

**CITY OF
NAPIER**



**Hastings Street, Napier
New Zealand**

OPEN

AGENDA

**ORDINARY MEETING OF THE NAPIER CITY COUNCIL TO BE HELD IN
THE COUNCIL CHAMBERS, CIVIC BUILDING, HASTINGS STREET,
NAPIER, ON WEDNESDAY 10 AUGUST 2011, AT 3.00 PM**

SUPPLEMENTARY INFORMATION

2. BACKGROUND ON AMALGAMATION DEBATE

<i>Significance of Report:</i>	<i>Strategic</i>
<i>Legal Reference:</i>	<i>N/A</i>
<i>Reporting Officer/s & Unit:</i>	<i>Neil Taylor, Chief Executive</i>
<i>File Reference:</i>	<i>E30-0026</i>

2.1 Purpose of Report

To provide Council with an assessment of the debate regarding amalgamation of Local Government in Hawke's Bay and address the request from Mayor Yule relating to further regional reviews and studies.

2.2 Report

It is perhaps not surprising that the concept of amalgamating authorities in Hawke's Bay is being raised once more. More than a decade has passed since the Local Government Commission completed a review here and a strong pro-amalgamation group has continued to raise their perceived lost opportunities from the failed bid in 1999. Already the debate seems to be fuelled by emotional statements and blatant untruths rather than any rational assessment of the world we really live in today or references to well documented analysis of the consequences of previous amalgamations which may be helpful in this debate. I acknowledge early in this report that the history of reform in New Zealand local government indicates that emotional debate is likely to prevail in the public arena as division lines are drawn and differences of opinion intensify.

Prior to the Local Government Elections last year, the Hastings Mayor, Mr Yule, made clear his intention to run a campaign that included promoting amalgamation of Councils in Hawke's Bay. In the 1999 review process of Local Government in Hawke's Bay, a referendum was held which resulted in a significant split between those who favoured/rejected amalgamation in the Hastings District and Napier City areas. The split at that time was:

Hastings District	
Votes for the proposal	18002
Votes against the proposal	8639
Informal votes	<u>203</u>
Total	26844

Total number of electors on the roll for the poll: 40952

Napier City	
Votes for the proposal	6788
Votes against the proposal	19929
Informal votes	<u>173</u>
Total	26890

Total number of electors on the roll for the poll: 35077

It appears to me that Mayor Yule's intentions last year were likely to be part of a re-election strategy given that a clear majority of Hastings voters supported the concept of amalgamation with Napier. The fact that in May / June of this year, Mayor Yule undertook a survey of Napier residents to establish the current level of support for amalgamation in the City without undertaking a similar survey of Hastings residents reinforces my opinion.

Since that time Mayor Yule has taken a near obsessive position on amalgamation, referring to wide ranging support from unnamed Hawke's Bay people. This results in much of my report referencing statements he has made fronting a drive for amalgamation.

On 13 June 2011 Mayor Yule addressed the Napier City Council on his vision for amalgamation in the region arguing amongst other things that economic growth, population growth, reducing unemployment, increased political power (lobbying), and clarifying regional direction for the future all relied on the amalgamation of Councils in Hawke's Bay. The poor performance of Hawke's Bay in many economic and social statistics, he laid firmly at the door of the Councils not being

amalgamated in the region. At this meeting Mayor Yule indicated that he had undertaken the survey of Napier residents and he would be releasing those results publicly early in July 2011.

After the results were publicly released, the Council met and agreed to respond to Mayor Yule (copy attached on **pages 9 - 11**). Napier's position remains supportive of working with all of the Councils in Hawke's Bay, and history clearly illustrates a strong shared services performance between Hastings and Napier in the last decade. However Napier City Council continues to hold the opinion that amalgamation will not bring the benefits that Mayor Yule desires. A mixed public response has predictably resulted from this impasse between the Napier Council and Mayor Yule. A recent newspaper article has reported that Mayor Yule holds the Napier Council response to him as irresponsible, which if true, is unfortunate and unfair. As the Mayor of Hastings and the President of Local Government New Zealand he is aware that Napier Mayor and Councillors make declarations at their first meeting of each new term to

*....'faithfully and impartially and according to the best of my skill and judgement execute and perform **in the best interests of Napier** the powers, authorities and duties vested in or imposed upon me as a member of the City of Napier...'* (bold super imposed).

The members of Napier City Council have acted entirely in accordance with the declaration that they have made at the beginning of this term as required by statute.

Mayor Yule's covert poll of Napier voters has not changed the fact that this community remains opposed to amalgamation. The Council's response upholds that majority view.

More recently media releases appear to have shifted ground with Mayor Yule seeking agreement from Councils to feasibility studies of some sort. A copy of the letter to all members of Napier City Council dated 3 August 2011 is attached on **pages 12 - 13**. That was not the position he advocated to Napier City Council at the meeting on 13 June 2011 where he only proposed the "solution" of amalgamation as a panacea for a wide range of "perceived problems" (from his perspective). The solution that has been advocated to the Napier City Council is amalgamation but the problems that will be addressed are a generalised list of statistics many of which are not influenced directly by Local Government in any form and it is difficult if not impossible to predict with any certainty that amalgamation can deliver any improvement. International research provides no support to the contention that local government amalgamation improves any of these 'problems'.

Media statements attributed to Mayor Yule since this meeting call into question the treatment of wastewater in Napier and Hastings with the suggestion that had the Councils been amalgamated a single wastewater plant would have been built. This is a spurious argument as both Councils have jointly funded two reports on wastewater treatment – one in 1991 and the other in 2004 where the matter of joint or separate wastewater treatment plants were raised. These reports were prepared by competent independent national engineering companies and their conclusions make it clear that a single plant or two separate plants were options for consideration but two separate plants reduced risk and more appropriately suited the current coastal outfalls. This work is held by both Councils and is available publically. I am unable to understand Mayor Yule's statement that contradicts this competent independent advice.

In 1999, during the last regional debate on amalgamation, Napier and Hastings Councils had spent the previous decade in an embittered battle over the delivery of health services for the two cities and the surrounding rural area. There was acrimonious debate, entrenched positions on both sides and emotional rhetoric ran throughout the public process including submissions and hearings by the Local Government Commission. In my opinion it was ugly, confrontational, expensive and damaging to both organisations. I also hold the opinion that the process unnecessarily concentrated enmity between the two cities and damaged good work previously undertaken together. I am very concerned that the current debate will return our region to an emotional debate about partitioning our behaviours instead of building strongly on the foundations of friendship and cooperation that both Mayors have demanded during the last 12 years.

Given the fact that every indicator in our national economy points to real growth (I acknowledge that it is small but it is supported by the Chief Executive of Chamber of Commerce in the August 2011 “Chamber Pulse” newsletter) for the first time in 4 years, there is a degree of stupidity in reigniting a debate that will split our efforts at a critical time when we should be building as quickly and steadily as we can on our strengths rather than dropping the ball of growth potential and squabbling over where future imaginary boundary lines should be drawn.

Both cities are clearly different entities but much more importantly each Council has developed a significantly different philosophical approach to sustainable futures. For a decade Napier has taken a conservative approach to managing debt levels with a concentrated effort on reducing net debt to an absolute minimum in the belief that this will bring flexibility and independence to future generations of citizens.

While this is, according to the text books, an ultra conservative approach to managing the Councils accounts there is comfort in comparing the results of this effort with the current consequences of much of the global debt that is impacting negatively on so many economies and predicted growth. I am not suggesting that Hastings debt is unsustainable because that is not the case. It is clear however that as debt rises the risk of cashflow being adversely affected by external events such as interest rate rises also increases. For every one million dollars of debt the current annual repayments for Napier would be approximately +0.25% on rates (at current interest levels).

Clearly as interest rates rise (which currently appears to be a fair prediction) that impacts on rates rises as well. Napier has also developed cashflow beyond its primary revenue stream of rating and that is now important to the city’s future sustainability and the likely rate increases for generations to come. This is not just speculation by me. In fact recently Mr Mitchell, an independent consultant, has produced assessments of local authorities in New Zealand which reinforces this argument. On **pages 14 – 31** I have attached a result of that survey for Hastings and Napier which clearly illustrates current differences. I do not agree with all of the statistics that Mr Mitchell uses because some of them cannot be influenced by local authorities. Mr Mitchell supports my contention that Napier’s financial position is robust and able to withstand some market shocks should they eventuate and has cash reserves and assets that build flexibility into the accounts.

He is also suggesting that Hastings’ financial position is sound but carries more risk than Napier’s. That view is reinforced by a comparison of rates increases also produced by Mr Mitchell from 2006 to 2010 (copy of which is attached on **page 32**). Clearly during this period Hastings rates have increased by +20.9% while Napier rates have increased by only +14.1%. Obviously there is a greater risk of future rates increases where debt levels are high enough to expose an authority to adverse

interest rate shifts. Ring-fencing debt in an amalgamated Council is not an answer to these differences in approach that Hastings and Napier have taken to financial sustainable management. It just muddies the water and provides no certainty whatever to future generations.

This difference in philosophy is an overwhelming reason why Napier Council must reject the concept of amalgamation with an authority that would add greater risk to Napier ratepayers. Napier ratepayers have a right to expect that their Councillors would complete a due diligence assessment of the financial consequences that are likely to result from any amalgamation process. Having done so, the Council has rejected amalgamation as a sensible option for the current and future community for Napier. Frankly, in my opinion, to do otherwise would be negligent so it remains confusing to me why Mayor Yule would refer to this Council as being irresponsible in making it plain that any amalgamation with Hastings at this time would increase the financial risk for Napier ratepayers in the future. The Council could not indicate a neutral impact unless they were derelict in their duty of care. They have not rejected a constructive working relationship between Napier and Hastings nor have they rejected building on the shared services between the cities into the future.

In the Napier Mail of 3 August 2011 Mayor Yule is reported as responding to the amalgamation debate with some disturbing statements. There is no evidence provided that amalgamation of local government solves the problems that he continues to raise. Amalgamated authorities do not increase population growth, nor address the aging population statistics, nor the plethora of social and economic statistics that he generally refers to. It is nonsense to suggest that Councils who disagree with his drive for amalgamation are ignoring the importance of our children's future when in fact Napier's preference is to maintain the current sustainable financial future for its ratepayers rather than increase the risk of uncertain rates increases through amalgamation. Napier is supporting the future citizens of the City.

He also suggests that the debt issue is being manipulated "*for purely political reasons some are promoting myths*" ... I agree, but we should state the facts of the financial differences first then work through to the likely consequences second. The conclusions reached then are that Napier has considerable headroom above its current internal debt level to manage cashflow into the future without loading up debt for future generations. This is the fundamental difference between the Councils and the reason why "ring-fencing" debt will do nothing for future generations. Napier is comfortably sustainable and cash conservative with options for the future. Future capital works including the wastewater plant are provided for in our planned debt profile. The suggestion that wastewater treatment will create debt problems for Napier is wrong.

Mayor Yule is right in his assertion that its "rates paid" that matters and I can only repeat that in the period 2006/10 Hastings rate base increased by +20.9% and Napier's by +14.1%. That is a difference that should matter to those concerned about the future, coupled of course with the real risk of interest rate rise and the inevitable impact that will have on future rates.

Many recent studies raise the question of risk to the sustainability of differing communities in amalgamation (consolidation) processes. Close to New Zealand, recent university analysis of work undertaken in 2005 by the Financial Sustainability Review Board of the South Australian Government Association, undermines the case for amalgamations. It appears that past amalgamations of local government pull financial performance down to a common denominator rather than enhancing them

to the highest performer. That is likely to increase the risk to Napier ratepayers and future rates increases should amalgamation proceed.

'...The findings of the Board nevertheless amount to an additional presumption against the use of amalgamation as a potentially effective instrument of local government reform. Considered in conjunction with other limited Australian evidence, as well as existing international empirical studies, especially work in Canada and the United States, the onus of proof would now appear to fall against advocates of amalgamation in Australia'...

(Dollery, Byrnes and Crase)

A copy of this paper and some brief research reading is attached as **Appendix A**.

Equally, studies of the actual data from previous amalgamations does not provide any confidence whatever that the list of “perceived problems” in Hawke’s Bay can be addressed even to a minor degree by amalgamation. In fact the exact opposite is true. These studies, some of which are close to home in Australia, provide clear evidence that amalgamation provides little improvement and often increases general costs to the ratepayer. In New Zealand the retraction of early claims of the Auckland amalgamation process that there would be cost savings illustrates that these facts are known nationally.

The prevailing research and empirical study provides a clear warning that amalgamation is not a silver bullet and definitely does not deliver on the many promises made by its various advocates.

Regional GDP, unemployment numbers (including specifically youth unemployment), building statistics, household income and general population growth are matters that are more influenced by the low skills / low wage economy that prevails in Hawke’s Bay and the lack of specific sector performance above national average rates such as petro-chemicals in Taranaki, dairying in Southland, large government services in Wellington and other centres.

In terms of misinformation the old adage remains true, that if people continue to make the same statement louder and louder some in the community begin to accept those statements as facts. It should be noted that both the Prime Minister and the Minister of Local Government have declared that they and the current government have no agenda for amalgamations post Auckland unless they are voluntary. Perhaps they are aware of the prevailing research results from other countries that amalgamations do not bring the benefits espoused by its advocates.

There are real alternatives to amalgamation that bring significant benefits to communities throughout the world. Size of local government units does not seem to matter to regional performance in the statistics listed above and international studies clearly show there is no ideal size for a local government unit. In fact in many countries such as France, Switzerland, Japan, and the United States, local government units operate extremely successfully representing far smaller communities than either Napier or Hastings. They do not adversely affect the collective voice of regions or even cities.

This year in New Zealand significant work has been undertaken nationally by Local Government New Zealand (both separately and with other organisations) on *Consolidation process and change in Local Government* together with *Shared Services in Local Government*. This work is extensive and very well researched with extensive lists of international references. It is written by people recognised as

experts in the sector and yet it appears to be being cloaked away from our local debate. Two of these reports are:-

- *Shared Services for Local Government* prepared by Colin Drew for Local Government New Zealand in June 2011 and
- *Consolidation in Local Government: A Fresh Look* prepared by Chris Aulich, Melissa Gibbs, Alex Gooding, Peter McKinlay, Stefanie Pillora and Graham Sansom for Australian Centre of Excellence for Local Government, Local Government of South Australia and Local Government New Zealand.

Copies of these reports are available in full as they are public documents but I have attached them to this report as **Appendices B and C** respectively. They make particularly interesting reading and I would suggest in themselves provide a comprehensive feasibility study for the current Hawke's Bay case without undertaking any further work. The findings of these reports provide an entirely adequate platform for reform in Hawke's Bay. Consistent with these national recommendations the region should be building directly on the existing foundations of shared services (and the item on today's agenda).

I accept that Mayor Yule has been quoted in the media as saying shared services is not an option that he wishes to pursue because there has been slow progress during his term as Mayor. It is fascinating to note that the reports prepared for the national organisation of which he is President, state over and over again that consolidation of whatever form should not be rushed. When referring to an analysis of background literature the report on shared services quotes:

'the sector also viewed shared services as a preferred option for consolidation to amalgamation..'

And where shared services have been successful the report states:

'where there is a culture of performance improvement acceptance of change and trust of other parties the development of shared arrangements is far easier..'

This is the culture that currently prevails in both Napier and Hastings Councils. Why would we jeopardise the very significant level of trust that has grown between Napier and Hastings since 2000 just to have the question of amalgamation raised again when it has lost favour internationally as a best method of restructuring local government for performance improvement. It seems to me that this is precisely the right time to take the work that has just been completed by Local Government New Zealand and apply it strongly on the excellent foundations that already exist between these two authorities leaving room for others to join and grow those improvements overall.

Alternately we can spend the next 18 months hell bent on a political agenda to re-debate the question of amalgamation in Hawke's Bay. We will consume precious internal resources during that time, risk destabilising both Councils and the staff, and most importantly revert to the dysfunctional relationship that existed between Napier and Hastings a little more than a decade ago. The magnitude of these risks is far too much to take a "punt on" just to satisfy a political agenda.

I need to acknowledge that shared services is a slow process in fact the report states:-

‘international experience suggests that the development of shared services as a model to drive cost efficiencies and improved services to citizens has often been slow to progress...it take strong leadership, good planning and time to be successful...’

This is not something that Napier and Hastings should balk at. Mayor Yule feels that progress has been too slow but progress has been made and significant building blocks between the cities have been achieved. I have listed on **page 33** the areas where Napier and Hastings work together and have achieved many improvements to the both organisations operations. There is another list in the report on shared services (item 1 in this agenda).

In the last 12 months the cities have progressed an Urban Growth Strategy with the HB Regional Council as the essential foundation block to align District Plans and both Chief Executives have completed all of the preliminary work required on a formal shared services proposal between the two Councils that is scheduled for both agendas in August 2011. This indicates that far from arguing with each other over the question of amalgamation, our resources should be aligned and focused on implementing the proposed shared services agreement as soon as possible. We would then be meeting the recommendations from Local Government New Zealand of which Mayor Yule is the President and be part of the recommended direction for the country:

‘at a political level it could be argued that promoting shared services and the changes required to advance these in local government is LGNZs primary role..’

We should focus on shared services and respect the independence of these two cities, which are both critical to the future of this region, aligning resources and services rather than tearing each other apart for the next 18 months, when real economic opportunity appears to finally be within our reach.

Officer’s Recommendation

Will be tabled at the meeting.

Judy Bramley

From: EA_Mayor
Sent: Wednesday, 29 June 2011 10:50 a.m.
To: Neil Taylor
Subject: FW: Napier Poll Results

FYI

Maureen Bell / Faye Murray
Executive Assistants to Mayor
Napier City Council, Private Bag 6010, Napier 4142
Phone: 06 834 4198 x8198 Fax: 06 834 4147 www.napier.govt.nz

-----Original Message-----

From: Lawrence Yule [<mailto:lawrencey@hdc.govt.nz>]
Sent: Tuesday, 28 June 2011 1:27 p.m.
To: EA_Mayor; 'fivefurlongs@xtra.co.nz'; 'artdecobertie@clear.net.nz';
'info@florasangels.co.nz'; 'm.boag@xtra.co.nz'; 'faye_white@xtra.co.nz';
'pipeline@clear.net.nz'; 'markhh@xtra.co.nz'; 'bill@dalton.net.nz';
'yeahwright@mexnet.co.nz'
Cc: Merryn Morris
Subject: Napier Poll Results

Good afternoon Barbara and Councillors

As discussed please find attached the results of a recent Poll I commissioned in Napier. This has been publically released this afternoon. It was funded by myself and residents of both Hastings and Napier. 500 people were surveyed.

Lawrence

Napier residents were asked the following:

What would be your view on merging the Napier City Council, Hawke's Bay Regional Council and Hastings District Council into one unified Hawke's Bay Council. Do you strongly oppose, somewhat oppose, someway support or strongly support merging the three councils together?

View

Votes

Percentage of votes

Strongly oppose

159

32%

Somewhat oppose

72

14%

Neutral

65

13%

Somewhat support

85

17%

Strongly Support

109

22%

Unsure/refuse

10

2%

Total

500

100%

There was a margin of error plus or minus 4.5%.

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4 July 2011

From: Mayor and Councillors
NAPIER CITY COUNCIL



MEDIA RELEASE

A United Napier City Council Responds to the Amalgamation Debate

Napier City Councillors have met informally to discuss the presentation on amalgamation from Mayor Yule and the results of the poll he conducted of Napier residents released last week.

The poll results continue to show that a majority of Napier residents remained opposed to amalgamation. The Napier City Council wants to reassure the residents of Napier, that it remains focused on the best interests of Napier's residents.

We believe the problems that Mayor Yule identified to us of regional high unemployment, low wages and poor population growth are not solved by amalgamation of local authorities. Napier and Hastings Councils should continue their work on shared services which has the potential to maximise efficiencies, reduce costs, deliver best services and maintain choice. The debate should focus on strengthening these initiatives between the two cities.

Hawke's Bay has a unique advantage (in New Zealand) with the twin vibrant cities of Napier and Hastings which both enjoy distinct and different identities. Variety and choice have been identified as significant economic strengths which should be exploited in our region, rather than 'dumbed down' to no real choice.

The Government is not seeking or promoting amalgamation of local authorities outside of Auckland. Successive Governments recognised problems in Auckland and following a Royal Commission Enquiry the amalgamation process was initiated. The success or not of Auckland's amalgamation is being monitored and will take some time to measure. Hasty decisions by other regions could well back-fire.

Given the experience of this region in the proposed amalgamation of 1997/98, the Napier City Council is very concerned that this proposed drive for amalgamation from the Mayor of Hastings risks a polarisation and fragmentation of opinion, and will cause unnecessary distress and uncertainty for both the Napier and Hastings communities. This would be a very negative step in a difficult economic climate and would encourage conflict which both Councils and communities have worked extremely hard to avoid during the last decade.

The Council unanimously agree that there seems to be little to gain and much to lose by introducing the question of amalgamation at this time.

Signed :

Councillor Maxine Boag, Councillor John Cocking, Councillor Bill Dalton, Councillor Kathie Furlong, Councillor Mark Herbert, Councillor Tony Jeffery, Councillor Rob Lutter, Councillor Dave Pipe, Councillor Keith Price, Councillor Michelle Pyke, Councillor Faye White, Councillor Tania Wright, Mayor Barbara Arnott.



HASTINGS DISTRICT COUNCIL



MAYOR'S OFFICE

Lawrence Yule B.E. (Hons), JP
Mayor of Hastings

File Ref CG-07-4-8-11-951

3 August 2011

Mayor Barbara Arnott
109 Chaucer Road
NAPIER 4110

Dear Mayor Arnott

Collective Study on the structure of Local Government in Hawke's Bay

Recently I presented a request to your Council asking for a collective study to be done on the structure of local government in the region, and whether changes to that structure might contribute to lifting the region's socio-economic performance. The same presentation was given to every council in the region. The presentations were given on the basis of my genuine concern for where the region finds itself around a number of indicators, and a lack of an effective structure for coordinated regional action to address our current performance.

I write today to get a more formal understanding of your Council's position on this request. I am aware that Hastings District Council and Hawke's Bay Regional Council have made some budget provision to fund a study. However, it is my hope that all the region's councils could participate in a report that would cover the following:

- Review of the historical demographic, socio-economic and environmental performance and trends for Hawke's Bay
- Review of the projected demographic, socio-economic and environmental performance for Hawke's Bay
- Review of the projected and possible changes in government policy settings
- Review the performance and effectiveness of the current councils, including financial sustainability, options for increased efficiency and effectiveness, environmental protection and economic development
- Identify options for improving the region's response to current and projected future socio-economic performance, including recommendations as to whether changes are required to the local government structure in Hawke's Bay to maximize the region's future potential

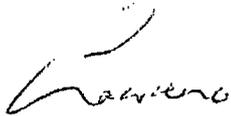
I consider that this is an issue that requires significant unbiased and independent scrutiny. To try to address it via internal officer reports or reports from others with a vested interest would, in my view, be a significant disservice to the community and its future generations. I seek your support to undertake an independent study. Previous studies and current individual council thinking would form part of the review.

I would envisage the Terms of Reference, choice of consultant; budget provision and timeframes would be jointly agreed by our Chief Executives.

I would be grateful if your council could advise me of its position at your earliest convenience.

Thank you in advance for your response.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Lawrence Yule', written in a cursive style.

Lawrence Yule
Mayor

The New Zealand Local Government League Table Territorial Authorities Financial and Economic Measures

Description of the 2011 LGLT

1. Introduction and a bit of history ... the league table objectives

"A league table is a chart or list which compares sports teams, institutions, nations or companies by ranking them in order of ability or achievement. In the United Kingdom, many public-sector industries, including hospitals, compete in league tables". Source: Wikipedia.

1.1. The New Zealand Local Government sector, its territorial local authority Councils provide essential, largely infrastructural assets-based services to its 67 local communities.

1.2. Increasingly, concern as to the costs of Council services, the financial sustainability of Council plans and their affordability to local ratepayers, have been expressed.

These concerns were outlined in an article titled *"Local authorities' balance sheets warn of financial troubles"* authored by Graham Hawkes, Editor, with content supplied by Larry.N.Mitchell Finance and Policy Analyst – (Local Government) and was first published in the February 2011 edition of the NZ Local Government magazine (see Appendix 4).

1.3. The article posed questions relating to the prudence of Council financial plans of recent years and of proposed expenditures, particularly the Council debt levels currently being considered for the 2012-2022 period ... when the next major financial planning cycle will be undertaken.

1.4. This inaugural 2011 LGLT is a response to these concerns affecting Council financial sustainability and ratepayer and residents financial capacity relating to the affordability of Council services. The LGLT is designed to encourage and promote better Council performance. It is not intended to be a stick, more a (somewhat sometimes unpalatable) carrot.

1.5. Council finances, along of course with the rest of New Zealand were adversely impacted in 2008 by the rapid onset of recessionary economic conditions. Many Councils, according to the data, appear now to be about *'to hit the wall'* financially with Council debt, rates, interest and other financial indicators having *'maxed out'* ... certainly in sustainability and likely also in affordability terms.

1.6. There is growing interest in the measures, the metrics that will indicate financial management prudence ... or the lack of it. These are the parameters, (some might term them *benchmarks*) with which to control and manage Council finances. For example; the setting of the correct financial policies relating to Council's maximum sustainable (and prudent) levels of debt.

1.7. For if Councils continue to ignore the plainly evident and disturbing signs of the LGLT and merely plan for more of the *'same old same old'* financial strategies ... by just continuing to put their already unaffordable rates even higher, then the present underlying and fundamental financial management issues of sustainability and affordability that we now face are unlikely to be properly addressed.



2. Extraordinary events ... the Christchurch earthquake and leaky buildings

2.1. The financial data used for the **LGLT** of March 2011 are largely drawn from the most current information available ... as publicly reported from Council audited financial statements dated 30 June 2010.

These figures are challenging enough without including the impact of adverse events that have occurred since June 2010, (the earthquakes affecting Christchurch City and bordering Council areas) or of the effect of financial contingencies soon to impact upon Council balance sheets (the leaky buildings fiasco).

2.2. Both of these circumstances will have a huge impact upon matters of local government financial sustainability. They will, if only indirectly, also have an adverse impact upon New Zealand's GDP, private citizen's personal incomes and hence upon Council ratepayer-residents financial capacity ... raising further questions of Council service's affordability.

2.3. The Christchurch earthquake is about to profoundly affect the finances of the three local authorities of the area. Christchurch City overwhelmingly will bear the brunt of the costs involved. Even before the devastating second quake these earthquake-related uninsured costs for Christchurch City were estimated at \$500M, Waimakiriri \$50M, Selwyn unknown. The sums will be many multiples (billions) more now. Most recent ball park figures are \$15-\$30B – a good part of it uninsured.

2.4. Though central government will no doubt financially assist these three Councils, their ratepayers will be required to commit exceptional payments for many years to come. Other Councils in normal circumstances who would have, before the earthquake been in line for central government subsidies, will now have to 'box on' without them.

2.5. Projects planned will now be 'canned', (witness the possible deferral of planned roads of national significance) ... these will just have to wait. Stringent air, soil and water quality standards may need to be renegotiated due to affordability issues in this new economic environment.

2.6. The world has changed. New Zealand's and Local government's long term financial planning must reflect these changes. The challenge is ... will Councils react correctly? And if so, how will they financially manage through these conditions? Their improved cost-effective performance coupled to the metrics and the messages drawn from the **LGLT** can help by providing some principled high performance targets and budgetary benchmarks with which to manage.

2.7. Using a series of footnotes and warnings, the **LGLT** results for the three earthquake-affected council's results are heavily caveated, (noted as **EQ**). Another footnote/warning, (noted as **LB**) identifies Councils significantly affected by contingent liabilities associated with the leaky buildings issue.

To repeat: the impact of earthquake related sums ... debt levels, contingencies and so on, though caveated are NOT reflected in this version of the **LGLT**.

2.8. These deeply shocking circumstances sadly have become a (huge and additional) part of the overall disturbing findings of this version of the **LGLT** ... many other



New Zealand local authorities though also face major issues of financial sustainability.

These include smaller rural Councils, for example; those with unprofitable roading companies, others who continue to suffer under historically high debt and still others whose cost-benefit-economic adverse size factors work against their effective value for money service delivery. A further major complication is that many have not put aside reserves to meet asset replacement commitments. Add to these local circumstances the effects of the New Zealand-wide recession, lower household incomes, and the affordability issues covered in this study are cast into stark relief.

If there was ever a time for all Councils to get real with their finances ... it is now.

3. Auckland City

- 3.1. This first edition of the **LGLT** includes the seven Auckland area territorial Councils as separate identities ... that is, their individual financial data are included ... for the final time. There are numerous, many unique financial policy issues that arise from and are a feature of the merger of these Councils.
- 3.2. A publication titled, 'Auckland City Finances Fairness or Fudging' (see www.kauriagen.co.nz/larry **Public Affairs**) was widely circulated prior to the October 2010 Local Government elections. The response to this study was underwhelming to say the least. The issues this report raised included matters of fairness amongst the seven Councils when combined within the new 'Super' city structure.
- 3.3. In financial terms the best and most shortcut way to see the possibilities of one likely (Auckland City) inequity issue, discussed in detail in the 'Fairness' report, which could arise as a result of the merger, is to review the net worth and debt positions of each Council at (or near to) the date of the merger (see table below).
- 3.4. Each of the seven Councils has brought its own net assets (assets net of liabilities) and debt to the new organisation. Their individual net worth is represented below by their respective Ratepayers Equity figure, as are their debts ... as listed.
- 3.5. The balances of the seven Councils at June 2009 (disclosed on a per ratepayer basis) revealed the following:

• Auckland area Council	• Ratepayer's Equity (Net Worth)	• Council Debt total
Auckland	\$55,225	\$6,962
Manukau	\$57,549	\$5,495
North Shore	\$49,366	\$5,549
Waitakere	\$34,837	\$11,371*
Franklin	\$43,945	\$3,618
Papakura	\$26,941	\$3,813
Rodney	\$30,320	\$8,156*



- 3.6. Even just a quick glance at this table will indicate the Councils that are better off compared to those who are less well financed. It is the latter group who will fare best if all debt is to be pooled without reference to their relatively worse entry point funds and indebtedness positions.
- 3.7. The reported huge 'spend ups' conducted by some Councils prior to the merger, particularly for Waitakere and Rodney could quite possibly be rewarded! under a pooling of debt strategy. Is that fair? But then is anyone listening?
- 3.8. The inclusion of this 'sidebar' to the **LGLT** concerning Auckland City's finances is merely to signal a whole raft of other more specific financial issues (including sustainability and affordability) of Auckland City that will require separate specific consideration in future.
- 3.9. Future **LGLT** editions will make out a special case for Auckland City in terms of its scale and operations. The new organisation must look for benchmark models to overseas municipalities to develop meaningful financial and other performance standards.

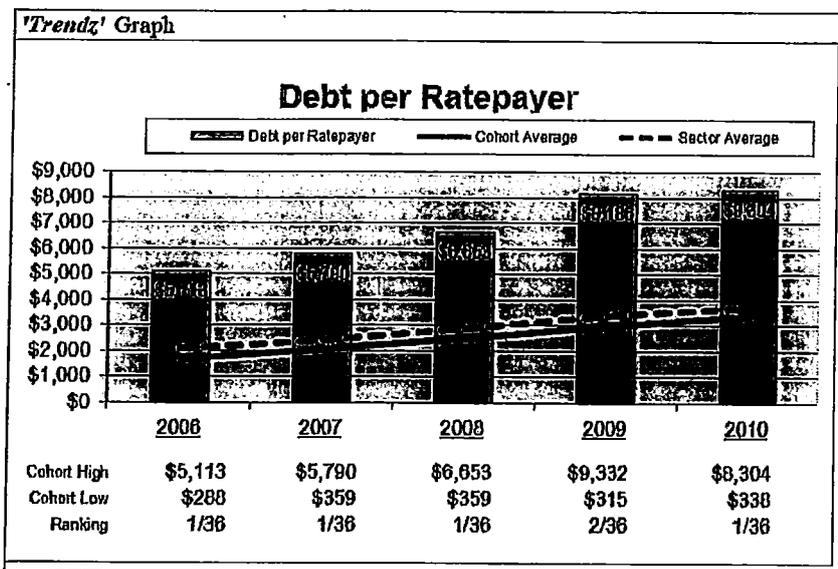
4. Excesses of the past

- 4.1. Council balance sheets, (even before earthquakes and leaky buildings are taken into account) are in poor shape today as a result of the imprudence and profligacy of many Councils over recent years. Not only have most Council expenditures blown out, but prudent reserve funding has been used for purposes other than was intended.
- 4.2. As was pointed out in the Local Government magazine article (*Hawkes 2011*), many Councils have played fast and loose with their financial assets. In the past, financial assets were accumulated and treated as sacrosanct being accumulated as asset replacement reserves with externally invested funding set aside, both to earn compounding investment income and to build up value to meet future costs of asset renewal.
- 4.3. Abuses of this process have occurred within most Councils with potentially devastating results. Their cash asset-related reserves are either non-existent or are at present of derisory amounts considering their intended purpose.
- 4.4. The funded asset replacement reserves have been raided, in many cases exhausted, having been used for 'other purposes'. Investment income has been forgone as a result and debt has had to be used to fund asset renewals. It is obvious from the data the very adverse effect that these actions have had upon on-going Council financial (un)sustainability. When the time comes for asset replacement the cupboard is and will be bare ... and debt levels are now mostly already at their maximum. There is now nowhere left 'to hide'. Clearly, Councils in this mode are behaving in a financially unsustainable manner.
- 4.5. The **LGLT** findings, (if their message is heeded that is) are crucial for the sector's future financial plans. Plans are overdue for critical analysis and review. Based on the excesses and other (extraordinary) facts already referred to ... this is hardly surprising.



5. Issues of prudence and financial management

- 5.1. Where is the evidence of these past excesses? A cursory review of most Council’s financial reports and the *‘Base Stats’* reports ([www.kauriglen.co.nz/larry Base Stats with Trendz Supra](http://www.kauriglen.co.nz/larry_Base_Stats_with_Trendz_Supra)) will show clearly how low the levels of financial assets, are ... with depleted asset funding reserves and high debt, all accompanied by alarming recent increases in Council rates and charges.
- 5.2. As one simple, though starkly obvious factual example of ‘the evidence’, see below a *‘Base Stats with Trendz’* graph of the last five years of local authority debt. The Council displayed is the Rodney District Council 2009 data (actual 2010 projected is likely significantly higher).



This graph demonstrates one important facet of the issues now being faced. In just five years, to 2010, total Council debt has increased by 80% from a sector wide figure for all 73 Councils from an average of \$2,000 ... to \$3,600 per ratepayer ... Rodney’s increased in 2010 to be the most highly indebted amongst its peers ... at \$8,304 per ratepayer, 131% above the sector 2010 average.

- 5.3. The effect of such excesses has been that the debt-interest servicing content of this level of debt on a per ratepayer basis is now over 16% of the total average annual rates bill. Many individual Council ratepayers pay much more than this average. (See the Napier City sponsored rates comparisons at Appendix 3). Councils should be encouraged to conduct their own rates comparison surveys on a similar basis to the Napier City (*A Big Thanks to NCC*) ... annual exercise.



6. The justification for and the basic concept of the LGLT

- 6.1. The Local Government magazine article (*Hawkes 2011 Supra*), stressed the need to obtain good, independent and 'reasonably' reliable information, particularly for data relating to Council financial sustainability and community affordability ... (the capacity to pay) for Council services.
- 6.2. The **LGLT** is a response, a beginning only and a 'heads up' of the data requirements necessary to evaluate present Council financial circumstances ... leading, it is hoped to performance improvement.
- 6.3. The **LGLT** is intended to be:
 - A carrot ... not a stick;
 - Readable and understandable by the general public and;
 - Where explanations of more technical matters are required these are given in (hopefully) plain understandable English;
 - A 'heads up' for elected officials wrestling with the heavy responsibilities of formulating prudent financial policies for 2011/12-2022 community plans;
 - A first step for Councils in setting relevant, sustainable and affordable financial benchmarks.
- 6.4. The **LGLT** is a contribution to an emerging public debate, it is public information about our New Zealand Council's finances. The project will stimulate interest and enquiry leading to the prospect of better and more prudent future Council financial management practices.

7. The LGLT design Features

- 7.1. The **LGLT**, designed for a public audience has arisen from new found public interest generated by the issues of the early 2011 Council annual community plan-budget rounds.
- 7.2. Prior to the **LGLT**'s public release, many Councils will be given ample opportunity to comment upon its design and then to support and contribute to its ongoing future development.
- 7.3. Within a moderated website context (www.kauriglen.co.nz/larry larry@kauriglen.co.nz) Councils will be encouraged to make suggestions for improvements and if warranted propose amendments to the data or to its presentation format.
- 7.4. It is important to point out that in this its first year, the **LGLT** has been developed solely by and remains the exclusive professional IP of *Larry.N.Mitchell & Associates*. Larry takes full responsibility for the information produced. It should further be observed that the data has been collected entirely from PUBLIC sources. As a consequence, any issues surrounding the data can be tracked back to their source.



8. Data and disclosure issues

- 8.1. There are issues of disclosure and presentation of the LGLT data of course. Local Authority financial statements are shot through with them. The data, carefully selected for use within the LGLT has been chosen from over 500 data elements ('NZLG DataBase' www.kauriglen.co.nz/larry/NZLGDatabase.pdf) for their representative nature and is 'relatively free' of accuracy or completeness issues. Any exceptions to this however are stated in the user notes (below).
- 8.2. For example; the use of the audited reported figures for Council annual financial *Surplus/Deficits* are notorious for their inconsistency, a lack of clarity and for accounting (IFRS) obfuscation. Nevertheless it might be argued that *'this is the same issue for everyone'* ... and therefore presents less of a problem. To compensate for these problems the affected data, where necessary is heavily caveated.
- 8.3. The supporting reports and their summaries cover the following measures/metrics ... 10 of them.

• SUSTAINABILITY REPORTS	• AFFORDABILITY REPORTS
Debt per Ratepayer	Household Income
CAPEX To Depreciation	Property value per Ratepayer
Surplus/Deficit	Rates per Ratepayer To Household Income
Debt Servicing To Rates Revenue	Wages To Operating Expenditure
Ratepayer Equity Per Ratepayer	Workforce Unemployed



9. LGLT metrics – and their evaluation

9.1. In brief, each measure is described and the LGLT metric scored assessment results are evaluated.

SUSTAINABILITY	AFFORDABILITY
<p>Debt per Ratepayer: self-explanatory, shown as a dollar figure, comprises Council debt (owed to external third parties). It used to be, (in the late nineties) that \$1,500 per ratepayer was a good, working, sustainable <u>maximum prudent level</u> of Council debt. Not much has changed since, this \$1,500 per ratepayer figure still would be a target to aim for ... even now with a sector-wide average in the mid \$3,000's. Smaller and South Island Councils fare best by this measure (Scottish Heritage?) while the Big spending largely city <i>gals and guys</i> get the debt wooden spoon, (they also have big assets though).</p> <p>A reasonable level for this measure therefore would be tending downwards to \$1,500. Note the many, a large majority of Councils, (47 out of 73) are above the \$1,500 mark ... Councils who greatly exceed this prudent level.</p> <p>Average: \$3,686</p>	<p>Household Income: shown as a dollar figure of income per annum per household. Caution: the data used here is based on irregular <i>StatsNZ</i> surveys and 2006 adjusted census data.</p> <p>On a comparative, individual Council basis, in spite of their lack of (2006-2011) currency, the results reasonably reflect local TLA variations of household incomes</p> <p>A satisfactory (from an affordability point of view) figure of household income would be close to the average of \$67,000. Incomes below this level in any Council area/community will prove difficult for effective delivery of Council services. Note the number of Councils (9 Councils rate only a low metric 1 score) who return much lower incomes than the average. They will always struggle in affordability (of their communities) terms.</p> <p>Average: \$67,153</p>
<p>CAPEX To Depreciation: This is a ratio 'borrowed' from Victorian Australian local Councils who use this (and several others) to publically report their Councils financial sustainability. We would do well to follow suit. Any Council not achieving a 1.0 or above metric is not replacing into its asset base sufficient to maintain its asset-base service potential (so say the Aussies). Note the 9 out of 73 Councils who return a lower than 1.0 benchmark figure, an indication of current unsustainability by this standard.</p> <p>A reasonable level for this measure therefore would be at the average or above ... or at least above the benchmark 1.0.</p> <p>Average: 1.7</p>	<p>Property value per Ratepayer: This measure is based on an average land value for ratepayer's rateable properties. As such it is a useful measure of affordability as it is a figure which for most Councils is directly linked to the rates that they charge. As a measure of affordability, (more precisely wealth), property values also, in general reflect a communities underlying capacity to pay for services. High net worth/incomes/property values go together with higher quantity often quality of Council services. Of the 8 Councils scoring the low metric of 1, unsurprisingly half of these appear at this same low score in the Household Income data. Low land values, low incomes and low affordability go hand in hand.</p> <p>Average: \$ 297,613</p>



SUSTAINABILITY	AFFORDABILITY
<p>Surplus/Deficit: that is, the annual Council accounting reported <i>'profit'-surplus or 'loss'-deficit</i> for the year. As pointed out in the report this data is subject to major accounting disclosure issues. However, as a measure of how well Councils are performing in a financial sustainability sense this metric will indicate those Councils who are struggling to balance their budgets (all the negative figures reported). Others, with apparent surpluses though could, when non-trading (P & L) items are excluded, be in similar straits. Only more detailed analysis would tell. 24 of the 73 Councils are reporting current (2010) deficits.</p> <p>Average: \$7,309,000</p>	<p>Rates per Ratepayer to Household Income: self-explanatory. The same provisos made re rates above, (Caution: Reported and audited rates revenue totals are notoriously subject to poor consistency in Council public reporting) apply to this metric. Nevertheless this is a critical measure of affordability. It has the great merit of making some allowance for the effects of income upon the raw unadjusted \$ rates per ratepayer figure ... a figure so often quoted and misused. 14 Councils out of 73 record scores higher than 3% for this measure and this (3% ... or 2.6%?) may be a useful pointer/upper limit-benchmark. There is a clear co-relation of <u>a capacity</u> (as evidenced by Household Incomes) to pay higher rates – with <u>the rates figure</u> itself. If the figure of this metric exceeds the average of 2.6% it will indicate either high rates associated with low incomes ... or some combination of the two. Only more detailed statistical methods will be able to tease out ... which.</p> <p>Average: 2.61%</p>
<p>Debt Servicing to Rates Revenue: self-explanatory shown as a percentage indicating the degree to which debt servicing costs (almost exclusively interest) is dependent upon rating income. Caution: reported (and audited!) rates revenue totals are (notoriously) subject to poor consistency in Council public reporting. The fact that debt servicing costs are "almost exclusively interest" is a reflection of the fact that Councils at present are making derisory levels of repayments of debt principal.</p> <p>A reasonable level of this measure would be no greater than (say) 10% although a more precise benchmark figure would have to take account of the varying mix of rates to other Council revenues. Note the many Councils who greatly exceed this prudent 10% level. 9 Councils are at over 15% and a further 5 exceed 25% demonstrating a high dependency upon rates for income and/or a high level of debt servicing costs. Only more detailed statistical methods will be able to tease out ... which is the dominant influence.</p> <p>Average: 9%</p>	<p>Wages To Operating Expenditure: self-explanatory shown as a percentage indicating the proportion of Council operating costs absorbed by Council employees remuneration. This is a key statistic. Payroll is the <u>most influential</u> of Councils direct and controllable costs. It is a major! determinant of (un)affordable rates and hence is a huge influence upon financial sustainability. It ranks closely behind depreciation charges as the second largest of all Council expenditure categories. The data is sobering.</p> <p>From a position, in the nineties when Councils payroll costs averaged around 15% of operating expenditures, the average has now mushroomed to 21%. What is more, 33! (45%) of the 73 Councils score unacceptable (unaffordable) scores of 2 or lower</p> <p>A reasonable level of this measure would be to target the historical ... ('in the nineties') 15% measure. Note the many (60 out of 73) Councils who greatly exceed this target level.</p> <p>Average: 21.2%</p>



SUSTAINABILITY	AFFORDABILITY
<p>Ratepayer Equity Per Ratepayer: This metric measures the level of value (net worth) each ratepayer 'owns' for her or his Council. Councils with relatively low scores on this basis will struggle in financial sustainability terms.</p> <p>11 Councils score the lowest measure, (metric 1). They are a mixed bunch of small Cities down to the small Rurals. No pattern to these results is obvious. There are many reasons for these results, (for example; low ratepayers numbers, low asset valuations/revaluations and so on). But whatever the reasons the lower figures, reflecting lower resources/wealth of the Council suggest a lower Council financial sustainability issue exists.</p> <p>A reasonable level of this measure would be (say) around the \$46,000 average. Average: \$45,761</p>	<p>Workforce Unemployed: Another key affordability statistic, one which unfortunately, Councils are unable generally to influence overmuch. 30 of the 73 Councils scores (over 7% unemployed with a score of 2 or less) are facing near (recent) historical highs for their unemployed numbers. In spite of its non-controllability, Councils <u>must</u> along with incomes, factor this metric into <u>all</u> that they do in terms of affordability issues ... so influential are these metrics in determining the ability of the community to pay for Council services. Councils scores <u>at or below</u> the average of 5.9% unemployed (regional data only ... dated September 2010) are indeed fortunate in affordability terms.</p> <p>Average: 5.9%</p>

10. Other factors

10.1. Five additional judgmental and so-termed 'other factors' have been used to adjust the scored metrics, (above). These other factors are intended to modify the raw metric scoring-ranking process. In brief, this modification is designed to (say) soften the impact of a low sustainability/affordability metric score if the other factors (favourable ones) were taken into account. Some commentary on these circumstances has been added to assist a more balanced evaluation using both assessment levels.

Readers of the **LGLT** can make their own allowances based upon the two levels of assessment (metrics/other factors).

The Other Factors scoring sheet combines the five additional judgmental factors as follows:

- Audit opinion 2010 – whether the auditors have 'reservations' relating to an individual Council's finances;
- Commercial Assets/Debt – as described in the report – para refs; 10.3 and 10.4;
- Financial Assets – as described in the report – para refs; 10.3 and 10.4;
- Investment Property – as described in the report – para refs; 10.3 and 10.4;
- Very high debt – all over \$5,000 per ratepayer.

All of the above factors combine to reach a view on a 'traffic light' (see para ref 10.4) assessment. This is carried forward to the League Table Composite Report.



10.2. The 'other' factors used in this assessment are not capable of numerical (metric) measurement but are nevertheless fundamental to assessments of sustainability and affordability. They are matters of judgment that will modify and give a more rounded view to the assessments than will a mere reliance upon the raw scores of the (10 by 5 ... 50 max point) scale.

10.3. The assessments of these five factors have been based on a review of the following four matters, all affecting a view of Council sustainability and/or affordability:

- Council's possession and beneficial ownership of assets ... commercial assets, ports, airports, water utilities, power and gas companies and so on;
- Council's possession of financial assets, cash or near cash held externally within invested reserves available to repay debt and or fund asset replacements;
- Council's possession and beneficial ownership of investments, investments in shares and equities, and investment property and;
- Public reporting disclosure standards and the nature of audit report/opinions. Note: only five occurrences of qualified audit opinions are noted for the 2010 financial year. They mostly, (with only 1 exception) do not directly impact upon sustainability or affordability.

10.4. The combination of these five other factors is shown as one of three traffic light icons for each Council's aggregate score as follows:

- Factors that will tend to **assist** sustainability and affordability (**green**);
- Factors that are **neutral** or;
- Factors that **will worsen** (**red**) a TLA's ability to reach or maintain sustainable financial positions.

11. Earthquakes (EQ) and Leaky Buildings (LB)

11.1. As if the assessments (above) were not already challenging enough, further bad news applies to certain New Zealand Councils. As discussed earlier, the effect upon Christchurch City and the Selwyn and Waimakiriri District Councils, of the recent earthquakes **MUST** be considered.

11.2. This event will have a huge impact upon these Council's ongoing financial situation as well as upon their community's affordability, (ability to pay) for Council services. These Council results are tagged **EQ**.

Similarly, Councils significantly affected by their contingent liabilities concerned with the leaky buildings affair have had their results tagged **LB**.

11.3. The overall impact of these matters ... once again is left to the reader to assess.



12. An example of scoring and adjustments

12.1. While the scoring of the 'other factors' is based on five elements only a single traffic light, green, yellow or red assessment is reported within the LGLT – it combines the joint effect of all five factors-assessments.

12.2. An example of its use would be (say) in the case of a mid-range score of the overall metric assessment of a Council, (say a 30 total score out of 50 over the 10 metrics). Because of its (say) adverse 'other factors' (a red traffic light) ... plus (say) a commentary indicating a particularly adverse debt situation (possibly a large relative and increasing level of Council debt) ... the overall score and red traffic light could at the margin be further marked down by a reader as a consequence. Readers are thereby in this example put on notice of the necessity to further adjust down the reported LGLT total raw score due to worsening conditions for financial sustainability and affordability.

12.3. Note: Readers of the LGLT observing a low metric score for their Council metrics assessment ... plus a poor (red) other factors assessment ... plus (say) aware of significant proposed future expenditures/borrowings would do well to beware ... and at the very least to **insist upon excellent independent evidence of Council/District future plans ... for their prudence and demonstrable financial sustainability and affordability.**

13. The specifics of and the interpretation of the LGLT ... user notes

13.1. To assist interpretation of the LGLT the following points need to be considered:

- For all 73 TLA NZ Councils reported in the LGLT, 10 financial and economic measures, grouped as five sustainability plus five affordability metrics have been selected assessed and reported. A further five 'other factors' are noted for each measure to round off the assessment ... a traffic light is a sign as detailed above;
- The individual Council absolute figures, (\$\$\$'s or numbers) used for assessment are NOT reported. **These can be obtained for subscribers upon request;**
- The assessment ranking scale is a 5 point scale, numeral 1 scoring the low end of the scale ... denoting both a less sustainable and less affordable financial and economic condition of each council-local community;
- The financial (**sustainability**) measures relate to the individual Council itself. The economic (**affordability**) measures-assessments relate to the Council district, that is, to its local community of residents and ratepayers;
- Every Council is scored on each of the ten measures;
- The individual Councils totals (see further below) are totals of each of the quintile (5 point) assessments. An aggregate total at the high end denotes good financial sustainability and good affordability. A combined total (50 max) denotes a Council that is best in (NZ) class ... in a League Table sense;
- A separate subtotal for both of the two ... finance and affordability assessments is provided;



- An aggregate of the 10 assessments/measures, combining sustainability and affordability scores produces the final ranking for all 73 TLA's;
- The ranking is then adjusted for 'other factors'.

13.2. The **LGLT** results tend to speak for themselves. The rankings of all 73 Councils are listed from best to worse, top to bottom based on the scoring criteria adjusted by the other factors:

- Best to worse Councils in financial sustainability terms;
- Best to worse in affordability terms;
- Adjustments for other factors which will tend to improve or worsen the metric scorings for sustainability and affordability.

14. Guidance notes – evaluation

13.3. As a guide to what these results mean the following are general observations ... for example; an adjusted score of below 25 with other factors showing as unfavourable implies a Council compared to others is in difficult financial circumstances:

- Councils in the top third group are generally sustainable/affordable;
- Those in the middle third are 'making heavy weather of it' but;
- The lower third grouping (below 56th) are in significant financial difficulty.

This '*first cut*' assessment is no more than a '*heads up*' to interested parties. More detailed analysis will reveal the fuller picture.

14.1. For issues concerning the sustainability of Council finances, scores equal to or lower than 14 in total (from a maximum of 25) indicate the presence of a number of potentially serious financial sustainability issues.

14.2. Financial sustainability for low scoring Councils will be in question unless ratepayers are prepared to tolerate even higher and unacceptable levels than at present of Council rates and charges.

Continuation of Council activities at existing service levels may be in doubt.

14.3. Council debt for example has in many cases reached a point where a sizeable proportion (in many cases above 20%) of an average residential rates bill is required to service interest and or repayment conditions.

14.4. Expansive capital intensive long term financial plans (2012-2022) should be rigorously reviewed and if need be reduced to core utility expenditures only.

14.5. Note: many Councils currently are adjusting their plans even to the extent of contemplating compromises of quality of their RMA imposed resource consents ... such is the seriousness of their financial position.

14.6. For issues concerning the affordability of Council finances to its community, scores equal to or lower than 12 in total (from a maximum of 25) indicate the presence of a number of potentially serious financial affordability issues.



14.7. These matters are more fully explained (above) and may be factored into a situation where (say) a low score is causing concern but may be lessened (improved) because the data shows 'other factors' are favourable for some aspect of Council capability or performance. For example; a low score accompanied by large values of (say) financial assets available for reduction of debt or to provide asset replacement funding will lessen concerns. Of course the opposite is true if the cupboard is bare and all readily realisable financial assets are depleted or non-existent.

14.8. **Highest is best** and ... may be as explained, modified by 'other factors'. If a Council is in the bottom 15 to 20% (57th to 73rd) of their peers on the LGLT scale ... then Council financial sustainability and/or the affordability for the community, of council services, are seriously in question.

Schedules of data supporting the assessments of the LGLT (*Appendices 1 and 2*) may be obtained by subscription and/or supplied to interested parties – enquiries welcomed to larry@kauriglen.co.nz



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League Table Composite Report

Council Name	Earthquake	Leaky Bldgs	Sustainability		Affordability		Composite Score (Para 10.1) High = 50 Low = 10	Other Factors (Para 10.1)	Commentary
			Overall Score (Para 9.1) High = 25 Low = 5	Overall Score (Para 9.1) High = 25 Low = 5					
This is the key scored-ranked League Table – of public interest									
1 Southland District			19	21			40		Best in class
2 Clutha District			20	19			39		Prudent financial management ... Their Scottish Heritage?
3 Hurunui District			19	17			36	●	Mark down for adverse other factors
4 Rangitikei District			18	18			36		
5 Selwyn District	EQ	LB	15	21			36		A good result ... Before the quake
6 Ashburton District			14	21			35		
7 Central Otago District			17	18			35		
8 Chatham Islands			16	19			35	●	Central Government financial support sure helps
9 MacKenzie District			17	18			35	●	Mark up for favourable other factors
10 Otorohanga District			16	19			35		
11 Wellington City		LB	17	18			35	●	Mark up for favourable other factors
12 Manawatu District			15	19			34		
13 South Wairarapa District			14	20			34		
14 Waikato District			13	21			34		
15 Waimakariri District	EQ	LB	16	18			34		A good result ... Before the quake
16 Kaipara District			16.5	17			33.5		
17 Central Hawkes Bay District			16	17			33	●	Mark down for adverse other factors
18 Marlborough District			15	18			33	●	Mark up for favourable other factors
19 Queenstown Lakes District		LB	10	23			33	●	Mark up for favourable other factors

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Council Name	Earthquake	Leaky Bldgs	Sustainability		Affordability		Composite		Commentary
			Overall Score (Para 9.1) High = 25 Low = 5	Overall Score (Para 9.1) High = 25 Low = 5	Score (Para 10.1) High = 50 Low = 10	Score (Para 10.1) High = 50 Low = 10			
This is the key scored-ranked League Table – of public interest									
20 Stratford District			17	16			33		
21 Tararua District			14	19			33		
22 Waipa District			14	19			33		
23 Auckland City		LB	15.5	17			32.5	●	
24 Taupo District			16.5	16			32.5		
25 Carterton District			16	16			32	●	
26 Gisborne District			18	14			32		
27 Waimate District			17	15			32	●	
28 Westland District			15	17			32		
29 Christchurch City	EQ	LB	11	20			31	●	A good result ... Before the quake
30 Napier City		LB	19	12			31	●	
31 South Taranaki District			13	18			31		
32 North Shore City		LB	15.5	15			30.5	●	
33 Matamata-Piako District			13	17			30	●	
34 Waitaki District			16	14			30		Councils above here (1 to 34 with scores over 29) are in good to reasonably good financial shape.
35 Dunedin City		LB	13	16			29		
36 Franklin District			13	16			29	●	
37 Hutt City			11	18			29		
38 Kaikoura District			12	17			29		
39 Manukau City		LB	13	16			29	●	
40 Masterton District			14	15			29	●	

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Council Name	Earthquake	Leaky Bldgs	Sustainability		Affordability		Composite Score (Para 10.1) High = 50 Low = 10	Other Factors (Para 10.1)	Commentary
			Overall Score (Para 9.1) High = 25 Low = 5	Overall Score (Para 9.1) High = 25 Low = 5					
This is the key scored-ranked League Table – of public interest									
41 Nelson City		LB	17	12	29	●			
42 Tasman District			13	16	29				
43 Upper Hutt City		LB	11	18	29	●			
44 New Plymouth District		LB	12.5	16	28.5	●			
45 Grey District			14	14	28				
46 Hauraki District			13	15	28	●			
47 Papakura District		LB	12	16	28				
48 Porirua City		LB	12	16	28				
49 South Waikato District			16	12	28				
50 Tauranga District		LB	11	17	28				
51 Whakatane District		LB	13	15	28				
52 Western Bay of Plenty District		LB	10.5	17	27.5	●		Mark down for adverse other factors	
53 Gore District			15	12	27	●		Mark down for adverse other factors	
54 Hastings District			13	14	27	●		Mark down for adverse other factors	
55 Kapiti Coast District		LB	10	17	27	●		Mark down for adverse other factors	
56 Wairoa District			15	12	27				
57 Far North District		LB	14	12	26			Councils below here (57 to 73 with composite total scores of 26 down to 19) face significant financial sustainability and affordability issues ... All are candidates for the wooden spoon.	
58 Rodney District		LB	11	15	26	●		Mark down for adverse other factors	
59 Ruapehu District			11	15	26				

Council Name	Earthquake	Leaky Bldgs	Sustainability		Affordability		Composite		Commentary
			Overall Score (Para 9.1) High = 25 Low = 5	Overall Score (Para 9.1) High = 25 Low = 5	Score (Para 10.1) High = 50 Low = 10	Score (Para 10.1) High = 50 Low = 10			
60 Thames-Coromandel District		LB	14	12		26	0		
61 Tamaru District			11	15		26	0	Mark up for favourable other factors	
62 Waitomo District			10.5	15		25.5	0	Mark down for adverse other factors	
63 Whangarei District		LB	10	15		25	0	Mark up for favourable other factors	
64 Buller District			11	13		24			
65 Invercargill City		LB	10	14		24			
66 Opoitiki District			15	9		24			
67 Rotorua District		LB	11	13		24	0	Mark down for adverse other factors	
68 Waitakere City		LB	10	14		24	0	Mark down for adverse other factors	
69 Hamilton City		LB	9.5	14		23.5	0	Mark up for favourable other factors	
70 Horowhenua District			10	13		23	0	Mark down for adverse other factors	
71 Palmerston North City		LB	8	14		22	0	Mark up for favourable other factors	
72 Kaverau District			15	6		21	0	Mark down for adverse other factors	
73 Wanganui District			10	9		19			
AVERAGE			14	16		30			
MEDIAN			14	16		29			
STD DEVIATION			3	3		4			

This is the key scored-ranked League Table - of public interest

Note the mark up/down messages would result in adjustments to the metric scores ... By how much is a matter of judgement.



Average Residential Rates

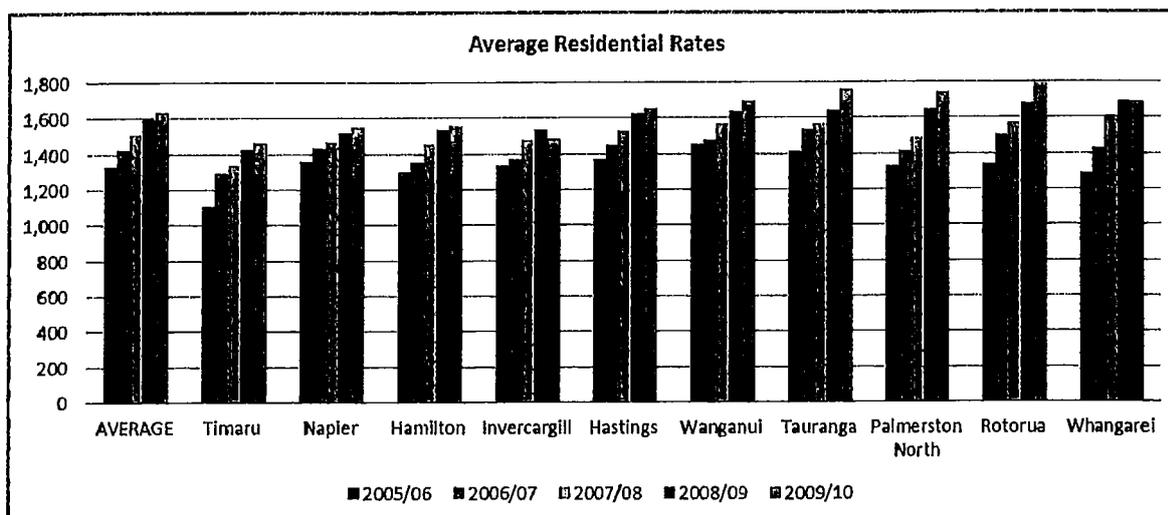
(See 'Description' ref; 5.3)

The data available on rates comparisons is contained in the next report. This information consists of a survey run annually by the Napier City Council ... its latest 2010 version is reproduced.

Councils subscribing to the LGLT may wish to conduct research of their comparable residential rates figures. The 2011 '*Rates & Remuneration*' report, (a proprietary product of *Larry.N.Mitchell & Associates* contains most of the 2011 rating datasets necessary for assessing all individual Council's comparative rating data.

Average Residential Rates

	2005/06	% Increase 2006-2007	2006/07	% Increase 2007-2008	2007/08	% Increase 2008-2009	2008/09	% Increase 2009-2010	2009/10	5 yr % Increase 2006-2010
AVERAGE	1,335	6.7%	1,424	5.0%	1,495	5.8%	1,582	3.5%	1,650	22.7%
Timaru	1,106	16.8%	1,292	3.5%	1,337	6.8%	1,428	2.5%	1,463	32.3%
Napier	1,358	5.4%	1,432	2.4%	1,467	3.6%	1,520	2.0%	1,550	14.1%
Hamilton	1,300	3.8%	1,350	7.8%	1,455	5.4%	1,533	1.4%	1,550	19.5%
Invercargill	1,338	2.3%	1,369	7.8%	1,476	4.1%	1,536	-3.2%	1,467	11.1%
Hastings	1,366	6.1%	1,449	5.5%	1,529	6.1%	1,623	1.8%	1,652	20.9%
Wanganui	1,454	1.4%	1,475	6.2%	1,566	4.5%	1,636	3.5%	1,694	16.5%
Tauranga	1,413	8.5%	1,533	2.3%	1,569	4.5%	1,640	7.1%	1,727	24.3%
Palmerston North	1,332	6.0%	1,412	5.1%	1,484	10.8%	1,645	5.9%	1,722	30.8%
Rotorua	1,344	11.8%	1,502	4.5%	1,570	6.9%	1,679	6.6%	1,738	33.1%
Whangarei	1,291	10.8%	1,430	12.7%	1,612	4.8%	1,689	0.1%	1,691	31.0%



Shared Service / Project Name	Partners with NCC
Business Hawke's Bay	HDC, HBRC, WDC and CHBDC and HB Chamber of Commerce
Christchurch Earthquake Response	HDC and AirNZ
Companion Animal Welfare Planning	HDC, CHB and WDC
District Plan Rationalisation Project	HDC
Emergency Management Volunteers	HDC, CHB and WDC
Environmental Awards	HDC and HBRC
Evacuee Registration	HDC, CHB and WDC
Gas to Energy Project	HDC
General Insurance	HDC, CHB, WDC and HBRC
HB Museums Trust - Funding	HB Museums Trust, HDC and NCC
HB Ticketing Collective	HB Opera House Limited (HDC), Regional Indoor Sports and Events Centre Trust
Heretaunga Plains Transportation Study	HDC and HBRC
Iwāretaunga Plains Urban Development Strategy	HDC and HBRC
Joint Alcohol Strategy	HDC
Joint Electricity Purchase Contract	HDC
Omarunui Landfill	HDC
Overdrive Consortium (e-book delivery)	HDC and 10 other lower NI councils
Pathways Project	HDC, HBRC and Rotary
Positive Ageing Strategy	HDC, CHBDC, HBDHB and DIA
Provision of rating valuation services	HDC, CHB, WDC and HBRC
Reciprocal Library Book Returns	HDC and HBRC
Regional Aquatic Strategy	HDC (potentially HBRC, CHBDC and WDC)
Regional Partnership Programme	HBRC, HB Chamber of Commerce and Maori Business Network
Regional Sport and Recreation Strategy	HDC, CHBDC, WDC, HBRC and Sport HB
Regional Transport Committee	HDC and HBRC
Settlement Support Hawke's Bay	HDC and DoL
Skilled Migrants and Business Attraction	HDC
Solid Waste Management Plan	HDC
Water Conservation Programme	HDC