

Local Government Report

Hon Rodney Hide
Minister of Local Government

Title: Analysis of 2009 long-term council community plans.

Date: 13 October 2009

Key issues

- There is little change between financial totals in the final and draft long-term council community plans (LTCCPs).
- High level trends remain consistent with analysis of the draft 2009 LTCCPs.

Action sought	Timeframe
<p>Note that officials from the Department are available to brief you on the results of this analysis.</p> <p>Note that the Department of Internal Affairs intends to release this information to councils, and to the public.</p> <p>Note that the Department will be briefing the Local Government and Environment Select Committee on the high-level trends on 22 October 2009.</p> <p>Note that the redesigned Local Authority Census and LTCCP Survey was dispatched on 14 October 2009.</p>	20 October 2009

Contact for telephone discussion (if required)

Name	Position	Telephone		Suggested first contact
		direct line	after hours	
James Stratford	Senior Policy Analyst	(04) 494 5746	021 146 4794	✓
Rosalind Plimmer	Manager, Strategic Analysis and Information	(04) 494 0532	021 243 5690	

Purpose of the briefing

1. This briefing provides you with information on trends in local government forecast income and expenditure from the final 2009/19 long-term council community plans (LTCCPs).

Background

2. In May 2009 we provided you with analysis of the financial trends from draft LTCCPs¹. Councils have now finalised their LTCCPs, and the Department has analysed these. The general themes identified from the draft documents remain evident in the finals.
3. An analysis of financial trends and implications arising from the 2009 LTCCPs is attached (Attachment 1). Revised copies of the financial and non-financial summary information extracted from individual LTCCPs are also provided (Attachments 2 and 3).

The LTCCP process

4. An audit process was conducted on both the draft and final LTCCPs. Five of the nine councils that received a qualified audit for their draft were also qualified for their final LTCCP. Seven councils did not meet the 30 June 2009 deadline to adopt their final LTCCPs, with only the Waimate District Council being significantly late (its LTCCP was adopted on 25 September 2009).

Changes between draft and final LTCCPs

5. Across the sector, the magnitude of changes between the draft and final LTCCPs was, for the most part, not significant. The following points can be noted with regard to the change between the draft and final LTCCPs:
 - there was minimal increase in the total forecast rates income (0.1%);
 - there was a 1.7% decrease in forecast income from development contributions, generally seen as a reduction in the early part of the plans followed by an increase in the latter parts;
 - forecast cash income for the sector increased by 2.2% in the first year of the plans, driven by increased dividends from subsidiaries of Christchurch City Council and the Auckland Regional Council;
 - overall there was a 4.7% increase in subsidy income over the ten years of the plans;
 - planned capital expenditure increased in 2009/10 and decreased in the latter years; and
 - planned public debt increased by 3%, with the associated interest payments falling slightly (-0.5%).

¹ LGC200901787

Overall trends 2009/19

6. Council operating costs (excluding depreciation) are forecast to rise by 35% to \$7.4b over the ten years of the plans. The cost of council services best aligns with the Producers Price Index (PPI) which appears to be increasing at a greater rate than the Consumers Price Index (CPI). Therefore, while councils do not appear to be planning major changes in the services they provide to their communities, the cost of providing these services is increasing for councils at a steady rate over time.
7. Total cash income is forecast to increase by 44% to \$10.98b over the ten years of the plans. Rates remain the largest source of income for councils. The average increase in rates income for 2009/10 is 6%. Forecast returns from investments and development contributions show significant variability, which may explain part of the trend toward increasing reliance on rates by many councils.
8. Total public debt for the sector is forecast to increase by 98% to \$10.8b in June 2019. The peak in debt (\$11.1b) occurs in 2016/17. A number of councils have revised their treasury/liability policies to reflect their intention to increase their use of debt.
9. Many councils are using debt to fund infrastructure development, and the 2016/17 peak in debt can be related to capital expenditure trends. Total capital expenditure for the ten years is forecast to be \$31.4b, with maximum annual expenditure (\$3.7b) during the first two years of the plan. The peak in debt indicates councils intend consolidating their position and focusing on debt repayment in the latter years of their plans. The majority of debt, and the largest percentage increases, is primarily seen in metropolitan councils.

Discussion

10. Communities have come to expect their council will continue to provide services at an appropriate cost and quality. However the cost of council services has been increasing at a greater rate than inflation as measured by the Consumers Price Index (CPI) and this trend is expected to continue. 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.
11. 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 or decline, and the effect of ageing.
12. 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 conflict with 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.

13. Councils with growing populations will also need to fund additional infrastructure. In addition to growth, councils may need to increase funding of infrastructure to address the institution of better asset management practices, previous deferrals of funding, changing standards and community expectations.
14. 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. 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 emergency situations.
15. While some of these issues and their implications have already been identified by commentators, the data collection and analysis undertaken by the Department provides further evidence of 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.

Next steps

16. Officials from the Department are available to discuss this analysis with you.
17. The Department intends to release the attached LTCCP summaries and analysis through the www.localcouncils.govt.nz website in October 2009. Councils will be given an opportunity to review information on their organisation prior to the wider public release.
18. The Department has also been invited to brief the Local Government and Environment Select Committee on the high-level trends arising from analysis of the LTCCPs. This briefing will take place at 10:00 a.m. on 22 October 2009. We intend to present a summary of the research and analysis contained in the attached reports. We will discuss this with your office.
19. In relation to the issues identified, the Department will be undertaking further work on:
 - any implications of the increased use of debt by council;
 - planned capital expenditure and funding, and what this can tell us about the likely issues for the sector (and potentially ratepayers); and
 - issues facing smaller councils.

20. It is important that anecdotal observations are backed up by reliable information. As you are aware, the Department has undertaken a project with Statistics New Zealand to revise the Local Authority Census and to establish a new LTCCP Survey. These questionnaires were sent to councils on 14 October 2009 and the resulting information will enable more detailed analysis to be undertaken in the first half of 2010.
21. Through the transparency, accountability and financial management project, the Department is also looking at options to strengthen the consistency and depth of information reported by councils.

Recommendations

22. The recommendations are that you:
- a) **note** that officials from the Department are available to brief you on the results of this analysis.
 - b) **note** that the Department intends to release the this information to councils, and to the public.
 - c) **note** that the Department will be briefing the Local Government and Environment Select Committee on the high-levels trends on 22 October 2009; and
 - d) **note** that the redesigned Local Authority Census and new LTCCP Survey was sent out to councils on 14 October 2009.

Rosalind Plimmer
Manager, Strategic Analysis and Information
Local Government and Community Branch

Hon Rodney Hide
Minister of Local Government

/ /2009

Attachment 1 – Observations and trends from the 2009/19 LTCCPs

Attachment 2 – Summary financial tables from the final 2009/19 LTCCPs.

Attachment 3 – A summary of non-financial observations from the final
2009/19 LTCCPs