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Show me the Money ! Local Government Finance



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And the object of this presentation

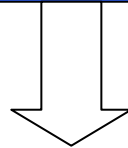




Financial Management

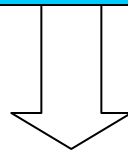
Section 101 – Prudence and sustainability

- A requirement to manage finances prudently and in a way that promotes the current and future interests of the community



Section 102 – Funding and financial policies

A requirement to adopt a set of funding and financial policies to provide predictability and certainty about sources and levels of funding.



Section 100 – Balanced budget requirement

Operating revenues must be set at a level sufficient to meet operating expenses, unless prudent not to do so having had regard to levels of service, intergenerational equity, funding policies.



Financial Policies

- Revenue and Financing Policy
- Investment Policy
- Liability Management Policy
- Development Contributions Policy
- Public Private Partnerships
- Maori Freehold Land
- Rate Remission (optional)
- Rate Postponement (optional)



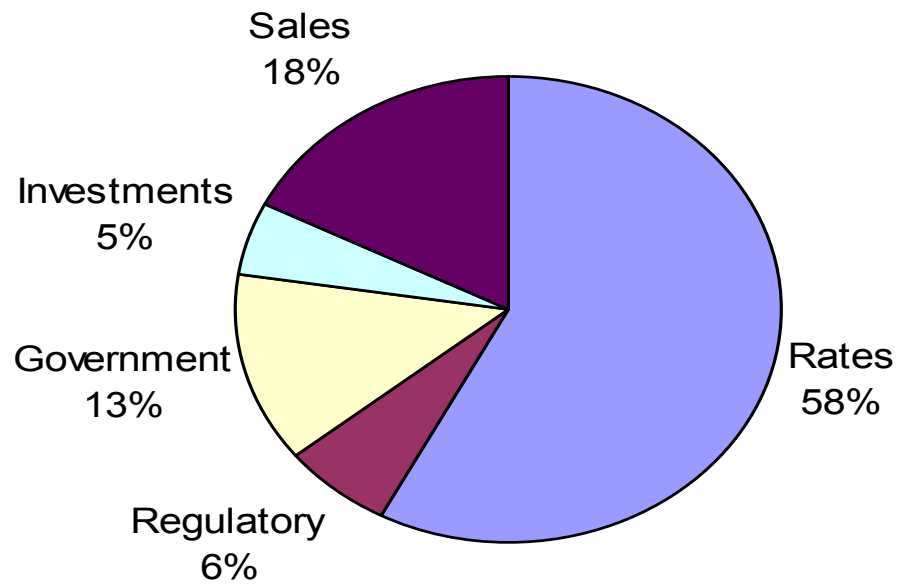
Funding – the case law

- Funding decisions can be challenged on
 - failure to follow legal requirements
 - unreasonableness (administrative law)
- NZ law – *Mackenzie* and *Wellington* cases



Where does the Money Come From?

Local Authority Operating Revenue by Source 2008/9



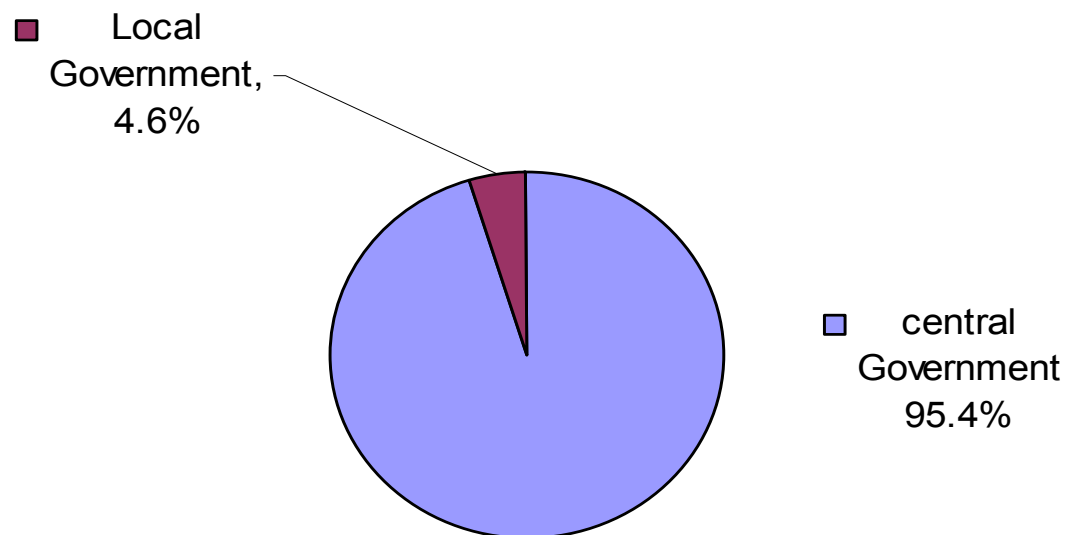


What are Rates?

- A tax on land and interests in land
- Two types
 - general
 - targeted
- Property values and rates
- Other types of rates
- Rates exemptions
- Rates are set annually – no ‘bracket creep’

“Local Government Rates are Unaffordable” ?

Rates as Share of Household Tax in Auckland





Unaffordable or unpopular?

- Coercive
- Visible
- Mildly regressive
- Value proposition not always evident
- Poor reporting (“% phobia”) – ARC rates revolt

“This council’s rates are unpopular rather than unaffordable.”



Central Government

- Road funding
 - Some assistance for “three waters”
 - Smaller scale – program based (SPARC etc)
-
- Central government funds capital (generally...)
 - Local funding = local autonomy



Other Revenue Sources

- Sales of goods and services
- Regulatory income
- Income from investments
- Development contributions (capital only)
 - more like a charge (*Neil and Ors vs North Shore*)
 - growth related capital only



Local Government Debt

- Why local authorities borrow - intergenerational equity
- Some facts and figures
 - local government debt - \$5.5 billion
 - local government assets - \$90 billion
- Debt to double over next ten years
- Still healthy position as a sector – but one or two are borrowing short-term to compensate for declining revenue



Where does the money go ?

- Sector not good at showing value for money
- Approx 73 percent of 10 year capex is on **network** infrastructure (DIA)



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Cost Drivers

“Local government operating expenditure increases 39 percent in next ten years”

Why ?



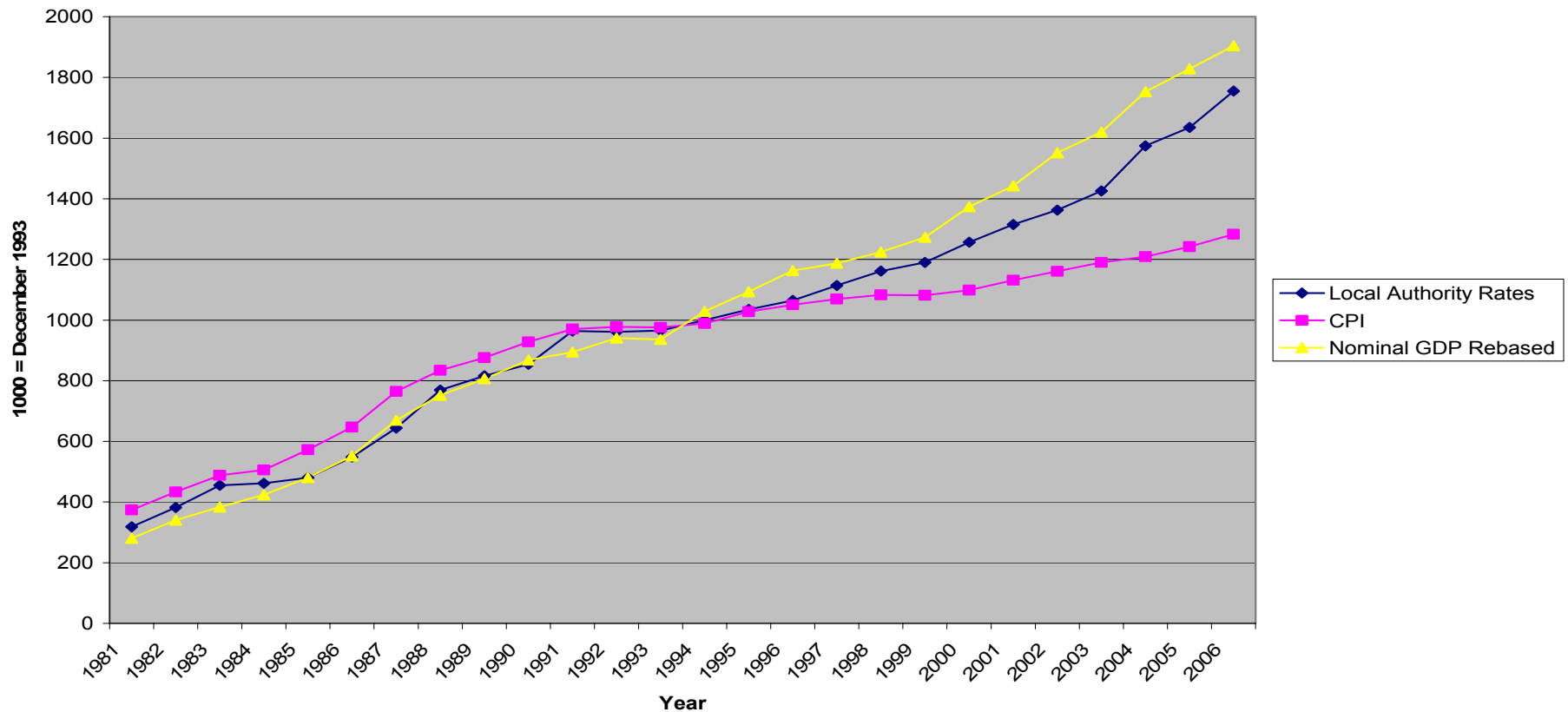
Cost Drivers

- Population growth – approx 10 percent
- Economic growth - ???
- Government standards – remember drinking water and air standards are postponed not abolished
- Aging population – demands for a different “portfolio” of services



Rates vs Economic Growth

Local Authority Rates & Consumer Price Index 1981-2006





Cost driver #1

- Price Change (BERL) – 31 percent
 - roading 28 percent
 - property 31 percent
 - water 36 percent
 - energy 34 percent
 - staff 31 percent
 - pipelines 39 percent
 - earthmoving 40 percent



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What Drives Price Change ?



Current Issues in Local Government Finance



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- Financial sustainability (in a recession)
- “Core services”
- National good
- Maori land rating
- Local Government Bond bank

Questions



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