	District Authority
Porirua City	Metro	City Authority
Rodney District	Metro	District Authority
Tauranga City	Metro	City Authority
Upper Hutt City	Metro	City Authority
Waitakere City	Metro	City Authority
Wellington City	Metro	City Authority

Provincial Councils

Council	Classification	Type
Ashburton District	Provincial	District Authority
Far North District	Provincial	District Authority
Gisborne District	Provincial	Unitary Authority
Hastings District	Provincial	District Authority
Horowhenua District	Provincial	District Authority
Invercargill City	Provincial	City Authority
Kapiti Coast District	Provincial	District Authority
Manawatu District	Provincial	District Authority
Marlborough District	Provincial	Unitary Authority
Masterton District	Provincial	District Authority
Matamata-Piako District	Provincial	District Authority
Napier City	Provincial	City Authority
Nelson City	Provincial	Unitary Authority
New Plymouth District	Provincial	District Authority
Palmerston North City	Provincial	City Authority
Queenstown Lakes District	Provincial	District Authority
Rotorua District	Provincial	District Authority
Selwyn District	Provincial	District Authority
South Taranaki District	Provincial	District Authority
Southland District	Provincial	District Authority
Tasman District	Provincial	Unitary Authority
Taupo District	Provincial	District Authority
Thames-Coromandel District	Provincial	District Authority
Timaru District	Provincial	District Authority
Waikato District	Provincial	District Authority
Waimakariri District	Provincial	District Authority
Waipa District	Provincial	District Authority
Wanganui District	Provincial	District Authority
Western Bay of Plenty District	Provincial	District Authority
Whakatane District	Provincial	District Authority
Whangarei District	Provincial	District Authority

Rural Councils

Council	Classification	Type
Buller District	Rural	District Authority
Carterton District	Rural	District Authority
Central Hawke's Bay District	Rural	District Authority
Central Otago District	Rural	District Authority
Chatham Islands Territory	Rural	Unitary Authority
Clutha District	Rural	District Authority
Gore District	Rural	District Authority
Grey District	Rural	District Authority
Hauraki District	Rural	District Authority
Hurunui District	Rural	District Authority
Kaikoura District	Rural	District Authority
Kaipara District	Rural	District Authority
Kawerau District	Rural	District Authority
Mackenzie District	Rural	District Authority
Opotiki District	Rural	District Authority
Otorohanga District	Rural	District Authority
Rangitikei District	Rural	District Authority
Ruapehu District	Rural	District Authority
South Waikato District	Rural	District Authority
South Wairarapa District	Rural	District Authority
Stratford District	Rural	District Authority
Taranua District	Rural	District Authority
Waimate District	Rural	District Authority
Wairoa District	Rural	District Authority
Waitaki District	Rural	District Authority
Waitomo District	Rural	District Authority
Westland District	Rural	District Authority

Regional Councils

Council	Classification
Auckland Regional	Regional
Bay of Plenty Regional	Regional
Canterbury Regional	Regional
Hawke's Bay Regional	Regional
Manawatu-Wanganui (Horizons)	Regional
Northland Regional	Regional
Otago Regional	Regional
Southland Regional	Regional
Taranaki Regional	Regional
Waikato Regional	Regional
Wellington Regional	Regional
West Coast Regional	Regional

Appendix 2 – Indicative rates per dwelling.

Council	Population 2008	2010 Rates Per Dwelling (\$s)	2019 Rates Per Dwelling (\$s)	2010 Rates \$million	2019 Rates \$million
Ashburton District	28,700	1,748	2,335	21.9	30.4
Auckland City	438,100	2,594	3,300	434.5	624.1
Buller District	9,960	2,013	2,604	10.2	12.9
Carterton District	7,360	2,057	2,644	6.6	8.6
Central Hawke's Bay District	13,300	2,559	3,761	14.6	21.1
Central Otago District	17,700	2,067	2,944	19.1	28.9
Chatham Islands Territory	640	1,305	1,951	0.4	0.6
Christchurch City	369,000	1,709	2,508	256.1	398.9
Clutha District	17,350	2,415	3,578	19.8	28.4
Dunedin City	123,000	1,986	3,012	97.8	151.8
Far North District	57,900	2,530	3,434	66.0	94.1
Franklin District	63,200	2,045	2,722	49.1	74.5
Gisborne Region	45,900	2,443	3,550	42.7	62.7
Gore District	12,250	2,004	2,829	10.5	14.0
Grey District	13,650	1,889	2,789	11.5	16.9
Hamilton City	138,500	2,109	3,121	108.9	178.9
Hastings District	73,900	1,981	2,465	55.7	72.4
Hauraki District	17,700	2,604	4,169	19.9	30.7
Horowhenua District	30,600	1,531	2,597	21.8	36.7
Hurunui District	10,900	2,039	2,428	11.8	15.1
Hutt City	101,700	2,111	2,708	80.1	104.4
Invercargill City	51,600	1,805	2,536	38.9	52.9
Kaikoura District	3,770	2,146	2,671	4.3	5.6
Kaipara District	18,600	2,005	2,754	18.9	25.9
Kapiti Coast District	48,400	1,674	2,963	39.3	76.6
Kawerau District	7,050	2,559	3,592	6.6	8.6
Mackenzie District	3,950	1,907	2,194	5.3	6.1
Manawatu District	29,300	2,009	2,656	23.8	33.0
Manukau City	361,900	1,804	2,686	194.4	339.0
Marlborough District	44,500	2,217	3,556	46.7	78.1
Masterton District	23,200	1,767	2,659	18.2	27.4
Matamata Piako District	31,400	2,011	2,974	24.7	36.6
Napier District	57,000	1,817	2,458	42.4	58.2
Nelson District	44,700	2,564	4,150	48.6	82.4
New Plymouth District	71,800	1,968	3,345	57.6	99.2
North Shore City	223,000	2,583	4,200	208.9	379.4
Opotiki District	9,060	1,777	2,369	7.2	9.5
Otorohanga District	9,220	2,659	3,401	9.7	12.0
Palmerston North City	79,300	2,066	2,791	63.0	91.5
Papakura District	48,300	1,734	2,804	28.8	52.1
Porirua City	51,000	2,383	3,523	39.7	60.3
Queenstown-Lakes District	26,400	3,158	4,485	46.5	78.8
Rangitikei District	14,950	2,415	3,790	15.2	22.4
Rodney District	96,400	2,305	3,116	97.5	152.5
Rotorua District	68,100	2,440	3,490	65.9	96.7
Ruapehu District	13,650	2,479	3,518	16.4	21.8
Selwyn District	37,500	1,500	2,763	21.2	45.6
South Taranaki District	26,800	2,530	4,039	28.1	43.4
South Waikato District	22,800	1,945	3,081	17.5	26.0
South Wairarapa District	9,190	1,964	2,673	9.5	12.9
Southland District	29,100	2,309	4,242	31.5	57.5
Stratford District	9,100	2,283	3,859	8.5	13.7
Tararua District	17,750	2,192	3,237	16.5	24.1
Tasman District	46,500	2,373	3,978	49.3	88.2
Taupo District	33,400	2,366	3,510	43.4	66.2
Tauranga City	110,500	1,678	2,927	81.0	163.0
Thames -Coromandel District	26,800	2,501	3,824	57.4	91.4
Timaru District	43,900	1,647	2,118	31.6	40.4
Upper Hutt District	40,200	1,721	2,283	26.2	35.1
W. Bay of Plenty District	44,400	2,209	3,144	42.6	67.2
Waikato District	46,800	2,246	3,361	39.1	64.2
Waimakariri District	46,100	1,720	2,232	31.4	46.8
Waimate District	7,450	1,833	2,703	6.4	8.9
Waipa District	44,700	2,001	3,351	34.8	62.3
Wairoa District	8,480	2,277	3,378	8.7	12.1
Waitakere District	201,300	1,936	4,213	136.1	336.0
Waitaki District	20,700	2,321	3,239	23.8	31.4
Waitomo District	9,600	3,386	5,522	14.1	22.2
Wanganui District	43,400	2,003	3,041	36.9	55.0
Wellington City	192,800	2,810	3,479	214.0	287.0
Westland District	8,770	1,730	2,625	7.2	10.9
Whakatane District	34,400	2,214	3,932	29.6	53.2
Whangarei District	78,200	1,899	2,499	63.6	89.8
LG Sector	4,268,500	2,324	3,412	4,125.4	6,530.8

The Department of Internal Affairs
Analysis of 2009 LTCCPs

Council	Population 2008	2010 Rates Per Dwelling (\$s)	2019 Rates Per Dwelling (\$s)	2010 Rates \$million	2019 Rates \$million
Auckland Region	1,414,700	308	445	155.1	255.6
Env. Bay of Plenty	269,900	209	445	23.6	54.8
Env. Canterbury	552,900	313	429	71.8	105.3
Env. Waikato	402,200	384	506	66.4	92.8
Env.. Southland	93,000	262	393	10.6	15.4
Hawke's Bay Regional	152,800	216	303	13.2	18.9
Horizons Regional	229,200	311	397	29.8	38.7
Northland Regional	154,700	174	209	12.0	15.2
Otago Regional	203,500	178	210	16.0	19.7
Taranaki Regional	107,500	160	208	7.0	9.1
Wellington Regional	473,800	421	680	79.1	134.2
West Coast Regional	32,400	217	278	3.3	4.2
LG Sector	4,268,500	2324	3412	4125.4	6530.8
Metropolitan Councils	2,558,900	2232	3260	2053.1	3336.7
Provincial Councils	1,394,700	2097	3139	1264.3	1978.7
Rural Councils	314,900	1802	2563	320.0	451.4
Regional Councils	4,086,600	300	435	488.0	763.9

Appendix 3 – Indicative debt per dwelling.

Council	Current Population	2010 Debt Per Dwelling (\$s)	2019 Debt Per Dwelling (\$s)	2010 Debt (\$million)	2019 Debt (\$million)
Ashburton District	28,700	3,398	5,351	42.6	69.7
Auckland City	438,100	4,338	7,159	726.6	1,353.7
Buller District	9,960	4,458	4,876	22.6	24.1
Carterton District	7,360	739	1,195	2.4	3.9
Central Hawke's Bay District	13,300	1,970	2,947	11.2	16.6
Central Otago District	17,700	32	3,471	0.3	34.1
Chatham Islands Territory	640	2,231	1,260	0.7	0.4
Christchurch City	369,000	1,931	5,468	289.3	869.6
Clutha District	17,350	2	0	0.0	0.0
Dunedin City	123,000	5,698	4,722	280.7	238.0
Far North District	57,900	4,088	4,208	106.6	115.2
Franklin District	63,200	3,928	4,885	94.2	133.8
Gisborne Region	45,900	2,141	1,712	37.5	30.2
Gore District	12,250	2,091	1,646	10.9	8.2
Grey District	13,650	2,095	4,557	12.8	27.6
Hamilton City	138,500	6,591	10,705	340.2	613.8
Hastings District	73,900	2,685	3,361	75.5	98.6
Hauraki District	17,700	2,964	1,997	22.7	14.7
Horowhenua District	30,600	2,809	4,390	40.0	62.0
Hurunui District	10,900	949	0	5.5	0.0
Hutt City	101,700	1,920	1,090	72.8	42.0
Invercargill City	51,600	1,995	2,982	43.0	62.2
Kaikoura District	3,770	3,301	5,365	6.7	11.2
Kaipara District	18,600	8,414	9,649	79.2	90.9
Kapiti Coast District	48,400	4,004	7,335	94.1	189.5
Kawerau District	7,050	9	25	0.0	0.1
Mackenzie District	3,950	206	196	0.6	0.5
Manawatu District	29,300	1,434	2,887	17.0	35.9
Manukau City	361,900	2,514	3,487	271.0	440.0
Marlborough District	44,500	993	5,024	20.9	110.4
Masterton District	23,200	1,833	3,601	18.9	37.1
Matamata Piako District	31,400	2,987	4,086	36.6	50.3
Napier District	57,000	547	288	12.8	6.8
Nelson District	44,700	4,613	5,811	87.5	115.3
New Plymouth District	71,800	4,452	5,668	130.2	168.0
North Shore City	223,000	5,370	7,754	434.4	700.3
Opotiki District	9,060	951	1,750	3.8	7.0
Otorohanga District	9,220	4,132	1,222	15.0	4.3
Palmerston North City	79,300	5,152	6,998	157.2	229.4
Papakura District	48,300	2,579	4,809	42.9	89.4
Porirua City	51,000	2,190	3,241	36.5	55.5
Queenstown-Lakes District	26,400	7,530	22,336	110.8	392.5
Rangitikei District	14,950	171	1,612	1.1	9.5
Rodney District	96,400	6,787	7,339	287.2	359.0
Rotorua District	68,100	5,133	4,058	138.7	112.4
Ruapehu District	13,650	4,506	5,665	29.7	35.2
Selwyn District	37,500	3,254	4,172	46.1	68.8
South Taranaki District	26,800	10,057	14,590	111.5	156.8
South Waikato District	22,800	631	724	5.7	6.1
South Wairarapa District	9,190	1,681	2,733	8.1	13.2
Southland District	29,100	1,430	2,943	19.5	39.9
Stratford District	9,100	1,654	3,543	6.1	12.6
Taranua District	17,750	2,007	1,369	15.1	10.2
Tasman District	46,500	5,981	12,152	124.1	269.5
Taupo District	33,400	7,736	10,325	141.9	194.6
Tauranga City	110,500	6,786	6,362	327.7	354.3
Thames -Coromandel District	26,800	2,925	4,945	67.1	118.2
Timaru District	43,900	2,694	6,499	51.7	124.1
Upper Hutt District	40,200	1,291	2,357	19.6	36.2
W. Bay of Plenty District	44,400	6,758	6,853	130.4	146.4
Waikato District	46,800	2,032	1,680	35.4	32.1
Waimakariri District	46,100	2,326	2,850	42.4	59.8
Waimate District	7,450	984	184	3.4	0.6
Waipa District	44,700	1,990	4,245	34.6	78.9
Wairoa District	8,480	374	1,720	1.4	6.2
Waitakere District	201,300	9,037	11,310	635.1	901.9
Waitaki District	20,700	182	0	1.9	0.0
Waitomo District	9,600	11,512	12,894	47.8	51.9
Wanganui District	43,400	4,310	3,322	79.3	60.1
Wellington City	192,800	4,266	4,481	324.9	369.6
Westland District	8,770	2,337	3,247	9.8	13.4
Whakatane District	34,400	1,721	2,970	23.0	40.1
Whangarei District	78,200	3,571	3,614	119.6	129.9
LG Sector	4,268,500	3,929	5,666	6,975.3	10,843.6

The Department of Internal Affairs
Analysis of 2009 LTCCPs

Council	Current Population	2010 Debt Per Dwelling (\$s)	2019 Debt Per Dwelling (\$s)	2010 Rank	2019 Rank	2010 Debt (\$million)	2019 Debt (\$million)
Auckland Region	1,414,700	170	309	74	69	85.4	177.6
Env. Bay of Plenty	269,900	0	0	82	82	0.0	0.0
Env. Canterbury	552,900	86	83	77	76	19.6	20.5
Env. Waikato	402,200	0	0	84	84	0.0	0.0
Env.. Southland	93,000	0	0	83	83	0.0	0.0
Hawke's Bay Regional	152,800	190	463	71	68	11.6	28.9
Horizons Regional	229,200	160	110	75	75	15.3	10.7
Northland Regional	154,700	2	2	81	78	0.1	0.1
Otago Regional	203,500	111	135	76	74	10.0	12.6
Taranaki Regional	107,500	0	0	85	85	0.0	0.0
Wellington Regional	473,800	668	1,142	65	65	125.5	225.5
West Coast Regional	32,400	222	210	69	71	3.4	3.2
LG Sector	4,268,500	3,929	5,666			6,975.3	10,843.6
Metropolitan Councils	2,558,900	4,547	6,407			4,183.0	6,557.1
Provincial Councils	1,394,700	3,643	5,401			2,196.6	3,405.0
Rural Councils	314,900	1,827	2,284			324.6	402.3
Regional Councils	4,086,600	167	273			271.1	479.1