Response to Auckland Council 10 year budget 2021/31 Long term Plan consultation

Dear Mayor,

Rating policy and strategic assets

Your “Vision for Auckland” on the AC website says:

*“We want Auckland to be a high performing city, strongly governed and managed, efficient and **transparent in how it provides services to its people**”*

Northern Action Group (NAG)[1] acknowledges that Auckland Council needs an increase in rates revenue at least of the amount you propose, in order to:

- cover the shortfall from the decline in service/activity revenues and investment dividends;
- fix an infrastructure deficit;
- maintain a level of service provision of basic services which ratepayers expect of the council; and
- satisfy demands on Council for new investments and services to match the expectations of significantly wealthier ratepayers..

We also acknowledge the concerns of many ratepayers about Council’s priorities, wasteful spending, bureaucracy, inefficiency and inadequate development planning coupled with poor enforcement of rules such as consent requirements.

In this submission we offer some suggestions for you on:

- selling the rate increase proposal;
- future rating strategies;
- setting investment and service priorities; and
- more efficient delivery processes.

These should go some way to helping you address ratepayer concerns.

Selling the rate increase: by linking rate changes to property values.

Auckland ratepayers have had an unprecedented hike in their net wealth with the rise in housing prices.

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[1] NAG remains committed to improving local democracy for the people of North Rodney. This include getting a vote which the people were denied on whether or not they want to be part of AC, and seeking improvement to the governance model of AC which we have frequently shown to be dysfunctional and inefficient for such a large Unitary Authority.

The General Rate is based on a proportion (ratio) of Capital Value (we believe this should be Land Value – see below) because originally the idea was to pay for property related services - 3 waters, transport, waste and related urban community services.

In equity terms it is fair that people whose wealth have increased most have benefited more and should pay more for the AC services they receive. They also can afford it (if necessary by borrowing against their equity since rates are so low – AC even has a scheme for that).

The General Rate also endeavours to provide fairness in relation to the different level of services provided by having different rates for rural, residential etc.

AC was meant to do a general property revaluation this year, but has deferred it to next year because of Covid. If it was urgent (i.e.for this year's budget) we expect it could be done quickly, or on a temporary (for this year) basis. (there are always provisions for people to object to their own valuation).

Instead of talking about a rate INCREASE - why not plan to, and say that AC intends to, keep the **ratio** the same this year, and not increase it. Make this the selling point – **no ratio increase**. Complete the valuation review urgently and base the rates on that.

[Officials will no doubt argue that it is now too late for a rating review for this year's rates accounts. If that is the case, we suggest the policy receive serious consideration for next year's rates exercise.]

AC would take on the risk of the effect of property price volatility on rating revenues. This is a manageable risk over time and would create an added incentive for AC to make Auckland an attractive place to live, work and play - keeping up property prices.

Ratepayers will appreciate knowing that if their property values decline they will see a matching reduction in rates.

Furthermore if the ratio is based on land values rather than capital values this would reduce variability, as the supply of land remains fixed and demand for land uses is growing. The package would then be tailored, fair, equitable and efficient.

AC could plan to do a valuation review (even if only a broad brush one) every year and keep the ratios the same. [A ratio review would then be a major exercise - like a representation review - done say every 6 years.]

If property values have gone up 10%, then rates revenue will increase accordingly - but you can say the general rates ratio hasn't increased. People are just paying more because they have become wealthier and the cost of providing AC services has increased. (Depending on the modelling AC might even be able to decrease the ratios initially and still achieve its target revenues.)

The appeal of this approach from the viewpoint of those who oppose AC expansion is that if property prices fall, AC would be under pressure to be more efficient, and cut out wasteful spending.

Even if you must reject this rating idea for this year because of time constraints, your communications team can still say rates are actually coming down relative to people's wealth increase in the value of their property. (AC property values have gone up by nearly 20% compared with your proposed 5% + rate increase).

Future Rating Strategies

1) Land Value based rating

The argument for Land Value based rating is clear and has been made regularly by your own Research and Evaluation Unit (RIMU).

"In summary, a land value (LV) based rates system approach has several strengths:

1. *It incentivises efficient use of land and doesn't reward those who do not develop their land.*
2. *It is easy to administer.*
3. *It is difficult to evade.*
4. *It doesn't distort production in the economy – land is fixed and a tax on it won't mean less of it is produced.*
5. *It better aligns timing between infrastructure provision and take-up of that infrastructure.*
6. *It is progressive. Those with more valuable land pay more."*

Recent property price increases have likely exaggerated the disadvantages of a Capital Value based rating system.

We are disappointed to see that AC has not raised this as a topic for consideration in the 10-year budget/Long Term Plan consultation. A more nuanced approach to rate increases through reconsideration of rating policy at a time of potential "transformational change" would likely have considerably defused the polarised debate around simple general percentage rate increases.

Also the main (and reasonable) concern about changes between CV and LV based rating systems is that one group or another is unfairly penalised through the change. Since properties are rated at a different ratio depending on their use category, adjustments can be made to allow for the fact that e.g. the ratio of improvements to land value in rural farms is much less than that for urban dwellings and the rating ratio reduced accordingly to allow for that.

2) Rating policy and targeted rates

In the first full year of AC's operation as a Unitary Authority (2010/11), revenue from targeted rates was $242m against $693m of General rates (or 35%). Since then General rates have grown 137% to $1,642m in 2019/2020 and Targeted rates were still at $224m (or 14% of General Rates). Activity revenue grew during this period by 357% to $1,316m for 2019/20.

	2011 $m	2020 $m	% increase
General rates	693	1,642	136.9%
Targeted rates	242	224	-7.4%
Rates total	935	1,866	99.6%
Activity revenue	288	1,316	356.9%
Income	1,323	5,168	290.6%

This reflected a strategic AC rating policy of growing activity revenue while increasing the effect of the uniform rating policy to spread revenue across AC ratepayers to support the growth in non-core activity.

As maintenance and renewal of core infrastructures have been progressively neglected, new investments prioritised, and reasonable Gereral Rate increases maximized but limited, service/activity levels and investment returns (and new income, like the RFT) have made up any shortfalls.

Now activity and investment revenue has shrunk, and general rate increases have been self-limited, AC is having to turn to greater use of targeted rates to fund increases in revenue.

Targeted rates are thought of firstly as specifying the purpose the funds are to be applied for. But the generally accepted principle of targeted rates is that those who benefit, pay. i.e the ratepayers who benefit are targeted to pay the rate.

To the extent that payments and spending are not directly linked at the individual level, and payments and benefits are at a suburban or community level, the principle of proportionality should apply – the money raised should be spent on ratepayers generally in proportion to their contribution.

AC has undermined that principle by just using the first half – specifying the purpose – but broadening the base of ratepayers who pay the rate - without applying the funds proportionately. The Water Quality and Waste Management “targeted rates” are a good example. People in our local Board area (Rodney) derive no (or little) benefit from a rate used to improve water quality in Auckland city or Manakau harbour.

It’s basically unfair (and simply cross subsidy or an income transfer) to tax (rate) one group to pay for another’s benefits unless something is offered in return.

Under AC’s new formulation, the distinction is being lost. General rates could be called targeted because they tax Auckland ratepayers and are applied across the district to benefit

Auckland ratepayers, and increasingly, targeted rates can be called general because they rate everyone to pay for district wide basic services.

Targeted rates have become another AC device to increase rates in a period of revenue shortfall - to maintain spending on basic property related services (aren't clean water, a clean environment and waste management basic services?) that general rates should pay for.

AC is doing this to avoid cutting back on services while not increasing the General Rate. Progressively turning General Rates and Targeted rates upside down and making our basics seem like extras is a poor substitute for setting a realistic rate for services AC should be providing generally to all ratepayers. If this demand for services is expanding, it should be met by strategic changes to rating policy as we suggest above, coupled with sensible usage related charges to control quantities (e.g. waste generation and processing, water use and transport asset use), not by political and tactical rating targeting of "hot-button" issues like the environment and waste.

3) Sell non-performing "Strategic' Assets

Auckland Port and Auckland Airport are strategic "gateway" land-based assets for the Auckland region, but so are the national roads that Aucklanders use and NZTA owns those. NZTA does not own transport companies and AC does not need to own the Ports or Airport businesses.

Local Authorities can control asset allocation and use regionally through regulation, by-laws and policies (in cooperation with Government). While property rights are more certain and direct in ensuring control of resources, they are not necessary.

Money raised from the sale of investment businesses (not land) can allow AC to strengthen its currently woeful enforcement and penalties regime in the event of breaches of its consents and rules.

The weakness of increasing reliance on dividends from shareholding investments has been exposed during the Covid epidemic and lock downs, with ratepayers being the "owners of last resort" and asked to make up the shortfall.

If the investments were made in AC's infrastructure assets instead (3 waters, transport and waste management), ratepayers would benefit from better services and reduced borrowing.

AC is largely a passive investor in the Ports and Airport companies and has enough governance worries properly guiding its CCO's.

It is past time to have a managed sale of AC's Ports and Airport shareholdings and repay debt or finance needed for infrastructure renewal and development.

4) Ensure infrastructure keeps pace with development – financially

Auckland has been one of the country's fastest growing areas. Population has grown 18% from 2011 to 2020. Few would argue that basic infrastructure (for water, waste management and transport) has not kept up with the development.

Successive Government have also failed to pre-provide the social infrastructures they are responsible for (schools, hospitals, civil defence, fire, police, justice.. etc.)

Worse, the cost of borrowing to support local authority infrastructure renewal and upgrades falls across the bulk of existing ratepayers - who have neither been responsible for, nor benefitted from, the population (and dwelling) growth.

AC needs to ensure that any property development that adds to current infrastructures (and thus burdens their capacity) must, before approval, ensure that the full (average, not just marginal) costs of operation, maintenance and replacement, over the life of the infrastructure used, will be met by cash flows generated by or from rates paid by the owners of those properties – not ratepayers at large.

This mostly means a targeted (permanent) infrastructure rate on new properties, to cover the extent by which current developer contributions do not cover the full average costs over time of capacity upgrades to the systems their developments connect to.

It is simply unfair to expect todays ratepayers to help pay for the costs of services provided to new ratepayers, especially when they are not currently receiving the quality of service from AC that should be standard.

AC has struggled with that since inception in 2010 and only recently completed studies on service levels and quality. These show that many legacy inequalities remain across Local Board areas in terms of core assets and community services. Little, if anything, is proposed to be done about that in this long-term plan.

In addition to developer contributions and requirements, which assist with initial asset provision, a targeted rate for all new properties is essential to help AC get on top of its asset maintenance and renewal backlog.

For too long, AC's iconic city investment development projects have not been ranked for ratepayer consideration in terms of cost/benefit and assurance of future cash flows to meet ongoing operation and maintenance and replacement needs.

The result is a system of investment prioritization selected by political decision and the creation of assets that have no future cash flows foreseen to pay for their operation, upkeep and replacement – perpetuating a cycle of wasteful spending, never-ending real rate increases, and a growing collection of deteriorating community assets. Selling assets to get finance is not addressing the fundamental weakness in AC's project evaluation methods.

Worse there is not a unified community or ratepayer level focused evaluation approach across the different prioritization criteria used by AC's different CCO's. Only the big projects go to the GB and then the decision made is political and not based on profitability or cash flow considerations. The system is further distorted by a mesh of service cross-subsidisation.

User pays for transport services will solve many problems and remove distortions.

Why does AC not require AT to ensure public transport covers its costs?

Transparency and fairness: community engagement and accountability

Persistent refusal to provide a pro forma accounting of the financial performance and financial position for each local board area - consistent with but supplementary to the AC annual financial accounts - gives the lie to any assertion of transparency and fairness.

Since amalgamation and the conscious decision to unify rating across the then constituent Council, and now Local Board, areas, citizens and ratepayers of each Local Board area have been denied a transparent annual assessment of the financial performance of their local board area as part of AC - either as a segment breakdown of the accounts or (better still) as if Local Board areas were subsidiaries and accounted for accordingly.

The idea that all Aucklanders are the same, or part of one homogenous group is a promotional and PR chimera. There is a very wide disparity of cultures and lifestyles and activities and local government service needs across the different Auckland areas. Also as the Service Level Review has shown there are significant legacy disparities in community asset provision (which AC has done nothing to address in its 10 years of consolidation).

Ratepayers and citizens have loyalty first to their local community and district, and want (and have a right) to know where their rates are going - not just on what AC activities (since mixing the different revenue streams and accounting for expenditure on cross-area activities (intentionally?) confuses and muddles the picture), but people want to know where (the places) the money is being spent and for whose benefit.

The principle of subsidiarity demands that level of information transparency, even if the management structure persistently avoids any devolution which would make the accounting easier.

Governance and management (control and data collection) of AC on a centralized functional silo and CCO model makes this a non-trivial exercise, but some limited efforts have been made to indicate this (e.g. estimates in the Governance Framework Review and work for the LGC for the NR application for a separate Unitary Council.

Councillors like Rodney's Greg Sayers have consistently asked for this level of transparency, but the Council, led by the mayor, has refused to move, presumably fearing that local board ratepayers will see the disparities in who pays for what across Auckland and want to know why?

This does not necessarily mean that people would object, since a case can be made for investment in some areas being paid for by ratepayers in others in return for future benefits. But people want want to see the fairness in that, i.e when does their turn come for the investment that other ratepayers can help pay for. and the case is not currently being made. Auckland central is taking for granted that it knows how its ratepayers and services users want their money to be spent.

Rodney Local Board Priorities

We strongly support the Rodney Local Board's advocacy for more roading funding for our local board area and increased investment in local community assets to improve the service quality of asset based services in Rodney.

At the very least, AC's commitment to $121m of roading funding over 10 years should be restored. At a time when AC is increasing its spending overall, the proposed reduction to $40m is a hurtful political decision to further penalise Rodney ratepayers for complaining about, and not supporting, your wasteful spending, and poor treatment of Rodney communities relative to other AC Local Board areas.

We have no particular comments about other board priorities, given that the amount of LDI spending is extremely limited. Our view is that through devolution and enhanced localism the Board should be given more authority over the spending by Auckland Council in our area, helping to coordinate activities across AC's functional silos that don't talk to each other and having input into poor AC planning decisions that don't fully recognize local factors. This would encourage community engagement and provide some accountability for local board members.

Consistent with our view that subsidizing public transport distorts transport mode incentives, we do not support the Local Board's continued subsidy of busses and Park-n-Rides though a local targeted transport rate. On some routes there are so few passengers it would be cheaper to provide taxis.

Feedback form responses

1) Proposed 10 year budget: What is your opinion on the proposed 10-year budget?

1. Support
2. Do not support ✓
3. Other

4. Don't know

Tell us why

As our submission makes clear, an even higher level of general rates is justified, but expenditure needs to be better focused and more efficient and directed to meet the needs of all communities, including Rodney!

Targeted rates should not be used to fund items that should be covered by general rates, just to avoid increasing general rates by the amount needed. Clean water, a clean environment, good sewage and drainage, basic transport services, including roading, and good waste management are needed across all local board areas before other nice-to-haves.

The long term plan should include plans for disposal of residual and hazardous waste and there are none!

Public transport solutions should not be subsidized by motorists. Users should pay, as they are being asked to do for water. Roads are basic and should all be sealed and well maintained.

AC's governance model is not fit for purpose and is producing inequitable and wasteful outcomes to cater for special interests.

2) Climate Change: What is your opinion on this proposal to invest more in responding to climate change?

1. Support the proposed increased investment
2. Do not support increased investment
3. Other ✓
4. Don't know

Tell us why

We support investing in making AC's operations more climate friendly, but any new actions to provide incentives or coerce individuals are for Government, not local authorities. There is no current priority for additional 'climate" investment. More climate friendly solutions for current activities should not cost ratepayers more.

3) Water Quality: What is your view on this proposal (to extend and increase the water quality targeted rate)?

1. Support the extension and the increase
2. Support the extension only

3. Do not support either change
4. Other
5. Don't know

Tell us why

Water quality is a basic service and should be paid for from general rates and user charges. The proposal is an abuse of the targeted rate concept.

Furthermore, rural and rural residential users, who are self-contained in both potable water and wastewater and thus do not need publicly provided water quality monitoring or management, should receive recognition for this in a lower general rate charge for their category of ratepayer.

4) Community "investment": What is your opinion on this proposal (to lease, share and consolidate community facilities)?

1. Support
2. Do not support
3. Other
4. Don't know

Tell us why

Community facilities should be managed by their communities with the support of local Boards, not remotely by AC. Local Board should have staff accountable to them to make proper use of community facilities. Communities should be more directly involved in managing and funding community facilities (once asset based service quality is addressed across all Local Board areas).

5) Rating Policy: What is your opinion on the following proposals?

	Support	Do Not Support	Other	Don't Know
Extending the Natural Environment Targeted Rate until June 2031 to invest further in measures such as addressing the spread of kauri dieback, and predator and weed control		✓		
Extending the Urban Rating Area so land that has an operative urban zoning, or which has resource consent to be developed for urban use now (except for Warkworth), pays the same urban rates as nearby		✓		

properties that have access to a similar level of service				
Charging farm and lifestyle properties in the Urban Rating Area residential rates so they pay the same urban rates as nearby properties have access to a similar level of service		✓		
Extending the City Centre Targeted Rate until June 2031 to maintain our investment in upgrading the city centre		✓		
Introducing the Rodney Drainage Targeted Rate on the land in Te Arai and Okahukura that benefits from the stormwater services		✓		

We are proposing other changes to rates and fees, including the introduction of the Electricity Network Resilience Targeted Rate on Vector to fund council's tree management programme around the Vector overhead power lines and options to reinstate the Accommodation Provider Targeted Rate.

Do you have any comments on any of our proposed changes to rates and fees charges?

(please be clear which proposal you are talking about)

See our submission : General rates should pay for all "basic" services and AC should ensure the level of general rates keeps pace with the value of AC properties.

The Upper Harbour Local Board are proposing a new bus service between Paremoremo and Albany, funded by a targeted rate.

Which of the following options do you support?

	Support Option 1 – targeted rate of $238 for each separate dwelling or business on a property for properties located within 500m walking distance of a proposed bus stop
	Support Option 2 – targeted rate of $153 for each separate dwelling or business on a property for properties located in the wider Paremoremo and Lucas Heights area of the Upper Harbour Local Board
	Do not support either option ✓
	Don't know

Tell us why

Public transport should not be subsidised. That distorts peoples transport choices. Users should pay.

Do you live in the area affected by the proposed Upper Harbour Local Board transport targeted rate?

1. Yes
2. No ✓

6) Rodney Local Board comments and priorities

See our comments above

7) What is important to you?

Do you have feedback on any other issues, including our proposals on housing and growth infrastructure or strategic assets?

(please be clear which proposal or topic you are talking about)

See our comments above

The BID Programme

AC should abandon the targeted rate for Business Improvement Districts. Having AC encourage and support the promotion efforts of local business associations is fine, but coercing business to pay a rate to fund their association on a vote of only 13% is authoritarian and undemocratic.

William Foster
Chairman
Northern Action Group
22 March 2021