

Subject: Annual Plan 2010/11 Activity Report – Finance & Support Services

Prepared by: Douglas Birt

Meeting Date: 5/6 May 2010

Report to COUNCIL for decision

SUMMARY

There were seven submissions to the draft 2010/11 Annual Plan that loosely fall into Finance and Support Services descriptors. Detailed officer responses and recommendations to these submissions are attached. The issues covered by these submissions were grouped into the following areas:

- No allowance for Emissions Trading Scheme or GST changes in our estimates (2)
- Starting Council Projects without funding secured
- Advocate to Central Government on a range of rates-related issues
- Development Contributions
- Waiving fees and providing incentives on Heritage Building projects
- An incorrect assumption of a “spend-up” in Support Services (specifically IT).

The following overarching issues/themes have emerged from the submissions:

- We did not have sufficient details on ETS or GST to enable us to specifically budget at the time the budgets were prepared. Any discrepancy later can be handled by opening or closing balance adjustments.
- All projects are budgeted in the Annual Plan or LTCCP. The only issue we know of concerns a partly grant-funded project.
- Federated Farmers has a series of 11 initiatives that that they would like GDC (and probably other councils as well) to provide advocacy for.
- The net which captures Development Contributions is already wide, and does already pick up the types of development raised by the submitter.
- If Council were to support the conservation and strengthening of Heritage Buildings through the waiving of fees and provision of initiatives, then there would be increases to other consent applicants and ratepayers to cover the resulting expenses.

RECOMMENDATIONS

That Council

1. receives the report
2. Approves the officer responses in Attachment 1 - Support Services activity submissions and responses
2. Recommends no change to the Annual Plan as a result of those submissions.
3. resolves to:
 - a) Provide support in principle the 11 initiatives of Federated Farmers to Central Government
 - b) Determine to consult with the public in the 2012-22 Ten Year Plan on the possibility of providing funding for the preservation and strengthening of our heritage artifices.

Douglas Birt
Department Manager

Summary and Response by Issue

For: Annual Plan 2010/11 - FINANCE

Issue	Submitter
Finance & Treasury	
23	Purcell, Geoffrey Edward John
Doesn't like the fact that Council starts projects without funding and has concerns over the way Council budgets.	
<i>Officer Response: PROJECTS : Projects are all initiated as part of community needs and aspirations, and fall into two main categories; Operational and Capital. The Local Government Act, as well as Generally Accepted Accounting Practices (GAAP) constrains the ways in which these projects may be funded. Options are: 1) Rates Funding - The rates are set at the very beginning of the year, by Resolution of Council. This funding is always available when the project is undertaken; 2) Loan Funding - Council's borrowings are minutely scheduled every year, and interest rate swaps are in place sometimes several years ahead, to ensure the best rates are available. 3) Reserve Accounts - This applies mainly to Capital Renewal projects. Depreciation is collected in accordance with Local Government Act provisions, and used to renew the assets which are being depreciated. The largest group of projects come under this category. 4) Grant Funding - Some projects can be identified as community projects which should not become a burden on the general ratepayer and, after consultation it is deemed fitting, that all or part of the funding should come from fundraising, grants or subsidies. There have been some instances in the last year when projects have been started before grants have been obtained, but we have now put more stringent control process in place to prevent this from happening in future. 5) Capital Development Reserve - funded mainly from asset sales. BUDGETS: Council's Operating Estimates are prepared each year based on the best data available, in October/November of the previous year. Council-wide budgets are then consolidated, and adjustments are made to the original estimates based on affordability or priority considerations. Budgets are prepared partly on zero based criteria, and partly from historical data. The Long Term Council Community Plan (LTCCP) (which council now calls The Ten Year Plan) is a requirement of the Local Government Act 2002, and is required to have detailed estimates for the first three years, followed by indicative figures for the subsequent seven years. It is generally accepted practice that the subsequent years are based on the best economic indices available, and Local Authorities all share in funding the cost of BERL producing these indices for the sector. Officer Recommendation: That there be no change to the draft Annual Plan.</i>	
42	Radomske, Clare Andrew
Suggests that the ETS and tax changes will have major impacts on our community, and by not taking these plans into account, the plan is substantially incomplete. Also, suggests that service level targets are often not measured or weak.	
<i>Officer Response: The ETS Changes may well have a significant effect on our finances, but at the time of putting together our budgets we had no knowledge of what those effects might be. Any changes which are significant will be included as opening balance adjustments in next year's rates setting. Council's finances are not really affected by GST rates. Our budgets are all set GST exclusive, and whatever level Central Government places on GST is billed in addition to Council's costs. Officer Recommendation: That there be no change to the draft Annual Plan.</i>	
44	Gisborne Chamber Of Commerce
GST and ETS should be covered in the plan.	
<i>Officer Response: At the time that the budget was constructed, there was insufficient information on the ETS to make sensible predictions on what the effect might be. Council's budgets are all calculated GST exclusive, so GST rate has no effect on the budgets per se. The changes to the taxation system are something that Central Government is managing, and on a per taxpayer basis, these changes are claimed by Government to be revenue neutral. Never-the-less, Council is actively engaged with other Councils in the Local Government sector, and with our software supplier, to enable us to implement policies which will minimise the effect on Gisborne District ratepayers. Officer Recommendation: That there be no change to the draft Annual Plan.</i>	
63	Federated Farmers

Summary and Response by Issue

For: Annual Plan 2010/11 - FINANCE

Issue	Submitter
<p>Federated Farmers generally supports the principle of development contributions, as a good policy promotes intergenerational equity and ensures appropriate costs of infrastructure are paid by the exacerbator. Federated Farmers appreciates the price break given to working dogs. Federated Farmers wants meaningful progress in the funding of local government and it is keen to work with local government in putting the case for reform. The Federation has proposed the following changes to reform local government funding to substantially reduce the reliance on property value rates: 1. Councils to make greater use of user charges for private goods. 2. Councils to make greater use of Uniform Annual General Charges (UAGC), and Government to abolish the 30% cap and consider whether councils should be able to charge a residents tax. 3. Councils to make greater use of targeted rates, and Government to provide more guidance on their use. 4. Government to increase the financial assistance rate for the funding of local roads. 5. Government to abolish rating exemptions on Crown land. 6. Government to provide greater guidance on appropriate roles and responsibilities for local government and provide funding to councils where it is imposing new or additional roles and responsibilities. 7. Government to provide a general revenue share (e.g., 1% of GST) and councils to reduce their general rates accordingly. 8. Government to streamline requirements for planning and decision-making. 9. Councils to report information consistently for performance benchmarking. 10. Councils to provide ratepayers with itemised rates assessments where the cost of every significant activity is detailed on the rates bill. Congratulations to those councils that already do this. 11. Government to establish a rates review office. These eleven ideas would in our view improve local government by providing it with more sustainable income sources from a broader base. These reforms would increase the visibility of the cost of local government widening the interest in what councils do and thereby enhancing local governance. Federated Farmers recommends that the Council advocates to central government for meaningful reform of local government funding.</p> <p><i>Officer Response: Council appreciates the very positive and constructive comments made by Federated Farmers. 1) GDC's rating principles do promote the use of user charges wherever they can be identified, except in two main areas. These are the swimming pool and the library. If Council were to charge the real cost of providing these services to those activities, the price would be so high that only the wealthy would be able to afford them. Because Council has social responsibilities as well as its economic ones, such a solution is unacceptable. 2) GDC does make maximum use of the UAGC. However, in increasing the UAGC beyond the 30% cap there is a risk of introducing distortions in the socio-economic make up of the district. Already, fixed charges through UAGCs and targeted rates make up 75% of the average city residential rates and goes against the historic intention of property taxes being a surrogate for a wealth tax. 3) GDC does make extensive use of targeted rates. In fact, even the components of the general rates are really targeted rates that apply to all. 4) We agree that additional financial assistance for roads would be helpful. 5) The abolition of rate exemptions for Crown Land are a severe distortion in our rating system, as are the exemptions for Maori land. If Government would contribute even a modest amount of the rates lost through these two factors, Gisborne district rates could be reduced dramatically. 6) Agreed, Government should provide funding for Government imposed costs. 7) A contribution from GST towards Council costs is only one mechanism that Government could use to fund topics 5) and 6). 8) Government is looking at streamlining decision making. 9) Attempts among Councils to benchmark consistently has met with difficulty, due to the vastly different ways Councils go about their activities. 10) GDC does provide an itemised account. 11) It is difficult to see what would be the mandate of a rates review office. Officer Recommendation: That there be no change to the draft Annual Plan. That Council supports Federated farmers in their representations to Government.</i></p>	
<p>65</p> <p>Total support for council policy of development contribution policy. Infill housing development means augmentation and replacement of existing facilities and so new developments should pay for these costs. Plus, they are tapping into infrastructure such as water, roads and sewerage that has been provided by ratepayers previously. They should not expect to piggyback for nothing. This years \$9.5m on growth related expenditure in 2009-19 should not fall on normal ratepayers.</p> <p><i>Officer Response: Ms Thorpe's philosophies align with Council s. Infill housing, workshops (with facilities) built at the back of a residential section, Granny Flats, extensions to industrial facilities, and so on are all charged development contributions, according to the set of rules which Council is operating as part of its Development Contributions Policy. Officer Recommendation: That there be no change to the draft Annual Plan</i></p>	<p>Thorpe, Margaret Ann</p>
<p>70</p>	<p>Historic Places Trust</p>

Summary and Response by Issue

For: Annual Plan 2010/11 - FINANCE

Issue	Submitter
<p>Requests that council provide funding in its Annual Plans and LTCCP to assist with earthquake strengthening and to provide other incentives including waiving resource consent fees on heritage buildings, rates relief and other measures to help ensure the long term survivability of New Zealand's finite heritage stock. Would support Councils adoption of this form of non-regulatory support for owners of heritage properties. Some of these measures are provided for in GDC's regional and district planning document.</p> <p><i>Officer Response: The Historic Places Trust is clearly looking to maintain the rich heritage of our district. The solution suggested though, gives rise to philosophical problems. The issue is that there is a cost to building and resource consents, there is a very big cost to building strengthening and there is a cost to other forms of non-regulatory support. Under Council policies, those activity units are expected to cover their costs through charging appropriate fees, and if these fees are given away to good causes, then one or two effects result; being: a) Building and resource consents to other users have to go up to make up the shortfall; or b) The difference is collected through rates. Since the benefit could be argued to be across the whole of our population, then this rate should be across the whole population, presumably including the lower socio-economic sector. The beneficiary is clearly the owner of the building, who gets a strengthened building at the cost of the general ratepayer. While it is agreed that the above argument is somewhat simplistic, it does give a bit of an insight into the complexity of providing subsidised services to noble causes. Perhaps the answer is that the taxpayer, through a Government funded scheme, should purchase all those buildings, which the owner is unable to strengthen at his/her own cost, and strengthen and preserve them at taxpayers expense. Officer Recommendation: That there be no change to the draft Annual Plan. That the 2012/22 Ten Year Plan incorporates consultation on a possible policy for funding the preservation and strengthening of our heritage artifices.</i></p>	

Summary and Response by Issue

For: Annual Plan 2010/11 - SUPPORT SERVICES

Issue	Submitter
Support Services	
42	Radomske, Clare Andrew

Objects to a \$400k spend up in support services.

Officer Response: There has, in fact, been no change to the investment we are making, and have been making, on IT technology. The only change has been to the financial treatment of that spend. In 1998, Council sold its entire IT hardware plant to a leasing company, and commenced leasing back the hardware and certain of the software we needed to operate our business. Each year we renewed that hardware at the accepted industry rate, as it became dated or obsolete. A recent opinion concerning the financial treatment of IT has been that IT is, in fact, a capital purchase that needs to be authorised the same way as all other capital purchases. The leasing company should be regarded as a funding mechanism for that capital (i.e. the normal way of funding "Decline in Service Potential" is by rating for depreciation. In this case we are rating for lease payments). We have changed this financial treatment to make our historic spend on IT more transparent. Officer Recommendation: That there be no change in the draft Annual Plan.