
Submission on

HAMILTON CITY COUNCIL'S

DRAFT LONG TERM COUNCIL COMMUNITY PLAN
2009 - 2019

Presented by

Employers and Manufacturers Association (Northern)

Incorporating

EMA Waikato

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EMA wishes to be heard in support of this Submission.

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1. Introduction

This submission is made on behalf of the Employers and Manufacturers Association (Northern) Inc (EMA), an organisation with 120 years of representation experience in the Region. The EMA was formed in 1996 following a merger of the Auckland Employers Association and the Auckland Manufacturers Association. Both organisations were originally formed over 100 years ago.

EMA represents approximately 7804 member businesses from the Far North to Bay of Plenty, employing over 324,429 staff. EMA is the largest member of Business New Zealand which was formed from the New Zealand Employers Federation and New Zealand Manufacturers Federation during May 2001. Business NZ represents 76,000 businesses throughout New Zealand.

2. Background to EMA's relationship with Hamilton

EMA members:

- number over 719 businesses and other organisations located in Hamilton City
- employ more than 15,394 staff
- have a total payroll estimated at \$713 million p.a.

A majority of EMA's members are small and medium sized businesses, where owner's incomes are modest. They are prepared to pay a fair share of the cost of Councils services, which business needs, but have concerns about Councils involvement or possible involvement in activities which undertake what ought to be Central Government responsibilities or operate in areas which are better left to private enterprise.

Major industries represented by the EMA in Hamilton are mainly manufacturing, retail trade, tourism, food and beverage and business support services.

3. Key points of this Submission

Key Principles

- **EMA (N)'s main concern is for good public policy in Local Government.**
- **The Shand report made many recommendations which would be of benefit to the improved operation of Hamilton City but Council has not used the opportunity of a Long Term Council Community Plan to bring its policies more into line with this report.**

LTCCP 2009 – 2019

- **The EMA notes a lower pattern of rates increases than forecast in the previous LTCCP but believes that efficiency and productivity measures need to be adopted to further lower the proposed increases.**
- **Inadequate attention is given in the plan to increased productivity. Future Plans need to contain more costed information on productivity gains proposed. Councils are not exempt from the need to give more attention to overhead cost reductions in the present economic climate as businesses and organisations all over NZ are doing.**
- **Notwithstanding the above, EMA (N) supports councils maintaining their programmes of Capital Expenditure in the current recession providing that such Capital Expenditure relates to core infrastructure that improves the Councils or the area's productivity and efficiency.**
- **The Council has failed to take the opportunity of an LTCCP to review its policies on rating and the use of differential rates.**

4. Principles for a Good Rating System

The report of the Panel chaired by David Shand provides a comprehensive view of the way in which local government should be financed. Many of the recommendations relate a Councils relationship with government, and legislative changes required, but many other recommendations are matters concerned with better governance and equity among ratepayers and should be taken into account by all councils in the preparation of their long-term and annual plans.

Recommendations which are directly relevant to the long-term and annual plans of Hamilton include

- 3. That Councils move away from fully funding depreciation, with the development of longer-term funding policies that take better account of intergenerational equity, and the availability of longer-term debt financing
- 5. That the power to set uniform annual general charges be removed from the Local Government (Rating) Act 2002.
- 7. That local authorities be encouraged to charge for wastewater disposal by volumetric charging.
- 8. That rating differentials be removed from the Local Government (Rating) Act 2002 from an operative date of 1st July 2012
- 9. That a common rating system based on capital value be promoted across the country for general rates
- 18. That with respect to development contributions, councils consult closely with one another and with developers in any necessary review of their development contribution policy.
- 19. That local government look favourably on making more use of debt to finance long-term assets
- 21. That the Government remove legislative barriers to the funding of transport projects through the use of tolls
- 23. That business enterprises owned or controlled by a local authority be required to operate as a business in the same way as State-owned enterprises.
- 24. That councils set clear financial targets for such enterprises.
- 27. That councils identify target rates of return for investments held in financial assets and publish the actual return in their annual reports
- 28. That clear operating targets for council controlled organisations and other subsidiary service organisations be set and these results included in councils annual reports.
- 30. That actual and reasonable cost recovery for water supply and wastewater on a volumetric basis be encouraged.

- 73. That section 82 of the Local Government Act be amended to limit council discretion in the means of applying consultation principles
- 74. That the current consultation processes be replaced by more selective and streamlined consultation arrangements.
- 83. That councils more fully explain the rationale for and impact of the policies required to be set out in the statement of revenue and financing policy.

These recommendations are similar to those that the EMA has been recommending to the Councils in its area over the last few years.

In addition the EMA believe that the following principles are important in maintaining a proper balance of responsibility and distribution of costs between the public and the private sector

- Rates should be kept to the rate of inflation and additional services financed out of productivity improvements. Only through increased productivity can New Zealand make progress in relation to the rest of the world
- Councils should not be involved in the provision of private goods except in the case of key strategic shareholdings. In these cases Councils should hold only the minimum necessary for control (e.g. 51%)
- Where a user and a private benefit can be identified the council should charge for the private benefit and where services are of equal value to all they should be financed by uniform charges or uniform targeted rates.

The draft plan now being considered is a Long Term Council Community Plan and it should be the opportunity for the Council to re-think its policies. The EMA is disappointed that there is little evidence of any reform in the rating practices of Hamilton City in this plan.

Many of the issues that arise out of this year's plan have been commented on previously by the EMA in earlier submissions

Previous Submissions

In its previous submissions to Hamilton City the EMA has emphasized the need for changes of policy in its rating systems.

In its submissions on the 2006 LTCCP, the EMA commended Hamilton City on a good quality document and made some submissions which can be summarised as follows.

- **Differential Rate.** The EMA opposed the differential rate where business paid twice the residential rate and pointed out that the level was not justified by the material contained in the LTCCP. The percentages chosen to allocate benefit between residential and commercial rates were not based on any careful analysis of the areas of expenditure concerned.
- **Rating System.** The EMA argued that capital value is superior to the Hamilton system of Land Value with a two times differential. A shift to Capital Value would provide the opportunity to abolish the business differential.
- **UAGC.** The EMA also recommended that the Council should introduce a Uniform Annual Charge. The argument for a UAGC is particularly strong in Hamilton because some services such as rubbish are paid for out of the general rate.
- **Charging for Water.** In its Revenue and Financing policy the Council stated that the installing of meters would conserve water but that the cost of doing so exceeds the benefit. The council's policy is influenced by its view that the supply of water is 75% public benefit. This proportion is too high. The situation in Hamilton may be unusual in that it has an unlimited supply from the Waikato river but the costs of treatment and distribution are significant. If household water is not to be charged by usage, then a substantial part of the charge should be by UAGC, since everyone has the service and there is little correlation between water usage and land value.
- **Council Response.** The EMA compliments Hamilton City on the quality of their response to submissions as compared to other local authorities. However, the arguments put forward in the response did not, in the opinion of the EMA, provide an adequate counter to the arguments put forward by the EMA

In its submissions on the Annual Plan last year the EMA was concerned that the rating system had become even more inequitable and dysfunctional

The Council compounded its error of charging the differential by also proposing that its policy on the differential be changed to adopt the concept that the share of rates paid by the business sector should remain at a previous figure (34.0874%).

This concept is fundamentally flawed as a mechanism for deciding on a rating policy. It

- Takes no account of the changes in the way businesses function
- Takes no account of different relative growth rates of the number of properties in each sector. An expansion of housing development and stagnation in business development would result in a steadily rising rate burden on the business sector and a steadily declining rate burden on the residential sector.

The EMA argued that this change gave even stronger reasons for the need for a comprehensive review of the rating system in Hamilton City.

5. Plan 2009 - 2019

These comments follow the order in which the matters are dealt with in the draft plan

The Thinking behind Council's Plan

Operating Costs

To make the budget more affordable the Council has taken the following actions set out on pages 4 and 5

- increased efficiency gains in operating budgets
- reducing the Event Sponsorship Fund by \$1 million over the next 10 years
- Cutting or holding consultant and legal costs to 2008/09 levels
- Adjusting development contribution charges to ensure the development community pay their fair share of the infrastructure provision

The EMA supports these steps but believes that there needs to be more emphasis in the Plan on increased productivity.

With respect to the other actions the council has listed the EMA has the following comments:

- Retaining a cap on Council staff numbers
Whilst supporting this idea in principle we can see nowhere in the plan where the level of the FTE cap is actually stated. While this may be an oversight, the credibility of having a cap is not very high if the ratepayer has no idea what the cap actually is. We suggest that council make public the actual value of the FTE cap so that council performance on this measure can be visible to the ratepayer.
In addition we recommend that Council in future report all its staffing information in FTEs as well as the usual full, part time and casual categories. We note from Councils annual reports that total staff number are up by 15% over the 3 years 2005 to 2007, but because of the split into full, part time and casual categories it is impossible to know what this represents in terms of FTEs.
- Not increasing current levels of service
Our EMA (Waikato) members would like to see Council strive to increase service levels whilst at the same time reduce the input

costs of those services. This represents an increase in the productivity of Council operations. We do not agree that levels of service should not be improved. When times are tough businesses seek to improve their service and reduce costs. Council should do likewise. We elaborate more on this under *Service Delivery* (Page 10).

Capital Works

The EMA supports the following changes

- Deferring construction of the new library and swimming pool in the north-east sector. This deferment will also save the annual operating costs for these facilities which are estimated on page 8 at \$2.7 million per year
- Deferring investment in infrastructure based on forecasted demand so that infrastructure is not provided before it is actually required

Notwithstanding the above, EMA (N) supports councils maintaining their programmes of Capital Expenditure in the current recession providing that such Capital Expenditure relates to core infrastructure that improves the Councils or the area's productivity and efficiency and is needed to support the rating base.

Details of Efficiency Gains

Some details of the proposed efficiency gains are set out on page 24. The EMA welcomes this detail about where efficiency can be increased. In the current economic situation private enterprise must drive itself to greater productivity, and similar efforts by council need to be given more prominence in the plan.

For the sake of transparency and accountability the annual report in June 2010 should detail the extent to which these efforts have been successful.

Rate Increase

The rates increase of 4.98% for the coming year and similar increases for some years are still too high since they will undoubtedly be higher than the average increase in the income of the ratepayers in these periods.

In a comment on page 10 it is noted that had not fees and charges been increased by \$1.9 million the increase for next year would have been 6.92%. This is a high rate for increases in costs and raises the presumption that cost savings need to be sought more aggressively.

Business Improvement Rate

The EMA supports targeted business improvement rates provided they have the strong support of the businesses to the rated.

Projected Debt Levels

In the current economic situation the EMA supports increasing debt to maintain a continuity of capital works

Retention of Land-based Rating System

On page 26 it is stated that the Council has investigated the impact of different rating scenarios on the city's ratepayers. The EMA is disappointed that the Council has not taken the opportunity presented by the long term plan to move to a system of capital value rating. The Plan states that such a change would have significant impact and affordability issues for some ratepayers. This is inevitable. But a capital value system is a better match between affordability and services received than is the land-based rating system. Those ratepayers facing an increase because of a change to Capital Value should be paying more. Those facing a decrease are entitled to that decrease.

The EMA agrees with the Council statement that the maintenance of the current system provides certainty. But the EMA believes that equity is more important than certainty.

Service Delivery

The Council's activities are divided into 10 delivery groups and each of these has performance measures and targets.

The EMA takes strong exception to the failure of Hamilton City to provide comparison figures for the previous year in this section and in the main financial sections. These figures have been

- Requested in the past
- Are easy to provide
- Give an indication of the movements in council's spending plans.

The financial figures supplied are fairly unhelpful for the Plan reader who wants to understand what is happening because they do not separate out depreciation and finance costs. It would also be helpful for an understanding of the trends in council expenditure if staffing costs were separately shown in the summary for each activity section.

The performance measures are good but relate entirely to measures of outputs, or customer satisfaction surveys. Hamilton should give consideration to including more measures that relate to the efficiency with which the services are delivered (i.e. including input costs, and relating them to output deliverables.)

In some large areas of expenditure such as transport, useful measures would be difficult to establish but in areas of operation where staff and capital are employed directly to provide services (e.g. libraries, open space, aquatics, water and wastewater) efficiency measures could be devised and included in the plan.

One general measure that could be considered for each activity is total or net operating expenditure per rateable property and total operating costs or net operating costs (excluding capital costs) per employee. Other possibilities include

- total cost per user of the service and staff cost per user of the service
- in the case of libraries, cost per library book issued
- cost of every 1000 litres of water supplied
- cost of consents per \$1000 of value

Financial Statements

Rates Increase

On page 243 the rates levy is stated as rising by 5.59%. After deducting the effect of rating growth it is stated that the rates levy increase to existing ratepayers is 4.98%.

The table then states that there is an inflation adjustment of 5.10%. This is an extraordinarily high estimate as compared to other local authorities and is stated without any attempt at justification.

By comparison North Shore City sets out the expected increases in inflation divided into various categories.

Expenditure excluding staff costs	2.2%
Expenditure staff costs	3.0%
Construction	5.0%
Land	4.0%
Book Buying	2.2%
Reseals	8.0%

It based these on a Statistics NZ model, which, given subsequent events probably overstates inflation.

One is lead to the belief that Hamilton City is using a greatly exaggerated estimate for inflation.

The issue of the rate rise and to what extent it is justified by inflation is a serious issue for the ratepayers and given the hundreds of pages produced in this plan from Hamilton City it should have been given a much more detailed treatment.

Income and Expenditure Statements

The Forecast Statement of Comprehensive Income on page 269 for 2009/2010 compared to the proposals in the draft annual plan for 2008/2009 (page 128) shows the following comparisons:

	2008/09	2009/10	% Change
Revenue			
Rates	97,818	109,461	+11.2%
Other Income	<u>77,476</u>	<u>74,738</u>	<u>- 3.5%</u>
Total	175,294	184,199	+ 5.1%
Revaluations and associates	2,020		

Expenditure			
Depreciation	40,460	46,081	+13.9%
Finance Costs	23,776	21,256	- 10.6%
Other Expenses	<u>100,555</u>	<u>113,281</u>	<u>+12.7%</u>
Total	164,791	180,618	+ 9.6%
Surplus	12,523	3,581	

The figure for rates shows a very large increase. The figures for 2009/10 include rates for water by meter of \$6.3 million and it may be that these were included in other income in the previous year.

The EMA notes with concern that total other expenses (excluding finance and depreciation) are budgeted to rise by 12.7% as compared with the budget for last year. This increase is excessive and indicates that Council's efforts to increase efficiency are expected by the Council to be ineffective.

There are no comparative figures in the activity groups so the information as to where these increases are taking place is not made clear in the plan.

Recovery of Costs

The EMA is pleased to see complete recovery of costs in the area of environmental services but there is an urgent need for the council to move towards recovery of costs in water supply, wastewater management and refuse collection. The issue of charging for water by meter has been covered in previous submissions and this proposal is now even more relevant in view of the recommendation of the Shand report that the councils move towards the recovery of wastewater charges by volumetric measurement.

Funding of Depreciation

The EMA supports the policy of not funding the depreciation on works which will be replaced with subsidies from Land Transport NZ.

Productivity

The growth in the welfare of New Zealanders is directly related to the increases in productivity that can be achieved. It is generally recognised that New Zealand is lagging behind many other countries. Productivity may be difficult to measure in the public sector, but lack of improved productivity in the public sector results in lagging overall productivity. Local authorities must constantly strive to undertake their obligations and responsibilities in a more efficient manner.

There is no easy route to greater productivity. It requires investment in training, innovation, information technology and capital assets. Moreover, councillors and the senior executives must lead from the top.

It is therefore of concern to the EMA that descriptions of the areas where there is some concentrated effort to increase productivity are given insufficient attention in the Annual Plan.

The Annual Plan should give prominence to a clear message to the stakeholders that here is an organisation determined to increase its productivity and here are the ways and areas of operation in which it intends to advance that aim in the current year.

Review of Development and Financial Contributions Policy

The EMA supports a system of funding the additional costs of capital growth through contributions made by developers. Such a system improves equity between existing and new ratepayers. These systems are complicated and affected by factors of development local to each city. It is not practical, therefore, for the EMA to attempt to assess the appropriateness of the policies of the particular Councils in its area or the changes to those policies. These issues are left to the ratepayers in the council area concerned. The result needs to be fair as between new and old ratepayers and take into account all relevant factors.

Rating Policies and Funding Impact Statement (Volume 2)

Rating System

In its submissions last year the EMA asked Hamilton City to use the 2009 LTCCP to examine its rating policies and to take into account the recommendations of the Shand report.

In its response to the EMA the Council stated

“As part of the 2009-19 LTCCP process, Council may consider moving away from the land value rating system to either a capital or annual value system. Depending on the outcome of that decision it will also need to determine whether differentials are still required or that they be amended or phased out over a period of time”

Each year the EMA recommends that Hamilton City shift to a capital or annual value basis for its rating system. More progressive cities such as Tauranga and Manukau have already changed. Others such as the Ruapehu District Council have adopted capital value for part of their rating system.

On page 17 of Volume 2 it is stated that the council recognises that the benefit from services is not a direct correlation to land value and to adjust this allocation adjustments have to be made to the different property sectors

Capital Value or Annual Value are clearly superior to Land Value in correlating services to value except, perhaps, for Local Authorities that derive most of their income from farms. The Council needs to be more vigorous in their move to systems more suited to their local authority.

Differential Rating

In its funding policy in volume 2, page 64, the council sets out a proposal for differentials (currently a commercial differential of 2.2657 as compared to residential). The council states

“Every three years at the time of revaluation, the differential factor will be adjusted to maintain the differential yield of the previous rating year. . . This post revaluation adjustment to the rating system differential factor ensures that the incidence of rates between the rating categories is maintained as a result of revaluation”

The EMA contends that this differential factor was based on faulty assumptions as to the benefits the business community derives from the Council services and, that an attempt to set in concrete the incidence between the rating categories is to ignore changes in the make-up of council's services. Moreover it ignores changes in the relative physical size of the residential and business communities irrespective of their valuations.

There are extensive, but totally unconvincing sections, of the plan in volume 2 from pages 6 to 29 that purport to justify the commercial differential. They are largely a waste of paper since the section concludes on page 29 by stating that the Council has given further consideration to the overall well-being of the system and made an adjustment to the differential factor that is “consistent” with previous years.

The Shand report notes that differentials tend to be set arbitrarily without explicit justification in terms of the services to be funded. Hamilton City has done just that. Shand recommends a phasing out of differentials by 2012 and Hamilton should begin work this year to lead to the elimination of business differentials altogether.

Such work needs to be combined with a move towards a capital value rating system. Since business can be expected to pay more under a capital system, it will give the council the opportunity to phase out the business differential

Uniform Annual Charge

The EMA has been a supporter of Uniform Annual Charges as a way of matching benefits to costs for public goods and has criticised the failure of Hamilton to impose a Uniform Annual Charge.

The Rating Policy on page 65 of Volume 2 states that Hamilton does not impose a uniform annual charge because of its regressive nature and its impact on the rating of the lower value properties. This is not a good reason, and that is why almost all councils have some form of uniform annual charge, or uniform targeted rates. This is necessary because there are many council services where benefits are not related at all to property value.

The Shand Panel recommended a different pattern for uniform charges. It is opposed to UAGCs because they tend to be set arbitrarily without explicit justification in terms of the services to be funded. It proposes a rating system without differentials and consisting only of a general rate and targeted rates plus user charges. The panel recommends that, to constrain any possible regressive impacts, there be a limit of 50% on uniform (targeted) rates as a percentage of total rates.

Section 16 of the Rating Act allows for the imposition of targeted rates on a uniform basis. There are many areas of council expenditure where a uniform targeted rate would give a good match between benefits and charges. The impact would be similar to a UAGC. The system would be more transparent but it would be more complicated.

Until the legislation is changed, a uniform annual charge at the maximum rate of 30% avoids any allegation that it is being set arbitrarily and 30% is well below the limit of 50% proposed in the Shand report. Hamilton City should begin an overdue move to a UAGC of 30%.

Uniform targeted rates are the most appropriate where the benefit relates to persons rather than the value of the property. Examples include all of the activities included in "Investing in our People". No doubt there are other areas which would be appropriate to charge on a per-property basis. This is not a mere academic argument. The council has a legislative responsibility to do its best to match costs to benefits.

This argument for targeted rates is particularly strong in Hamilton because it is more deficient than most councils in the extent to which it bases its charges for services on the amount of the service used. Domestic water for example is not metered. Metering would be a superior method of charging for this service, high users would pay more and charging would discourage waste. But if it is the policy of the council not to meter then the costs of water should be charged to ratepayers on the basis of a uniform targeted rate. A charge per property would be much closer to matching costs with benefits than a charge on the basis of valuation of the property.

Hamilton should investigate the adoption of such a system in next year's plan. The disadvantages of an increase the complexity of the rate demands would be far outweighed by the transparency with which Hamilton would be funding its costs.

Regional Tourist Organisation

In 2006 Council pulled out of funding Tourism Waikato. Since that time Council has been running the i-SITE Visitor Information Centre out of its Communications and Marketing Group. However this deals only with Hamilton itself and does not cover the whole Waikato region. It is EMA (Waikato)'s view that Council should be supporting the Regional tourist organisation in order to optimise the value of the promotional dollar for the whole Waikato region and not just Hamilton.

6. Changes for the Future

The EMA again asks for the Council to give serious consideration to a move to Capital Value rating and a phase out of the differential rate.

The EMA also asks for comparison figures with the previous year's budget to be included in the Plan.

The EMA also asks for much greater attention in the Plan to a description of council's attempts to improve efficiency and productivity.

The following information be included in future plans whether Annual or LTCCP and should be given prominence in the introductions or summary of the plan.

- General statement of in what parts of its operation the Council is proposing to increase efficiency in that year or period with an estimate of the savings expected.
- Areas of any significant improvements or reductions in service proposed with an estimate of their cost implications.