



Submission to the

TAURANGA CITY COUNCIL

LONG TERM COUNCIL COMMUNITY PLAN
(Year 2009 - 2019)

Presented by the

**Employers and Manufacturers Association
(Northern)**

April 2009

EMA wishes to be heard in support of this Submission.

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Contents

1.	Introduction	2
2.	Background to EMA's relationship with Tauranga	2
3.	Key Points of this Submission	3
4.	Principles for a good Rating System	4
5.	Plan for 2009-2019	6
6.	Changes for the Future	15

1. Introduction

This submission is made on behalf of the Employers and Manufacturers Association (Northern) Inc (EMA), an organisation with 118 years of representation experience in the Region, having been 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 a significant member of Business New Zealand which was formed from the New Zealand Employers Federation and New Zealand Manufacturers Federation during May 2001. Business New Zealand represents 76,000 businesses throughout New Zealand

2. Background to EMA's relationship with Tauranga City

EMA members:

- Number over 324 businesses and other organisations located in Tauranga District
- Employ more than 5,417 staff
- Have a total payroll at almost \$260 million per annum

A majority of EMA's members are SME's, where owner's incomes are modest. They are prepared to pay a fair share of the cost of Council's 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 Tauranga are mainly manufacturing, retail trade and business support services. Our submission is based on consultation with our own Infrastructure Committee, EMA members located in Tauranga and senior EMA staff.

3. Key points of this Submission

Key Messages

- **EMA (N)'s main concern is for good public policy in Local Government.**
- **Tauranga City faces some difficult decisions regarding its financial situation. Tauranga has done a good job in previous years of holding Rates increases to a reasonable level. EMA (N) now urges Tauranga to continue to be a leader among Councils in NZ and to maintain best practice by seeking to reduce costs whilst at the same time maintaining service levels. EMA (N) recommends that Tauranga seek further productivity improvements and increased efficiency before resorting to higher than average Rates increases.**
- **In general the rating policies of Tauranga City are good but the Shand report made some recommendations which would be of benefit to the improved operation of Tauranga City**

LTCCP 2009 – 2019

- **The EMA notes that the plan provides for a lower pattern of rates increases than forecast in the previous LTCCP. We believe that further efficiency and productivity measures need to be adopted to further lower the proposed increases.**
- **More attention could be given in the plan to increased productivity. Future Plans should 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.**

3. 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 to the relationship with the government and legislative changes required but many of the 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 Tauranga 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 the 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 policies of Tauranga are fundamentally sound but the EMA is disappointed that Tauranga did not move further towards the principle of user-pays by shifting to the volumetric charging for wastewater

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

5. Annual Plan 2009 -2019

Previous Submissions

In its submissions on the 2006-2016 LTCCP, the EMA made some comments on the policies of Tauranga City. These comments can be summarised as follows.

- The EMA congratulated Tauranga City on its rating policies; i.e. capital value rating; no business differential; maximum UAGC; user pays principles in water, rubbish bags and application fees; and support for the tolling of roads
- The EMA was concerned that there was too little evidence of a drive for greater productivity in the council operations.
- The EMA was concerned about the level of the proposed rate increase which it believed was both excessive in relation to other local authorities and not justified adequately in the LTCCP.
- The EMA congratulated the Council on its initiatives but expressed the view that it was trying to do too much too soon.

In its submissions on last year's Annual Plan the comments can be summarised as follows.

- The EMA supported the council's rating policies and the increases in water and wastewater charges
- The council needs to maintain service levels but also restrain the increases in other operating costs, beyond that proposed in the LTCCP and give stronger attention to productivity improvements in the Plan
- Socially desirable capital expenditure for projects such as Museum and Stadium should not prejudice needed expenditure on infrastructure.

This Year's Plan

The following comments on the matters in the Annual Plan follow the order in which the issues appear in the Annual Plan

Major Focus

In its summary statement (separate from the Plan) the Council has set out the problem of Council's inability to fund its programme of work. The reasons are set out in the summary and it is not necessary to repeat them here

In general the EMA support the actions the Council is taking to alleviate the situation and makes the following submissions on the major items in the Plan

Smart Growth

Within the requirements of good urban design the EMA supports freedom for the property owners themselves to decide on the use to be made of their property. Assuming that the resource planning of the council is of high quality, the EMA supports the potential for greater intensification in the selected areas.

Development Contributions

The EMA does not make submissions on the details of the development contributions policies. It 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. In the words of the Plan on page 24 "growth pays for growth" Contribution 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 details of the particular Council's 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 including credit for interest earned and future inflation.

Greerton Library

The EMA supports Option 5, namely the deferment of the new building and the refurbishment of the old library. This will defer a large capital cost and a significant increase in the Council's operating costs.

User Fees

The EMA notes that these were reviewed in 2008. It has no comments on any particular user fees but would advocate that fees should be based on the full cost recovery (including capital costs) of the private good element of any services where the user can be identified and charged efficiently.

The measurement of private good can be difficult in the case of those facilities where there is a high proportion of public good. If one takes the Art Gallery as an example, the following considerations can be taken into account.

- There is a public good in providing an art gallery so that Tauranga is a desirable place to live.
- The people who donate money to, and gift and bequest to the art gallery gain a private good of reputation and personal satisfaction from their contributions.
- The people who visit the art gallery gain a private good equivalent to the amount they are prepared to pay to enter. If an entry fee significantly reduces patronage then it exceeds the value of the private good that the visitors are deriving and the cost of collection may make it an inefficient charge.

Similar considerations apply to facilities such as libraries and sports fields.

In all of these cases the prospects of making any significant contribution to costs by way of user charges is low. One must assume therefore that the private good to the users is low and the facilities are being provided for the public good. The Council must therefore be very certain that the public good achieved warrants the capital and operating costs in the current difficult economic circumstances.

Stormwater Projects

Each of the proposed alternatives includes a 10 year programme and then varying times to complete the required works. The Council is supporting Option 4 which spreads the work over the longest period after the initial 10 years. The EMA supports the continuation of this work in first 10 years to maintain the Council's capital works programme.

Water and Wastewater Charges

The EMA notes with regret that the Council has decided not to have a volumetric charge for wastewater discharge. The EMA believes that such a charge meets the following criteria:

- Is an accurate measure of the use of the service, and
- Can be efficiently charged, and
- Assists in the conservation of scarce natural resources.

The Council should note the recommendation of the Shand report that the councils move towards the recovery of wastewater charges by volumetric measurement and provide for such a change for consultation next year.

Hot Pools Redevelopment

The EMA supports the requirement for community participation in the financing as a requirement to proceed with Option One. In general, the EMA supports projects that enable the joint use of community facilities to enable the provision of better facilities at less cost to the community as a whole. But in the interests of its ratepayers the Council needs to drive a hard bargain in its requirement in assessing the requirement for non-rates finance.

Levels of Service

In the current economic situation the EMA is opposed, in general, to any increase in the level of service. The whole thrust of council's and management's concern with levels of service should be to provide the same level of service more efficiently and with greater productivity by the staff employed.

Financial Sustainability

The EMA notes the issues covered in this section justifying a rate increase this year higher than inflation. It is disappointing that increased efficiency and productivity are not given any attention in the measures that council lists on page 39 which reads:

- Plans have been reviewed
- User fees have been reviewed
- Open space levels of service have been reviewed
- Major projects have been reviewed
- Development contributions have been reviewed
- Level of service options for a number of services have been reviewed
- Policy positions on water and wastewater have been reviewed

These are all good, but in the current economic situation private enterprise must drive itself towards greater productivity. Councillors and management may be making efforts, but the lack of reference to these efforts in this section gives cause for concern.

There is a comment, however, later on page 43, that the council has resolved that the Chief Executive seek to achieve an additional \$2.5 million reduction in operational expenditure. This is a worthwhile sum and, in relation to the total budget of Tauranga, a challenging target. It warrants much better publicity than being buried in the middle of a paragraph on page 43.

The resolution should have had its own section and some description of the process that the Council expects the Chief Executive to follow and the areas in which he believes savings can be made. It is not satisfactory for the Plan to just state that such a target exists. For the sake of transparency and accountability the Plan should have described the way and the areas in which the Chief Executive will attempt to meet this target and then the annual report in June 2010 should detail the extent of his success.

Working Together

In general the EMA supports the establishment of Council Controlled Organisations for activities. Benefits can be

- the requirement to establish a clear statement of intent
- the opportunity to obtain outside expertise in governance in the activity concerned

Concerns about accountability to the council can be overcome with good discussion and reporting arrangements

Community Outcomes

The EMA supports the growth and development of Tauranga, Hamilton, Rotorua and Whangarei as attractive alternatives to Auckland for work and living.

Significant Assumptions

It is disappointing that the council does not provide the detail of the assumptions with regard to inflation that underlie that figures for 2009/2010

Groups of Activities

The EMA has no comment on any aspect of the different activity sections apart from those listed above.

It compliments the Council on providing the figures for 2008/09 which are essential if a reader of the Plan is to understand the thrust of council's expenditures and capital investment. It also compliments the council for now showing depreciation and finance charges separately.

The descriptions of the activities and the layout of the sections is excellent. Performance measures and levels of service descriptions are generally well chosen and the allocation of debt servicing and depreciation to each activity is welcome.

The performance measures are good but relate entirely to outputs or customer satisfaction surveys. Tauranga should give consideration to including more measures that relate to the *efficiency* with which the services are delivered. The need for better local government productivity is commented on in the section on productivity.

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

It would also be helpful to an understanding of the trends in council expenditure if staffing costs were separately shown in the summary for each activity section.

As a well run city, Tauranga has nothing to fear by comparison with other provincial cities. The EMA suggests that it initiate a study with Hamilton, Rotorua and Whangarei to establish some such basic measures of productivity which could be included in each of their annual plans. The EMA would be happy to participate in this or any similar initiative.

Financials

Costs

The major cost components are stated as

- Existing base costs
- Growth costs
- Level of service changes
- Inflation

Once again there is no reference to productivity gains. The table on page 304 shows the following

Budget	2008/09	2009/10	
Employee Benefits	27,870	30,229	+8.4%
Other Council Expenditure	53,070	54,388	+2.4%

While the small increase in other council expenditure will be a creditable achievement, the 8.4% increase in employee benefits is quite unsatisfactory and shows an urgent need for greater staff productivity

The growth in the welfare of New Zealanders is directly related to what increases in productivity 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 for the country. 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.

The LTCCPs and Annual Plans should convey a clear message to the stakeholders that here is an organisation determined not merely to improve services but to increase the productivity of the services provided by describing the ways and areas of operation in which it intends to make improvements in the current year.

Rates

The EMA has complimented Tauranga in the past on their rating policies. It accepts the comment on page 43 that the level of rates in Tauranga is at the low end of the scale, which is an achievement for a rapidly growing city.

Uniform Annual General Charge

The EMA supports the policy of maintaining the UAGC at close to the 30% maximum allowed and so supports its increase from \$525 to \$570.

The Shand Panel recommended a different pattern. 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 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 and 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 is well below the limit of 50% proposed in the Shand report

Rate Increase

The council is proposing on page 330 an increase from \$.001310 per dollar of capital value to \$.001376 in the general rate – an increase of 5.4%. The plan sets out on page 304 the expenditure details which contribute to this increase.

The 8.5% in increase in employee benefits has already been noted. With improved staff productivity a lower rate of increase could have been achieved.

In view of the current situation with the finances of Tauranga the EMA supports the proposed increase in the surplus as compared to the 2008/2009 year.

The EMA welcomes the inclusion, in the various financial summaries, of the comparison figures for last year. The lack of the provision of these figures by many councils makes comment more difficult and more time-consuming.

Capital Expenditure

The table on page 306 shows capital increasing in the next year from \$103.4 million to \$108.2 million.

The EMA supports a continuation of capital expenditure in the current situation because

- Deferral does not save money, and
- The economy is competitive now, and
- Spending now is good for the economy.

The works to maintain over the next two years are those that

- will be necessary eventually, and
- which will not increase operating costs (excluding finance costs and depreciation), and
- will increase the efficiency or productivity of the City

6. Changes for the Future

Volumetric Charging for Wastewater

Since it supplies its water by meter, Tauranga has the information to proceed with a scheme of volumetric charging for wastewater. The reasons have been commented on briefly above and the Council should include this proposal in its next Annual Plan

Information in Future Plans

Annual and Long Term Plans devote a great deal of attention to Capital Works but insufficient attention to movements in operating costs. The EMA requests that the following information be included in future plans whether Annual or LTCCP. It should be featured strongly in the introductory sections of the Plan

- A 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. It is accepted that serious consideration of measures to increase productivity need concentrated attention on selected activity areas. Particular attention should be given to moves to improve staff productivity.
- Areas of any significant improvements or reductions in service proposed with an estimate of their cost implications.