

## Report: Local boards funding policy review

### Purpose

1. This report provides an overview of the review of the local boards funding policy. It highlights the key issues with the current policy, and identifies options that better provides local boards with an equitable capacity to enhance well-being.

Chapter 1	Background to the local boards funding policy
Chapter 2	Principles for the local boards funding policy
Chapter 3	Allocation of decision making
Chapter 4	Funding for local assets and regional initiatives delivered locally
Chapter 5	Funding for locally driven initiatives
Chapter 6	Modelling the funding options
Chapter 7	Managing changes to local board funding
Chapter 8	Local fees and charges
Chapter 9	Use of local rates to fund local board activities
Chapter 10	Capital expenditure
Chapter 11	Implementation issues
Chapter 12	Rates remission and postponement policy

### Executive Summary

2. The Local Government (Auckland Council) Act 2009 (LGACA 2009) requires the council to have a local boards funding policy. The policy is required to allocate funding to local boards for local activities in a way that provides each board with an equitable capacity to enhance the well-being of their local community.
3. Decisions on council funding options are determined by answering the following questions:
  - What service levels should be provided?
  - How much will these service levels cost?
  - How will these costs be funded? (Rates, user charges<sup>1</sup> or a mix?)
  - Who will pay for these costs? (Local ratepayers, all ratepayers or a mix?)
4. Who makes decisions on service levels drives decisions on the funding options. Local boards have full decision making in respect to some activities, for others they make decisions within parameters decided by the Governing body. The local boards funding policy needs to be aligned to this split in decision making.
5. In the 2013/2014 financial year \$332 million of operating expenditure has been allocated to local activities. Consideration of how much council funding is allocated to local activities is not within the scope of the review. This will be determined through the long-term planning process.

#### Funding local assets and regional initiatives

<sup>1</sup> Fees and charges are part of the funding mix for local activities, but are a minor source of revenue compared to rates funding. This report focuses on the mix and allocation of rates funding as this is where the key trade-offs need to be considered. The role of local fees and charges revenue in the funding policy will be reported in February, before decisions are required.

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6. The amount of local asset related expenditure within each local board receives reflects service level decisions on the number and nature of assets within each board area. In 2013/2014 funding for local asset related activities such as libraries, pools and parks cost \$296 million.
  7. Under the allocation of decision making, the governing body is responsible for deciding the number, nature and broad location of local assets and the associated capital and operating expenditure. Local boards are responsible for the operation and maintenance of local assets within those parameters.
  8. Initial analysis of key local assets shows residents of the region have reasonable access to services, see maps in *Report 1: Local assets area of service*.
  9. While access to local asset related services and regional initiatives is reasonable they are not exactly equal nor should they be:
    - different parts of the region have different preferences/needs for services
    - current starting point differs across region but must be taken as a given
    - not financially practical to move every part of the city onto the highest standard.
  10. It is proposed that local boards be funded to provide the relevant level of local asset related service from general rates. The residents these assets serve are not contiguous with the local board areas and the decision making on significant investment rests with the governing body.
  11. The governing body will be working with the local boards on service levels and asset management plans, leading into the long-term plan process. This process starts in February 2014. This will set service levels and how they will be delivered over time. However, the final outcome will not be exactly equal. The cost of trying to achieve perfect equality in service levels is not worthwhile within a large and complex organisation where needs differ across the region.
  12. Local boards can fund higher service levels in their areas and may approach the governing body to discuss providing a lower level of service.
  13. The cost of providing regional and local services will not match the general rates collected from each board area. Rates are a mix of a tax and a charge for service. How those elements are balanced is a matter for the rating policy. The council has an opportunity to reconsider that as part of the forthcoming long-term plan if it wishes.

### **Local initiatives**

14. The allocation of decision making enables local boards to undertake activities for the benefit of their local communities, such as events and community development, where boards have full control over the levels of service they will provide. These activities can be described as locally driven initiatives, and at present represent \$36 million of local activity expenditure.
15. Current funding for locally driven initiatives has been allocated to boards based on the maintenance of legacy service levels, along with a population based top of discretionary funding. The amount of funding available for locally driven initiatives is not distributed fairly amongst boards by any dimension.

The primary focus of the policy analysis is how to fund locally driven initiatives. The options are:

- i. general rates allocated by population possibly adjusted by a combination of other factors such as deprivation and geography (this addresses fairness in the context of need and affordability)
  - ii. local rates (which aligns the recipients of the benefits of the services with those who are paying – the local residents)
  - iii. combination of i) and ii) above (which balances the two dimensions of fairness)
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16. The choice between these options will require judgement to be exercised when making tradeoffs between the different dimensions of fairness. Because the existing distribution of funding does not have a close match to any of the dimensions of fairness, major change will be inevitable whichever approach is adopted. A range of transition options can be modelled to show alternative approaches to managing change.

### **Changing the local boards funding policy**

17. The current policy allocates funding to local boards based on maintaining inherited service levels. The allocation of funding reflects legacy council decisions on service levels, rather than a consideration of what constitutes a fair allocation. This is inequitable and there are major differences across boards in terms of:
- per capita funding
  - assets
  - service levels.
18. It is not possible to raise all service levels to the regional maximum without a substantial increase in rates. There is no perfect solution to this issue and choosing a policy will require difficult trade-offs. While a fair solution is sought delivering one is complicated by differing perspectives on what fairness means. There are several key dimensions of fairness that need to be considered in the review:
- level of funding each board has, relative to need for local services, as determined by factors such as population size and deprivation
  - paying for benefits received (those who have more services should pay more)
  - affordability of the funding policy across board areas
  - aligning decisions on funding with decisions on expenditure.

## Chapter 1: Background to the local boards funding policy

This chapter of the report describes the current local boards funding policy, outlines the legislative requirements that apply to the policy, and the constraints within which the policy must operate.

### Current Policy

19. The Auckland Council adopted its current local boards funding policy in June 2012. The key features of the policy are:
  - boards are funded for the capital and operating expenses required to maintain existing local activities and levels of service
  - any additional funding made available is allocated on the basis of each local board's share of total discretionary expenditure, relative to that local board's share of the population (with special provision for the islands).
20. The current local boards funding policy is based on the provision of services inherited from the former councils. This approach has been developed as a pragmatic response to the variance in existing service provision due to the location of assets inherited from the former councils.

### Legislation

21. Under the Local Government (Auckland Council) Act 2009 (LGACA 2009), the purpose of the local boards funding policy is to provide predictability and certainty about levels of funding for local boards. Funds for local activities must be allocated in a way that provides each local board with an equitable capacity to enhance well-being, giving regard to:
  - the level of dependence each board area has on local government services and facilities (as determined by the attributes of each board area, for example demographic and socio-economic indicators)
  - the cost of achieving or maintaining identified levels of services
  - the level of rates or other revenue related to local activities collected from each board area
  - any other factor that affects the nature and level of services required by each board area.

### Constraints

22. There are several significant constraints that must be considered in the development of the local boards funding policy. These are set out in the table following.

Constraint	Impact
<b>Allocation of decision making</b>	The Governing body has responsibility for significant decisions related to new local assets, major upgrades and change of use of existing local access, procurement and regional networks including the library collection, sports grounds, and recreational facilities.
<b>Inherited asset base</b>	Assets are not equally distributed in relation to local board boundaries. Local board budgets reflect geographic variance in the distribution of assets.
<b>Financial strategy</b>	The local board funding policy operates within limits set by the financial strategy; include limits on rates increases and debt ratio limits.

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## Chapter 2: Principles for the local boards funding policy

This chapter sets out the key principles for developing the local boards funding policy.

### Principles

23. The primary principle driving decision making is fairness. However, there is no unified perception of fairness but rather several dimensions that need to be balanced. These dimensions are reflected in the first three principles set out below. The last is focused on the cost of operating any policy. The key principles are:
- funding based on need
  - paying for benefits received
  - affordability across board areas
  - financial accountability
  - administrative effectiveness.

#### Funding based on need

24. The LGACA 2009 requires the local boards funding policy to provide each local board with an equitable capacity to enhance well-being. The starting point for defining 'equitable capacity' is to consider equity in relation to the following measures:
- the relative level of funding each board has
  - the relative levels of service available within each board area
  - the affordability of the funding policy for ratepayers and service users.
25. To achieve equity there needs to be a relationship between the level of funding, the levels of available services and the level of need for services in each board area.
26. There are a number of factors that can indicate the relative need for local services in each board area. Population will be the key driver of local service demand. The governing body has also agreed deprivation and geographic isolation as parameters for consideration. Potential factors will be explored further in the discussion of options for general rate allocation.

#### Paying for benefits received

27. This principle requires a link between who receives the benefit of a service and who pays for that service. Fairness is perceived in terms of paying for what is received. In a local board context this requires consideration of whether the benefits of a service are strictly local or extend materially beyond a board's boundaries.

#### Affordability across board areas

28. The funding burden on each board area needs to consider their relative ability to pay. The ratepayers in some boards may be better able to fund local activities.

#### Financial Accountability/Alignment with decision making

29. Financial accountability requires a link between decisions on costs and decisions on requirements for revenue. This suggests a need to align the funding policy with the allocation of decision making.

#### Administrative effectiveness

30. Any funding policy needs to be practical to implement, and cost effective relative to the level of benefit the policy provides in achieving the key principles.

## Chapter 3: Allocation of decision making

31. This chapter details how the allocation of decision making has led to the development of a proposed framework for the local boards funding policy.

### Understanding the allocation of decision making

32. The starting point for developing the policy framework was an assessment of the level of decision control allocated to local boards and the governing body under the allocation of decision making, as set out in the table below.

Decision making category	Decision-making role for local boards	Budget parameters	Key driver of cost allocations
<b>Drive and implement local initiatives</b>	Locally based initiatives with full decision-making responsibility sitting at a local level (within any regional parameters that may be established).	None - Fully discretionary budget	Local boards
<b>Implement governing body investment decisions</b>	Local boards Implement governing body investment decisions	Implementation within parameters agreed as part of GB approval (scope, budget, general location, etc).  Changes to budget or scope require GB approval. Unspent funds are returned to the GB where GB has provided specific project funding.	Governing Body
<b>Deliver local activities through local facilities</b>	Local boards are responsible for decisions about the use of and changes in the use of local facilities (within parameters set by the governing body).	In the short term there is limited discretion in budgets due to nature of staff costs and duration of contracts. Over the longer term, budgets are more discretionary as decisions are made on service providers, use of facilities and service levels.	Asset
<b>Inform and monitor management of local assets</b>	Local boards inform the development of asset management plans & regional procurement contracts and have decision-making responsibility for governing implementation	There is limited discretion to adjust budgets – generally reflecting decisions around timing, prioritisation and ensuring implementation is in line with expectations through approval of work programmes	Asset

33. It is clear from the table above that local board decision making on local expenditure is constrained where expenditure is driven by Governing Body investment decisions, or is related to the maintenance and operation of local assets. Considering these constraints alongside the available funding tools, and the key principles for the funding policy, has led to the development of a policy framework that is split between funding for locally driven initiatives and funding for local assets and regional initiatives.

## Applying the allocation of decision making to local activities

34. Local activities have been analysed against the categories of decision making described in the previous table. The table below shows the resulting classification of local activities against the policy framework.

Policy Framework	Decision making category	Local Activities
Funding for locally driven initiatives	Drive and implement local initiatives	<ul style="list-style-type: none"> <li>Local events</li> <li>Local arts and culture initiatives</li> <li>Local business area planning &amp; development</li> <li>Local safety initiatives</li> <li>Local environment &amp; heritage protection (exc interest)</li> <li>Local community development initiatives</li> <li>Local recreational advice</li> <li>Grants for local recreational organisations</li> <li>Local parks - fully discretionary capex and opex budgets e.g. SLIPs, LIPs (excluding renewals &amp; GB decisions)</li> <li>Any other discretionary budgets</li> </ul>
Funding for local assets and regional initiatives	Implement governing body investment decisions	<ul style="list-style-type: none"> <li>Legacy capex projects</li> <li>New facilities</li> <li>Major upgrades</li> <li>Sportsfield capacity programme</li> <li>Town centre transformation projects</li> <li>Local parks investment</li> <li>Any regional initiative that is to be delivered locally</li> </ul>
	Deliver local activities through local facilities	<ul style="list-style-type: none"> <li>Local arts and culture facilities</li> <li>Local community facilities</li> <li>Local library facilities &amp; services</li> <li>Other local recreation facilities</li> <li>Local aquatic, leisure &amp; recreation facilities</li> <li>Includes grants to third party providers of local facilities</li> </ul>
	Inform and monitor management of local assets	<ul style="list-style-type: none"> <li>Local street environment and town centres</li> <li>All renewals</li> <li>Local parks capex and opex – excluding fully discretionary budgets (e.g. LIPs)</li> </ul>

35. This analysis steps away from previous discussions of discretionary and non-discretionary activities as a basis of funding local boards. Instead it recognises that local boards have the ability to undertake activities that may be classed as non-discretionary, or have non-discretionary elements, such as staffing associated with community development initiatives.
36. A significant change as a result of this classification is that grants for third party run facilities are treated the same as council funded facilities, and are included under the category of funding for local assets. This is on the basis that local boards should be funded in the same way for equivalent services, regardless of whether the services are delivered by the council or through local grants to non-council providers.

## Community, arts and cultural facilities

37. Currently a review of all community, arts and cultural facilities is underway, in preparation for the development of a regional strategy for these facilities. As part of this review, consideration will be given as to where different types of assets should sit in terms of local versus regional decision control. It may be that after this consideration, some assets are identified as being purely local in focus, for which a regional funding model may not be appropriate. In this case consideration could be given to the benefits of giving local boards' greater control of these assets, and funding them as locally driven initiatives.

The review of community, arts and cultural facilities is scheduled to be completed in time to allow decisions to be made for the Long-term Plan 2015-2025. This will also allow sufficient time for changes to be incorporated into the local boards funding policy

### Applying the allocation of decision making to local budgets

38. Local board budgets have been analysed against the types of local activities shown in decision making table, to classify budgets as either funding for locally driven initiatives, or funding for local assets or regional initiatives. This analysis has been used as the basis for modelling the impact of different funding models.
39. The results of this analysis are shown in the following tables.

**Table: Local board net operating expenditure 2013/2014**

Location	Funding for Locally Driven Initiatives (\$)	Funding for Local Assets and Regional Initiatives (\$)	Funding for Locally Driven Initiatives (%)	Funding for Local Assets and Regional Initiatives (%)
Albert-Eden	1,831,432	12,069,367	13.18%	86.82%
Devonport-Takapuna	1,584,292	14,129,084	10.08%	89.92%
Franklin	2,042,833	11,563,190	15.01%	84.99%
Great Barrier	1,789,806	1,524,796	54.00%	46.00%
Henderson-Massey	2,069,680	21,717,037	8.70%	91.30%
Hibiscus and Bays	1,469,157	17,580,660	7.71%	92.29%
Howick	2,264,120	22,690,629	9.07%	90.93%
Kaipatiki	1,897,278	12,531,361	13.15%	86.85%
Mangere-Otahuhu	1,801,166	15,198,578	10.60%	89.40%
Manurewa	1,630,167	11,898,060	12.05%	87.95%
Maungakiekie-Tamaki	1,725,116	16,665,702	9.38%	90.62%
Orakei	1,196,555	14,241,427	7.75%	92.25%
Otara-Papatoetoe	2,013,051	14,841,577	11.94%	88.06%
Papakura	1,427,097	11,714,946	10.86%	89.14%
Puketapapa	1,106,333	9,294,204	10.64%	89.36%
Rodney	1,279,862	16,630,513	7.15%	92.85%
Upper Harbour	1,422,242	12,218,950	10.43%	89.57%
Waiheke	1,075,746	5,741,756	15.78%	84.22%
Waitakere Ranges	2,061,203	8,522,586	19.48%	80.52%
Waitemata	2,509,925	34,106,775	6.85%	93.15%
Whau	1,791,071	11,471,066	13.51%	86.49%
<b>All</b>	<b>35,988,130</b>	<b>296,352,260</b>	<b>10.83%</b>	<b>89.17%</b>

40. Only net operating expenditure is shown above. This is because the focus of this report is on the rates funded component of local activities, and the options for funding this expenditure. Discussion of the treatment of local capital expenditure, and revenue including fees and charges, will be reported in February.

## Chapter 4: Funding for local assets and regional initiatives delivered locally

41. This chapter of the report sets out how local assets and regional initiatives will be funded under part one of the proposed frameworks for the local boards funding policy.

### Funding for local assets

42. Under the allocation of decision making, the Governing Body has responsibility for decisions on the nature, number and general location of new local assets, and for the prioritisation of major upgrades to existing local assets.
43. Local boards have significant decision making responsibility for implementing Governing Body local investment decisions in their board areas, as well as for the operation and maintenance of their assets. However, the majority of local boards costs related to assets will be determined by the decisions on local assets made by the governing body.
44. The level of asset related expenditure varies significantly between boards, in line with the number and nature of assets within each board area. There is no direct relationship between the cost of local assets within a board, and factors such as the size of the board population. A funding model that allocates funding to local boards based on such factors will not ensure that each board is able to meet its obligations with regards the maintenance and operation of its assets.
45. User catchments for local assets are not aligned to local board boundaries. Larger assets, and those offering specialised facilities or programmes, attract users from multiple board areas. Some smaller or rural facilities may serve populations from within a single board area; other similar facilities may serve populations in multiple board areas by virtue of being located near a board boundary or near a significant transport route. The misalignment between local board populations and user catchments means that it would be inequitable to fund all local assets through a local rate.
46. Work has been undertaken to identify areas that are serviced by local assets across the Auckland Region. Maps have been created for libraries, pools, recreation centres, community arts and cultural facilities, and local parks, showing the areas within specified travel distances to each facility. These maps are available in *Report 1: Local assets area of service* attached to this report. The maps show that the populated areas of Auckland generally have good level of access to local assets.
47. The local boards funding policy will propose that local boards are funded from general rates for the costs of operating and maintaining local assets and to implement Governing body local investment decisions within their local board area.
48. Funding local boards for their asset related costs from general rates ensures local boards are effectively funded to meet their governance responsibilities in relation to local assets. It aligns the funding mechanism with the allocation of decision making, and recognises that local assets predominately operate within the network of council assets.
49. Funding for local assets will be allocated to local boards in accordance with the Asset Management Plans (AMPs), regional budgeting processes, and any Governing body investment decisions. Local board views will be integral to the development of the AMPs, and boards have an advocacy role in regional decision making.

### **Funding for regional initiatives**

50. The Governing body can choose to adopt regional initiatives or policies that may impose costs on local boards. An example of this is the regional policy that provides children with free access to local swimming pools. These regional initiatives may not relate to local assets, but otherwise should be addressed in the same way as funding for local assets.
51. The principle of financial accountability requires a link between decisions on costs and decisions on revenue. This implies where governing body decisions impose costs on local boards, the Governing body should have responsibility for funding those costs.
52. The policy will propose that local boards are funded from general rates to implement regional initiatives that are to be delivered locally. Funding will be allocated in accordance with the relevant Governing body decision.

### **Equity and funding for local assets and regional initiatives**

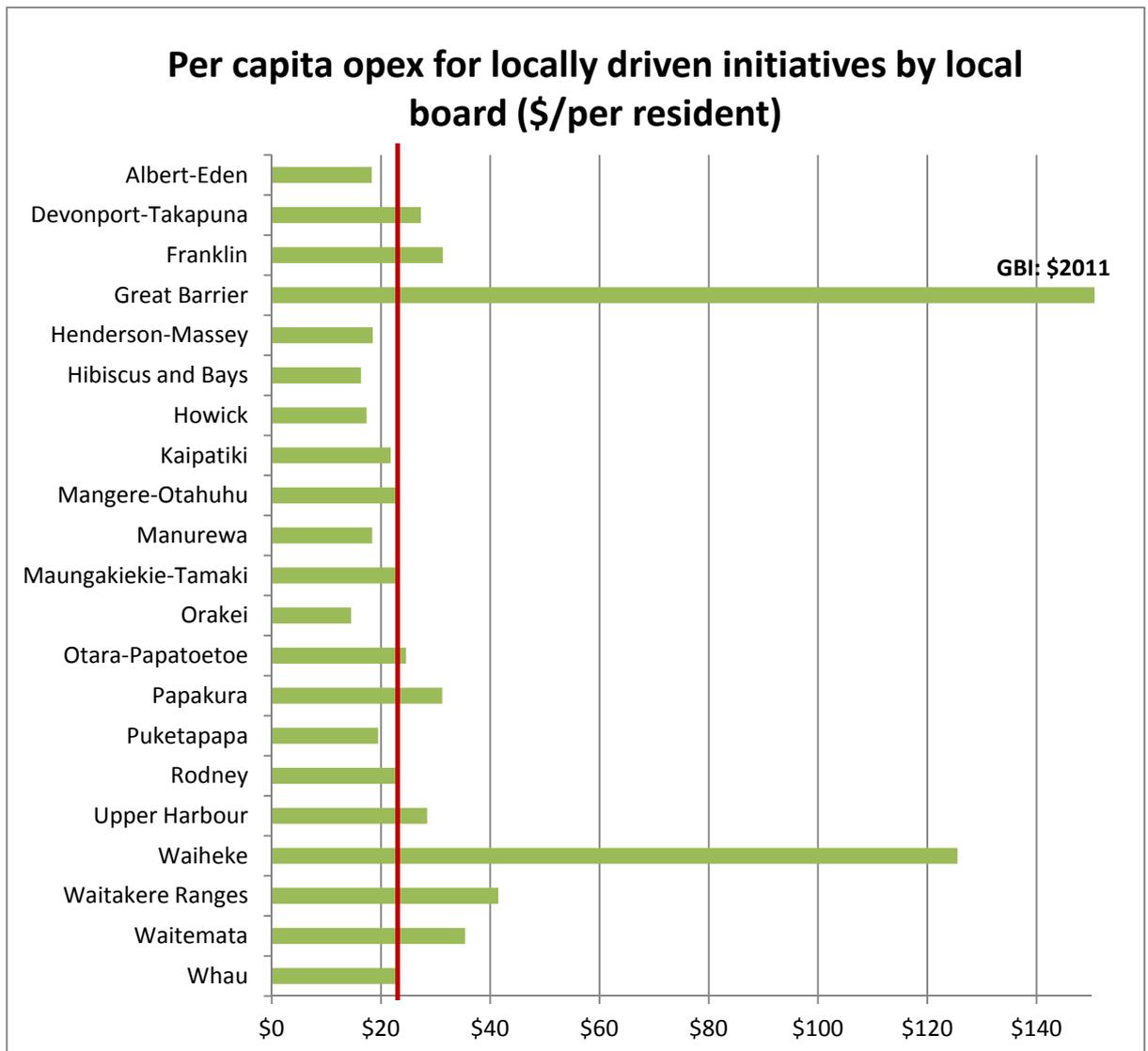
53. Most local assets operate within a network of council facilities across the region. Regional decision making regarding council assets occurs within the context of the Auckland Plan, and will be guided by regional strategies for each activity group.
54. A key objective for the regional strategies is to maximise return from council investment by optimising the utilisation of council assets across the networks. This means that regional decisions on local asset investment will consider not just the assets within each local board, but the level of access residents have to assets in neighbouring boards, regional assets, and in some cases facilities owned and operated by non-council organisations.
55. A board's capacity to enhance the well-being of its community in relation to local assets should not be measured in terms of the number of assets the board has, or the level of funding the board receives. To do so ignores the access local board residents have to the wider network of council facilities. Instead, equitable capacity for local boards in relation to local assets should be considered in terms of the level of access local residents have to asset based services across the network.
56. The council is in the process of developing regional strategies for council assets that will identify priorities for future investment. These strategies should also identify the levels to which the asset related services will be funded.
57. While equitable access to services for Aucklanders will be key consideration in the development of these strategies, this will not necessarily mean that service levels will be identical across asset groups. Service levels will need to reflect local variation in demand. For example, a park that attracts higher visitor numbers will require higher levels of infrastructure and maintenance than one that has low visitor numbers.
58. Other factors that may drive differences in regionally funded service levels include:
  - differences in the condition and nature of local assets
  - optimising service availability by funding higher service levels in sub-regional hubs
  - differing expectations of local communities, such as driving distance for rural facilities versus walking distances for facilities in the inner city
  - differing community needs due to their demographic, cultural and economic makeup.
59. Local boards will be consulted during the development of regional strategies, with activity groups beginning to engage with boards from February 2014. Reporting timelines will vary between activity groups depending on progress. See *Report 1: Local assets area of service* for more information on the timeline for local board engagement for each of the asset groups.

## Chapter 5: Funding for locally driven initiatives

60. This chapter of the report sets out how locally driven initiatives will be funded under the proposed framework for the local boards funding policy.

### Funding for locally driven initiatives

61. Local boards are able to undertake local activities for the benefit of their local board community. Locally driven initiatives can be described as those activities where local boards have a high level of discretion as to what services they undertake, and to what level they provide those services.
62. Current operating expenditure on activities classed as locally driven initiatives is \$36 million. The allocation of this funding across local boards reflects legacy decisions, and is not aligned to factors such as board population size. The chart below shows that currently there is significant variance in the level of funding for local driven initiatives that each board receives per head of resident population. (The line in red shows the average per capita funding for these activities across the region).



63. There is also little relationship between the amount of funding each board receives and factors such as land area (an indication of population density/geographic isolation), deprivation and the amount of rates paid in each board area. The chart below shows

how each board ranks in relation to these factors, and the level of funding they receive for locally driven initiatives. (Ranking 1 = the most or largest, 21 = least or smallest).

Board	Total funding for local initiatives	Per capita funding	Population size	Land area size	Deprivation Index ranking	General rates paid
Albert-Eden	8	18	3	17	12	4
Devonport-Takapuna	14	8	14	19	18	7
Franklin	5	5	13	2	16	12
Great Barrier	11	1	21	3	1	21
Henderson-Massey	3	16	2	9	8	9
Hibiscus and Bays	15	20	4	6	19	6
Howick	2	19	1	7	17	2
Kaipatiki	7	14	6	15	13	10
Mangere-Otahuhu	9	10	10	10	2	13
Manurewa	13	17	5	12	4	16
Maungakiekie-Tamaki	12	11	11	14	5	5
Orakei	19	21	7	16	21	3
Otara-Papatoetoe	6	9	8	13	3	15
Papakura	16	6	19	11	7	18
Puketapapa	20	15	15	21	10	17
Rodney	18	12	16	1	15	11
Upper Harbour	17	7	17	8	20	8
Waiheke	21	2	20	5	6	20
Waitakere Ranges	4	3	18	4	14	19
Waitemata	1	4	12	20	11	1
Whau	10	13	9	18	9	14

64. There are three options for funding locally driven initiatives:
- general rate allocated based on factors such as local board population
  - local rates for each board area
  - a mix of local rates and general rate allocation.
65. Deciding between the use of general rate allocation and local rates will depend on assessment of what a fair funding model is, and how this is best achieved by:
- funds being allocated regionally based on assessment of each board's level of need relative to factors such as population or deprivation
  - local communities paying for their local services through a local rate.

### General rate funding allocation for locally driven initiatives

66. As locally driven initiatives are undertaken for the benefit of the local board community, it can be assumed that there will be a relationship between demand for these services, and the attributes of the local board area, such as population size.
67. Under a general rate allocation model, equity is measured by the share of funding each local board receives from the pool of funding available. As such, equity is defined by the formula that is used to allocate funds to the boards. By identifying factors that may impact local boards' capacity to enhance well-being (for example population, or

- deprivation) and weighting the formula appropriately an equitable funding allocation can be achieved.
68. The Strategy and Finance committee agreed at its May 2013 meeting that the following attributes of local boards be considered in the development of the funding policy:
    - population
    - deprivation
    - factors related to rural/geographic isolation
    - rates collected.
  69. Of these factors, rates collected is not relevant to the development of a funding allocation formula. The distribution of general rates reflects the council's consideration of the appropriate balance the key principles of communities paying for benefits received and affordability of rates across the region. Using rates as factor for allocating local funding would undermine the basis upon which the rating policy was developed. The same affect can be achieved more transparently by using local rates, while giving local boards more control over the amount of revenue to be collected from their community. Higher rate paying areas would likely be better off with local rates as their general rate requirement would fall by more than the amount they would pay in local activity rate.
  70. There is a clear relationship between demand for local services and the size of local populations. Population should therefore be the basis of any funding allocation formula. The definition of an equitable allocation formula then becomes a question of whether, and how much, a population based allocation needs to be adjusted to account for factors such as the level of relative deprivation and geographic isolation of some local boards.
  71. To put this question into perspective:
    - How much more funding do Otata-Papatoetoe, Mangere-Otahuhu and Great Barrier (the most deprived boards) need compared to Orakei, Davenport-Takapuna, Upper Harbour and Hibiscus and Bays (the least deprived)? What sorts of additional services are boards with more deprived populations reasonable expected to provide? To what extent should these issues be addressed regionally?
    - How much more funding do boards like Rodney, Franklin, Waitakere, Waiheke and Great Barrier need compared to urban boards? What sorts of costs will rural or island boards have compared to urban boards in delivering local services? To what extent will these issues be addressed regionally?
  72. For more information of the development of a general rate allocation formula based on factors including population, deprivation and geographic isolation, see *Developing a general rate allocation formula* following the next section in this chapter of the report.
  73. In the main, local boards are currently funded for services levels inherited from the previous councils. There is little or no relationship between current funding levels current to local boards, and factors such as local board population, as local services have never previously been funded on this basis.
  74. Moving to a general rate allocation model for locally driven initiatives will result in significant change in the distribution of funding for these activities between local boards. Options for managing change will be considered alongside the impacts of funding reallocation. In essence there are three options for managing change:
    - no change management
    - reallocation of funding is transitioned over a period of time
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- additional funding is provided for locally driven initiatives to reduce the impact of reallocation of local board budgets.
75. Funding locally driven initiatives through a general rate allocation model does not change the distribution of rates across the region. Affordability of rates is a consideration in the development of the regional rating policy. Consequentially, it is not necessary to consider affordability as an issue when exploring general rate allocation models.
  76. An analysis of the impacts of different allocations formulas, along with options for managing change, can be found in Chapter six of this report. For more information on local board demographics, see attached report *Report 2: Local board areas attribute measures*.
  77. Note that local boards will still have the option of using a local rate to increase their funding if a general rates allocation model is chosen as the only mechanism for funding locally driven initiatives.

### **Local rates for funding locally driven initiatives**

78. The second option for funding locally driven initiatives is local rates. Under this model each local board will be required to raise the funds for the local initiatives they choose to undertake through a local rate charged to their local board area. Local boards decide what services and levels of service they will provide, and the cost of delivery of those services. The board can then determine the level of rates they will need to charge their local ratepayers to pay for these services.
79. Local rates can be considered an appropriate mechanism for funding locally driven initiatives, because these activities are delivered for the benefit of each local board community. Using local rates aligns decision making by local boards on local services with decisions on revenue requirements.
80. Equity under a local rate funding model is defined as local communities pay for the services they receive. Those with more services pay more; those with fewer services pay less. Whether local boards can be defined as having an equitable capacity to enhance well-being under such a model depends on the affordability of local rates within each board area.
81. Under a local rate funding model, funding for those local activities classed as locally driven initiatives will be removed from the general rate requirement. Instead, each board area will be required to fund the cost of locally driven services within their board area. This will result in a shift in the incidence of rates between local board areas. Some boards may pay less for their combined general rates and local rate, others may pay more. The affordability of the change in rates requirement in each board area needs to be considered when assessing the equity of using local rates as a funding model.
82. A benefit of local rates over general rates funded models is that it gives local boards the ability to modify the level of rates paid by their local community. Cost savings made by a local board can be passed back to their local community.
83. For modelling purposes however, it has been assumed that each local board will collect its current level of expenditure on activities defined as locally driven initiatives through a local rate. A full analysis of rates models can be found in Chapter six.

### **Developing a general rate allocation formula**

84. There are many funding models used in New Zealand and overseas that can provide examples of funding allocation formulas. Often the services being funded are clearly defined, such as funding for health or education services in New Zealand. In these cases allocation formulas are supported by sophisticated models that link population

characteristics such as age, ethnicity and demographics to demand for healthcare and educational services. Measuring outcomes such as mortality rates and educational success enable the impact of differing allocation models to be assessed.

85. Overseas, examples of funding models can be found where the services to be funded are not fully defined. Examples include the transfer of funds from central to local or devolved governments in the United Kingdom, and from central to federal governments in Australia. In both these examples the funded entity undertakes a range of activities including health, social and security services where there is a strong relationship between population characteristics and demand for services. Funding allocation ranges from a highly complex funding model balancing need, costs and income in the transfer of funds from federal to state governments in Australia; to a simple apportionment based on population size for some of the UK funding models. The former is criticised for its complexity, cost, inaccuracy of its underlying assumptions and lack of transparency; the latter model is criticised for its not recognising differences in need. For a full summary of examples of these and other funding models in use around the world, see attached *Report 3: Review of devolved funding model case studies*.
86. Developing an allocation formula for the funding of locally driven initiatives for local boards is made difficult by the level of discretion that boards have in the types of activities they undertake. This means that it not possible to identify a direct relationship between cost of services within boards and factors such as the level of deprivation in each board.
87. It can be assumed that local boards will continue to offer the types of services that councils have provided to local communities, such as community development, local events, arts and cultural activities, protection of local heritage and improvements to public spaces and local facilities. However, there is very little evidential research available to quantify relationships between these types of activities and the characteristics of local board populations.
88. Instead the selection and weighting of factors for an allocation formula for locally driven initiatives will require judgement of the likely impacts different factors will have on demand for these types of services. In making this judgement, consideration needs to be given to the extent that particular factors are being addressed within local boards through other mechanisms, such as funding for local assets or by regional activities.
89. The table below sets out the relationships between demand for locally driven services and the three factors for consideration in an allocation formula, as well as the ways in which these factors may be addressed by other mechanisms.

Population	
Measure	Local board resident population as defined by the Auckland Growth Model, which is derived from census data as well as information from consents, and council plans.  Using the Auckland Growth Model enables any formula to be adjusted annually based on modelled growth in each board area.
Relationship to demand for locally driven initiatives	Population is the key driver of service demand, as such will be the basis of any funding allocation formula. The question is whether a population based allocation needs to be adjusted for other factors such as deprivation.
Other considerations	Non-resident populations, such as workers and visitors may also drive demand for local services, but are not included in the resident population measure.

	<p>Information derived from census data on employee numbers by board area is available. However, the impact of worker populations varies between boards. Workers are clearly significant drivers of demand in the CBD, whereas demand for services in the large suburban industrial estates is lower due to the nature of employment in these areas.</p> <p>Visitor information is only available in some board areas, usually only in relation to the use of some council services, and is of variable quality.</p> <p>Non-resident service demand for local asset related services will be addressed through funding for local assets, which will reflect the level of user demand at different facilities.</p> <p>Local boards will need to consider the intended beneficiaries of services when deciding to undertake locally driven initiatives. Many of the activities local boards will be undertaking will be for the benefit of the resident community. Boards will need to consider the likely demand from non-residents when providing such services, as the Southern boards have in offering free swimming pool access to all adults. These boards consulted their community, and while acknowledging that the service will attract non-residents, decided there was sufficient benefit to their communities to fund this service.</p> <p>Often a community will choose to provide services such as events that seek to attract visitors to the local area, for the economic benefit that they bring. This raises the possibility of sponsorship from the local business community to support such activities.</p> <p>In general, most locally driven initiatives will benefit local resident communities. Non-resident demand is unlikely to be significant in most areas, and difficult to quantify for the purposes of funding allocation. Boards will be able to weigh the cost and benefits of non-resident use of services they are delivering.</p> <p>The main exception will be the Waitemata board, where non-resident populations (workers, students and visitors) outnumber residents, and are a significant driver of demand for services. The CBD area does have greater resources for addressing this demand, from regional facilities such as central library and Art Gallery, to the Heart of the City targeted rate for local improvements, as well as access to local sponsorships. A targeted rate to the business community may be an appropriate mechanism for recognising the driver of demands, and benefit local services have to local economy.</p>
<b>Deprivation</b>	
Measure	<p>The Deprivation Index prepared for the Department of Health by Statistics New Zealand. The index is derived from census data, and is reviewed every five years following the census.</p> <p>A funding allocation formula would use the average deprivation index ranking for each board area. This means that a board that is similar sized populations with high and low levels of deprivation would have mid-range average level of deprivation. Deprivation is ranked from 1 = least deprived to 10 = most deprived.</p>
Relationship to demand for locally driven initiatives	<p>The Deprivation Index ranks areas based on a number of weighted factors including number of beneficiaries, household income, home ownership, employment, qualifications, overcrowding and access to telephones and cars.</p>

	<p>Compared to areas of low deprivation, areas identified as deprived have characteristic that may indicate a greater dependency on local services. Examples of these characteristics and are given below.</p> <ul style="list-style-type: none"> <li>• reduced ability to access services privately due to costs, for example a lack of computers in homes driving demand for council provided technology centres.</li> <li>• fewer resources available with communities to enable self organisation of community activities without support from council or other organisations.</li> <li>• reduced ability to access facilities outside the local area due to reduced access to transport</li> <li>• a correlation between deprivation and other community characteristics that may suggest a need for greater council support. For example, there is a link between deprivation, and youth populations - the five youngest board areas have a deprivation of 7 or higher. There is also an association with rates of disability, for example Manukau is home to 30 per cent of the region's disabled population.</li> </ul>
Other considerations	<p>The deprivation index also informs central government decisions in relation to funding for health, education and social services.</p> <p>A number of community and charitable organisations work to address issues related to deprivation in poorer communities.</p> <p>The council is undertaking a number of regional initiatives that seek to improve issues related to deprivation including:</p> <ul style="list-style-type: none"> <li>• the Southern Initiative – focused on improving educational achievement, economic development, job growth, public transport, housing and social conditions in South Auckland</li> <li>• COMET – a CCO focused on improving educational outcomes across Auckland.</li> </ul> <p>The council's regional strategy for community facilities will also consider the demand for different types of facilities across the region due to factors such as deprivation when identifying future investment priorities for local assets.</p>
<b>Geographic isolation or remoteness</b>	
Measure	<p>For modelling purposes local board land area has been used as a measure for geographic isolation. When combined with local board population, this gives a measure of population density.</p>
Relationship to demand for locally driven initiatives	<p>There are two aspects of geographic isolation that increase the cost of service delivery:</p> <ul style="list-style-type: none"> <li>• low population dispersed over a large area, which may require the provision of smaller facilities/services in multiple locations, rather than fewer larger, centralised facilities/services in more urbanised areas</li> <li>• physical distance from population and economic centres, combined with reduced physical access, eg the Islands have no road access. This means increased cost of service delivery in terms of the cost of transporting of materials etc.</li> </ul>

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Other considerations	<p>Increased costs related to local facilities or assets are addressed through regional funding for local assets. The current model sees Rodney funded for a library in each of its four main towns, which means it has one library per 13,500 people. This compares to the Auckland isthmus with 16 libraries, or one per 28,000 people. Great Barrier Island is serviced by a book ordering system providing access to the region library collection.</p> <p>The disparity in size and population between boards means that land area and population density are poor proxies for costs associated with geographic remoteness. Using land area sees Rodney (the largest board) receive 120 times the funding for Puketapapa (the smallest), and seven times the funding for Great Barrier.</p> <p>Using population density sees Great Barrier receive eight times the funding of Rodney, and 1200 times the funding of the most populous board, Waitemata.</p>
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## Chapter 6: Indicative modelling of funding options for locally driven initiatives

90. This chapter describes how local budgets have been analysed to create a model to test different funding options for the locally driven initiatives. Five funding options are presented to illustrate the range of impacts.

### Great Barrier Island

91. Great Barrier Island has been excluded from the following models. Great Barrier Island will face a significant reduction in funding if general rate funding for local initiatives is allocated primarily on a population basis. Allocating funding based only population size would see Great Barrier's funding for locally driven initiatives decline 98%. The board is also unlikely to be able to sustain its existing level of expenditure if required to fund this through a local rate, with an average rates increase to island ratepayers of 68%.
92. As such, it is necessary to recognise Great Barrier Island's unique circumstances in the funding formula, with regard to its small population base, and its isolation from the rest of Auckland. This could be achieved by developing a separate allocation methodology for the board, for example allocating funding based on the boards current funding allocation inflated either by the general increase in funding for local activities each year, or by the council's rate of CPI.
93. If boards are to be required to fund some or all of their local expenditure through a local rate, then the Great Barrier board area should be subject to a proportionate local rate that is sustainable by the local population. The remainder of the board's expenditure would continue to be funded from general rates, inflated as per one of the methods described above.

### Waiheke Island

94. Depending on the funding model chosen, it may also be necessary to consider a separate funding treatment for Waiheke Island. Like Great Barrier, Waiheke Island will experience a large reduction in funding, if funding for local initiatives is allocated on a population basis.
95. The level of rating change for Waiheke ratepayers should local initiatives be funded through a local rate is not so large that it could be considered unsustainable. In this case it is acceptable to include Waiheke in the general funding formula applied to other local boards.

### Building the model

96. Local board budgets have been analysed against the types of local activities in decision making table, to classify budgets as either funding for locally driven initiatives, or funding for local assets or regional initiatives. This analysis has been used as the basis for modelling the indicative impact of different funding models for locally driven initiatives, \$35.99 million net operating expenditure.
97. The following rules have been applied in the development of the model:
- (a) Analysis has been performed on the 2013/2014 budgets.
  - (b) Local board administrative costs that are funded under the separate administration formula in the local board funding policy have been excluded from the model. The administration formula is not within the scope of this policy review, so there will be no change to distribution of funds for administration costs.

- (c) Funding from targeted rates for Business Improvement Districts, and for Septic tank pump outs on the western boards, has been excluded from the model, as the related expenditure is committed to proscribed activities.
- (d) Funding from local board initiated targeted rates for swimming pools are ring fenced to the local board, so are not included in any reallocation of funding.
- (e) Corporate overhead allocations are included, and have been allocated between locally driven initiatives, and funding for local assets or regional initiatives based on the type of activity.
- (f) Some community, arts and cultural (CDAC) services are provided using a mixture of outsourced and in-house operational models. This analysis aims for parity by treating budget grants to third parties providing facilities the same as budgets for council owned local facilities. Other issues regarding where different types of assets sit in terms of local versus regional decision control will be addressed in the development of the regional strategy for CDAC facilities.
- (g) Revenue associated with local assets has been classified as being funding for local assets, rather than for locally driven initiatives. This reflects the legacy position whereby asset related revenue offsets rates funding for assets.
- (h) Discretionary budgets for small local improvement projects (SLIPs) in central Auckland currently classed as regional have been included in the analysis. These budgets will be transferred to local budgets in the next budget refresh

## Modelling

98. The following scenarios have been modelled to give an indication of the impact of the different options for funding the \$35.99 million net operating expenditure that has been classified as being for locally driven initiatives.
- A. General rate allocation: Each board is allocated a share of the total pool of funding for locally driven initiatives based on the size of the resident population in the board area. The amount of funding each board receives for locally driven initiatives changes.
  - B. General rate allocation: Each board is allocated a share of the total pool of funding for locally driven initiatives. The funds are allocated 80 per cent on resident population size, 10 per cent based on the deprivation index ranking of each board, and 10 per cent on land area. The amount of funding each board receives for locally driven initiatives changes
  - C. Local rates funded: Each board funds its current expenditure through a local rate charged to all ratepayers within the local board area. The amount of funding each board receives for locally driven initiatives remains unchanged.
  - D. Local rates funded: Each boards charges a local rate to generate the same amount of funding for locally driven initiatives as would be allocated on a population basis (as per scenario A). This means that funding each board receives for locally driven initiatives changes.
  - E. Mixed funding model: Each board is allocated a share of the total pool of general rate allocation for locally driven initiatives based on the minimum proportion of funding per resident population. The balance is funded through a local rate charged to all ratepayers within the local board area. The amount of funding each board receives for locally driven initiatives remains unchanged.
  - F. General rate allocation: Each board is allocated a share of the total pool of funding for locally driven initiatives. The funds are allocated 90 per cent on resident population size, 10 per cent based on the deprivation index ranking of each board. The amount of funding each board receives for locally driven initiatives changes
99. The scenario results on the following page provide an indication of the level of impact different funding options will have. Further modelling will be provided once funding options have been agreed. Modelling will be updated at the implementation of the policy to reflect budgets changes in the preparation of the Long-term Plan 2015-2025, and the release of updated census data.
100. The data shown in the scenario results tables is arranged according to the level of change experienced by the boards, with negative change shown in orange and positive change in blue. The boards at the top of the table have the largest negative impact (largest decrease in funding or largest increase in rates), the ones at the bottom have the largest positive change (increase in funding or decrease in rates.)

**Scenario results:**

**Scenario A:** Impact of reallocating total pool of current expenditure for locally driven initiatives based on the population size of each local board. Note that the coloured columns show the change in funding for locally driven initiatives (the proportion of the budget reallocated), and the overall change in total board budget (including the funding for local assets that is not reallocated in the model.)

General rate allocation based on 100% resident population					
Local board	Current funding for locally driven initiatives (LDI)	Funding for LDI after reallocation	Change in LDI funding (\$)	Change in LDI funding (%)	Change in total LB budget (inc funding for assets) (%)
Waiheke	1,075,746	200,310	-875,436	-81.4%	-12.84%
Waitakere Ranges	2,061,203	1,165,700	-895,503	-43.4%	-8.46%
Waitemata	2,509,925	1,665,287	-844,638	-33.7%	-2.31%
Franklin	2,042,833	1,527,306	-515,527	-25.2%	-3.79%
Papakura	1,427,097	1,068,162	-358,935	-25.2%	-2.73%
Upper Harbour	1,422,242	1,165,700	-256,542	-18.0%	-1.88%
Devonport-Takapuna	1,584,292	1,363,156	-221,136	-14.0%	-1.41%
Otara-Papatoetoe	2,013,051	1,910,321	-102,730	-5.1%	-0.61%
Mangere-Otahuhu	1,801,166	1,805,647	4,481	0.2%	0.03%
Rodney	1,279,862	1,287,029	7,167	0.6%	0.04%
Maungakiekie-Tamaki	1,725,116	1,736,656	11,540	0.7%	0.06%
Whau	1,791,071	1,817,541	26,470	1.5%	0.20%
Kaipatiki	1,897,278	2,043,545	146,267	7.7%	1.01%
Puketapapa	1,106,333	1,334,609	228,276	20.6%	2.19%
Henderson-Massey	2,069,680	2,607,363	537,683	26.0%	2.26%
Manurewa	1,630,167	2,060,197	430,030	26.4%	3.18%
Albert-Eden	1,831,432	2,350,433	519,001	28.3%	3.73%
Howick	2,264,120	3,047,475	783,355	34.6%	3.14%
Hibiscus and Bays	1,469,157	2,112,535	643,378	43.8%	3.38%
Orakei	1,196,555	1,929,354	732,799	61.2%	4.75%
<b>Total</b>	<b>34,198,326</b>	<b>34,198,326</b>	<b>0</b>		

**Scenario B:** Impact of reallocating total pool of current expenditure for locally driven initiatives based on the population size of each local board, adjusted for land area and deprivation. Note that the coloured columns show the change in funding for locally driven initiatives (the proportion of the budget reallocated), and the overall change in total board budget (including the funding for local assets that is not reallocated in the model.)

Funding for locally driven initiatives allocated on 80% population, 10% land area, 10% deprivation					
Local board	Current funding for locally driven initiatives (LDI)	Funding for LDI after reallocation	Change in LDI funding (\$)	Change in LDI funding (%)	Change in total LB budget (inc funding for assets) (%)
Waiheke	1,075,746	491,549	-584,197	-54.31%	-8.57%
Waitemata	2,509,925	1,516,581	-993,344	-39.58%	-2.71%
Waitakere Ranges	2,061,203	1,289,772	-771,431	-37.43%	-7.29%
Upper Harbour	1,422,242	1,079,822	-342,420	-24.08%	-2.51%
Papakura	1,427,097	1,098,394	-328,703	-23.03%	-2.50%
Devonport-Takapuna	1,584,292	1,212,742	-371,550	-23.45%	-2.36%
Otara-Papatoetoe	2,013,051	1,825,567	-187,484	-9.31%	-1.11%
Whau	1,791,071	1,680,230	-110,841	-6.19%	-0.84%
Maungakiekie-Tamaki	1,725,116	1,645,141	-79,975	-4.64%	-0.43%
Kaipatiki	1,897,278	1,809,071	-88,207	-4.65%	-0.61%
Mangere-Otahuhu	1,801,166	1,760,869	-40,297	-2.24%	-0.24%
Franklin	2,042,833	2,238,593	195,760	9.58%	1.44%
Albert-Eden	1,831,432	2,062,327	230,895	12.61%	1.66%
Henderson-Massey	2,069,680	2,337,515	267,835	12.94%	1.13%
Puketapapa	1,106,333	1,266,433	160,100	14.47%	1.54%
Howick	2,264,120	2,604,847	340,727	15.05%	1.37%
Manurewa	1,630,167	1,912,054	281,887	17.29%	2.08%
Hibiscus and Bays	1,469,157	1,877,776	408,619	27.81%	2.15%
Orakei	1,196,555	1,654,466	457,911	38.27%	2.97%
Rodney	1,279,862	2,834,576	1,554,714	121.48%	8.68%
<b>Total</b>	<b>34,198,326</b>	<b>34,198,325</b>	<b>0</b>		

**Scenario C:** Impact of removing funding for locally driven initiatives from general rates and funding this through a local rate. (Each board funds its current level of expenditure for locally driven initiatives)

Local driven initiatives funded through a local rate charged to all ratepayers in the board area						
Local board	Current average 13/14 general rate	Average general rate if funding for LDI removed	Average local targeted rate for LDI (assuming current expenditure maintained)	Average combined rates	Change in total rates (\$)	Change in total rates (%)
Waitakere Ranges	1,754	1,710	117	1,827	\$73	4.2%
Waiheke	2,528	2,465	167	2,632	\$104	4.1%
Papakura	2,003	1,953	88	2,041	\$37	1.9%
Otara-Papatoetoe	2,489	2,427	100	2,526	\$37	1.5%
Whau	2,172	2,117	76	2,193	\$21	1.0%
Franklin	2,291	2,233	79	2,312	\$21	0.9%
Manurewa	2,125	2,072	72	2,144	\$19	0.9%
Mangere-Otahuhu	3,093	3,015	103	3,118	\$25	0.8%
Henderson-Massey	1,957	1,908	59	1,967	\$10	0.5%
Puketapapa	2,253	2,196	67	2,264	\$11	0.5%
Kaipatiki	2,256	2,200	65	2,265	\$8	0.4%
Devonport-Takapuna	3,355	3,271	74	3,345	-\$10	-0.3%
Rodney	2,371	2,311	50	2,361	-\$9	-0.4%
Upper Harbour	3,625	3,533	75	3,608	-\$16	-0.4%
Albert-Eden	3,160	3,081	57	3,138	-\$22	-0.7%
Howick	2,846	2,774	53	2,827	-\$19	-0.7%
Maungakiekie-Tamaki	3,596	3,506	66	3,572	-\$24	-0.7%
Hibiscus and Bays	2,424	2,363	42	2,405	-\$19	-0.8%
Waitemata	4,511	4,398	54	4,452	-\$59	-1.3%
Orakei	3,480	3,392	39	3,432	-\$48	-1.4%
<b>Average</b>	<b>2,807</b>	<b>2,737</b>	<b>71</b>	<b>2,807</b>	<b>0</b>	<b>0.0%</b>

**Scenario D:** Impact of removing funding for locally driven initiatives from general rates, reallocating total pool of current expenditure for locally driven initiatives based on the population size of each local board, and funding this through a local rate.

<b>Local driven initiatives funding reallocated by population and funded through a local rate charged to all ratepayers in the board area</b>						
Local board	Current average 13/14 general rate	Average general rate if funding for LDI removed	Average local targeted rate for LDI (assuming current expenditure reallocated)	Average combined rates	Change in total rates (\$)	Change in total rates (%)
Whau	2,172	2,117	108	2,226	54	2.5%
Henderson-Massey	1,957	1,908	96	2,004	47	2.4%
Otara-Papatoetoe	2,489	2,427	99	2,526	37	1.5%
Waitakere Ranges	1,754	1,710	70	1,780	26	1.5%
Puketapapa	2,253	2,196	86	2,282	29	1.3%
Franklin	2,291	2,233	78	2,311	21	0.9%
Kaipatiki	2,256	2,200	74	2,273	17	0.8%
Hibiscus and Bays	2,424	2,363	77	2,440	16	0.7%
Manurewa	2,125	2,072	62	2,134	9	0.4%
Waiheke	2,528	2,465	69	2,534	5	0.2%
Mangere-Otahuhu	3,093	3,015	81	3,096	3	0.1%
Howick	2,846	2,774	70	2,844	-1	0.0%
Rodney	2,371	2,311	53	2,364	-6	-0.3%
Upper Harbour	3,625	3,533	75	3,608	-16	-0.5%
Albert-Eden	3,160	3,081	65	3,145	-15	-0.5%
Devonport-Takapuna	3,355	3,271	67	3,338	-17	-0.5%
Orakei	3,480	3,392	67	3,459	-21	-0.6%
Maungakiekie-Tamaki	3,596	3,506	64	3,570	-26	-0.7%
Papakura	2,003	1,953	33	1,986	-18	-0.9%
Great Barrier	1,468	1,431	17	1,448	-20	-1.4%
Waitemata	4,511	4,398	38	4,436	-75	-1.7%
<b>Average</b>	<b>2,807</b>	<b>2,737</b>	<b>71</b>	<b>2,807</b>	<b>0</b>	<b>0.0%</b>

**Scenario E:** Impact of funding a proportion of locally driven initiatives from general rate allocation, based on the current minimum per capita funding of locally driven initiatives for all local boards, and using a local rate to fund the balance.

<b>Proportion of locally driven initiatives funded from general rates, based on minimum proportion of current funding for all local boards with the balance funded through a local rate</b>						
Local board	LDI funded via general rate allocation	LDI funded via local rate	Average local targeted rate for LDI (assuming current expenditure maintained)	Average combined rates	Change in total rates (\$)	Change in total rates (%)
Waiheke	124,599	951,147	148	2,650	122	4.8%
Waitakere Ranges	722,585	1,338,618	76	1,812	58	3.3%
Papakura	664,430	762,667	47	2,030	26	1.3%
Franklin	947,939	1,094,894	42	2,309	19	0.8%
Otara-Papatoetoe	1,189,286	823,765	41	2,504	15	0.6%
Whau	1,129,676	661,395	28	2,178	6	0.3%
Mangere-Otahuhu	1,122,406	678,760	39	3,099	7	0.2%
Devonport-Takapuna	843,259	741,033	35	3,355	0	0.0%
Upper Harbour	726,947	695,295	37	3,624	-1	0.0%
Kaipatiki	1,266,342	630,936	22	2,255	-2	-0.1%
Rodney	802,550	477,312	19	2,365	-6	-0.2%
Puketapapa	825,812	280,521	17	2,247	-6	-0.3%
Manurewa	1,288,150	342,017	15	2,118	-7	-0.3%
Waitemata	1,030,811	1,479,114	32	4,497	-14	-0.3%
Maungakiekie-Tamaki	1,075,882	649,234	25	3,584	-12	-0.3%
Henderson-Massey	1,625,454	444,226	13	1,950	-7	-0.4%
Albert-Eden	1,453,894	377,538	12	3,139	-21	-0.7%
Howick	1,895,878	368,242	9	2,825	-21	-0.7%
Hibiscus and Bays	1,307,051	162,106	5	2,404	-20	-0.8%
Orakei	1,196,555	0	0	3,444	-36	-1.0%
<b>Total</b>	<b>21,252,445</b>	<b>14,735,687</b>	<b>29</b>	<b>2,807</b>	<b>0</b>	<b>0.0%</b>

**Scenario F:** Impact of reallocating total pool of current expenditure for locally driven initiatives based on the population size of each local board, adjusted deprivation. Note that the coloured columns show the change in funding for locally driven initiatives (the proportion of the budget reallocated), and the overall change in total board budget (including the funding for local assets that is not reallocated in the model.)

Funding for locally driven initiatives allocated on 90% population and 10% deprivation					
Local board	Current funding for locally driven initiatives (LDI)	Funding for LDI after reallocation	Change in LDI funding (\$)	Change in LDI funding (%)	Change in total LB budget (inc funding for assets) (%)
Waiheke	1,075,746	395,930	-679,816	-63.19%	-9.97%
Waitakere Ranges	2,061,203	1,184,070	-877,133	-42.55%	-8.29%
Waitemata	2,509,925	1,668,693	-841,232	-33.52%	-2.30%
Franklin	2,042,833	1,497,534	-545,299	-26.69%	-4.01%
Upper Harbour	1,422,242	1,144,345	-277,897	-19.54%	-2.04%
Papakura	1,427,097	1,175,105	-251,992	-17.66%	-1.92%
Devonport-Takapuna	1,584,292	1,334,035	-250,257	-15.80%	-1.59%
Otara-Papatoetoe	2,013,051	1,988,853	-24,198	-1.20%	-0.14%
Rodney	1,279,862	1,283,492	3,630	0.28%	0.02%
Whau	1,791,071	1,841,980	50,909	2.84%	0.38%
Maungakiekie-Tamaki	1,725,116	1,791,568	66,452	3.85%	0.36%
Kaipatiki	1,897,278	1,988,002	90,724	4.78%	0.63%
Mangere-Otahuhu	1,801,166	1,904,734	103,568	5.75%	0.61%
Henderson-Massey	2,069,680	2,558,494	488,814	23.62%	2.05%
Albert-Eden	1,831,432	2,276,182	444,750	24.28%	3.20%
Puketapapa	1,106,333	1,385,901	279,568	25.27%	2.69%
Howick	2,264,120	2,857,489	593,369	26.21%	2.38%
Manurewa	1,630,167	2,090,322	460,155	28.23%	3.40%
Hibiscus and Bays	1,469,157	2,008,476	539,319	36.71%	2.83%
Orakei	1,196,555	1,823,120	626,565	52.36%	4.06%
<b>Total</b>	<b>34,198,326</b>	<b>34,198,326</b>	<b>0</b>		

## Key findings from model analysis

### Results of general rate allocation models

101. Allocating general rate funding to local boards based on factors such as population, deprivation and land area results in significant changes in the distribution of funding between local boards. This is to be expected, as funding is currently not equitably distributed between local boards in relation to any of the factors.
102. Rural boards, with the exception of Rodney, are significantly worse off under population based allocation models. Adjusting the allocation for the land area of the board reduces the impact of reallocation on rural boards, but results in a significant redistribution of funding to Rodney, the largest board area. The disparity in boards land areas, ranging from 224,651 Ha for Rodney, to 1,871 Ha for Puketapata, means that land area may not be an effective mechanism for adjusting funding to reflect increased need associated with geographic isolation.
103. Waitemata is worse off under a population allocation model. This reflects the fact that it has a large non-resident population relative to its resident population.
104. A purely allocation based funding method will result in changes to current levels of funding for some boards. In order to ensure that no board received less funding would require extra funds being made available and some form of transition process to eventually achieve equitable funding.

### Results of local rate funding models

105. Maintaining the current level of local initiative funding would result in unaffordable increases in rates for Great Barrier Island Local Board. There would also be large changes for Waitakere Ranges and Waiheke. This is due to the relatively high levels current local initiative funding in comparison to the size of the local rating base.
106. Large changes in rates can be reduced by making corresponding changes to the levels of local initiative funding. This can be shown in scenario D where local rates were used to fund local initiatives to a level relative to local board population. This shows that there is relative correlation between population and the size of the rating base.
107. A mixed funding model would also result in large changes in rates if current levels of local initiative funding is maintained for those local boards. This reinforces the relative inequity that currently exists between local boards for local initiative funding.

### Transition options

108. Under a local rate scenario the extent of changes in rates is driven by the budget decisions of the local board. To maintain existing levels of local initiative funding, under a local rate funding option, would mostly result in a one off overall change in rates of between -2% and 2%. Changes of this magnitude do not require transitioning. Should a local board wish to implement transitioning this can be accomplished by varying their local initiative budgets.
109. It is not feasible to increase the funding available to local boards via the general rate allocation method to a level sufficient to ensure that no local boards are worse off following reallocation of funding for local initiatives. This would require increases in rates outside of the limits imposed by the Financial strategy.
110. Irrespective of the allocation method used, under an allocation based approach, the changes in local initiatives budgets are likely to be significant. Some form of transition mechanism will be required. This will require further investigation should an allocation based funding method be chosen.



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## Chapter 7: Managing changes to local board funding

111. Addressing the inequities in the current levels of funding to local boards will require changes to the local board funding model. The choice of funding model will determine the level and types of changes faced. Currently most local board services are funded via general rates based on historic levels of funding provided by the former councils.
112. The amount of change experienced, both in rates and locally driven initiatives funding, can be mitigated in part by the choice of funding model. The main funding model options are:
  - allocation based: locally driven initiatives funding is funded via general rates an allocated based on attributes
  - local rate based: locally driven initiatives funding is fully funded via rates set within a local board area
  - hybrid: a combination of both allocation and local rate based models.
113. A purely allocation based funding method that uses factors such as population, deprivation and land area will result in decreases from current levels of locally driven initiatives funding for some boards. This is to be expected, as funding is currently not equitably distributed between local boards in relation to any of the factors. However, sudden and large changes in funding for local boards may cause issues with planning and consultation which are fundamental to the decision making process.
114. Alternatively a funding model that uses of local rates will impact on the amount of rates paid by residents. The amount of change experienced is directly related to the amount of locally driven initiatives currently funded, the amount required under the new model, and the amount of rates paid in each board area. Using local rates to funding locally driven initiatives would result in small changes in the distribution of rates. Under this scenario the governing body may wish to adjust its rating policy mechanisms to maintain proportionality between differential groups.
115. A hybrid funding model can be used to part fund locally driven initiatives from an allocation basis with the balance funded from local rates. This approach provides an equitable allocation of locally driven initiatives funding from an allocation method with the amount of change being managed by varying the amount of funding required from the local rate.
116. Analysis of funding model options shows that Great Barrier Island faces significant changes under any scenario. As such, it is necessary to recognise Great Barrier Island's unique circumstances in the funding formula, with regard to its small population base, and isolation from the rest of Auckland. This should be managed by providing a separate allocation methodology for the board and would therefore not need changes to be managed.
117. If a population based allocation methodology is chosen, then Waiheke Island will also experience significant change in it available funding. In this case it may be necessary to include Waiheke in the separate allocation methodology used for Great Barrier Island. If a local rates funding model is chosen the level of change experienced by the Waiheke Island board is not significant enough to justify a separate funding treatment.
118. A transition policy can also be used to progressively phase in the new funding model. The aim of the transition policy is to balance the need to funding equitably through a uniform local board funding model, while ensuring that the amount of change faced by individual ratepayers is not unaffordable and changes in funding for local boards unmanageable.

119. A transition policy can be used in conjunction with any funding model. However, a local rates or hybrid funding model already allows for changes to be managed by varying the amount of locally driven initiatives funding required. For this reason, for these funding models a transition policy is not recommended.
120. Under an allocation based model the amount of locally driven initiatives funding each local board receives is determined by a combination of the amount of total locally driven initiatives funding made available by the governing body and the allocation method used. Under this model there are two ways in which changes in levels of funding can be managed: These are:
  - top up: during the transition phase the governing body provides a top up to some local boards to minimise the change in locally driven initiatives funding experienced in any one year.
  - phasing: the new funding model is phased in using equal steps during the transition phase.
121. A transition policy could run for any number of years, however officers recommend a three year transition as this aligns with the three year planning cycle of the Long-term Plan 2015-2025.
122. The advantage of a top up approach is that the governing body can ensure that no local board receives less funding than it currently does. The main disadvantage is that it will increase the overall rates requirement. The amount that it increases rates will depend on the amount of extra funding that the governing body is prepared to provide.
123. The key advantages of a phased policy are:
  - it is cost neutral and will not increase the overall rates requirement
  - a full transition will be accomplished by the end of the transition period.
124. The main drawback with the phased option is that boards with higher changes in funding will experience large changes each year of the transition.

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## Chapter 8: Local fees and charges

125. This chapter of the report describes how local fees and charges revenue will be treated under the proposed local boards funding policy.

### Local fees and charges

126. Local boards have the right to set local fees and charges under the allocation of decision making.
127. Under the proposed local boards funding policy framework, local boards will:
- continue to set local fees and charges
  - retain the benefit/bear the cost of any change in fees.

### Fees and charges for locally driven initiatives

128. For these types of activities, a local board can consider the appropriate balance between funding from user charges, and funding from the local board's discretionary general rate allocation, or local rates, when setting fees for services. In this case the local board will also bear any risk of a revenue shortfall, as well the benefit of any surplus.
129. In considering the use of user charges for locally driven initiatives, it should be acknowledged that some boards may be able to fund a greater range of such activities through user charges than other boards. This may be due to the nature of the local community, or ability of some boards to attract visitors from outside their local area. However this should be viewed as a natural consequence of local decision making reflecting local demand rather than an issue of equity.

### Fees and charges for local assets

130. In the past revenue from user charges offset rates funding for assets. Decisions on levels of revenue to be collected were weighed against the impact on the rate requirement.
131. Under the proposed model, local assets will continue to be funded from general rates. This raises the question of how general rate funding should be balanced with asset related revenue, when decisions on the former are made regionally, and the latter locally. Who benefits from higher than expected revenue, and who bears the cost of any shortfall?
132. To resolve these questions, there are some key principles that funding policy, and funding decisions should adhere to:
- an appropriate balance between user charges and rates as funding sources for local assets should be encouraged
  - whoever bears the risks of revenue shortfalls should also retain the benefit of any surplus revenue.
133. The following model is proposed as appropriate mechanism for balancing regional and local decisions making for the funding of local assets:
- (a) Council officers will advise local boards of the recommended revenue target for each local asset, and the user fees required to achieve this target.
  - (b) General rate funding will be allocated to local boards for the cost of operating and maintaining the assets, less the amount of recommended target revenue. If the board chooses to adopt the recommended fee structure, and actual revenue then fails to meet the target, it will be a regional responsibility to address the shortfall. If revenue exceeds the expected target, then this surplus is a regional benefit.
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- (c) The local board can decide to adjust their local fees above or below that recommend by officers. Officers will then advise the board of the expected impact on revenue. If the expected revenue is lower than the recommended target, the local board will need to fund the difference either from its discretionary funds for locally driven initiatives, or through a local targeted rate. If the expected revenue is higher than the recommended target, the local board will retain the benefit of the expected increase in income.
- (d) If a local board chooses to adjust its local fees from those recommended by officers, the benefit/cost of its decision will accrue immediately, based on the expected revenue. If the actual revenue then fails to meet the expected revenue, it will be a regional responsibility to address the shortfall. If revenue exceeds the expected target, then this surplus is a regional benefit.
- (e) Any significant variance between expected and actual revenue should be reflected in adjustments to the recommended fees and target revenue in the advice to local boards in subsequent years.
134. The model for local asset related fees and charges can be summarised as follows:
- revenue targets for local assets are set regionally, and used a basis for general rate funding of local assets
  - local boards can set local asset related fees and charges, and gain the benefit or bear the cost of any expected change to the target revenue
  - the benefit/cost of any variation in actual revenue is managed regionally.
135. The advantage of the proposed model is that it provides local boards flexibility in the setting of local fees for assets, while retaining certainty on the level of funding they will receive in relation to those assets year to year. The risk associated with revenue uncertainty falls regionally where it can be managed across the council's wider portfolio of assets.

### **Equity and fees and charges for local assets**

136. The ability of local boards to increase revenue from local charges will depend on the number and nature of local assets located in each board area. Some boards may be able to generate more revenue than others due to the nature of their inherited asset base.
137. If the increased revenue goes back to the service from which it was raised, any benefit is returned to those who pay for the service. There could be an equity issue, if the community paying for the service is not the same as the community that benefits from the revenue. This may be the case where the revenue related to a local facility that serves multiple board areas. It could be considered inequitable if the benefit of the revenue from such facilities went to local residents or local ratepayers rather than the wider community that is paying for the facility through user charges and rates.
138. The risk of this situation arising is low however. The recommended fees schedules and revenue targets will generally reflect factors such as market rates, and the ability of the community to pay. The ability of local boards to significantly increase asset related revenue is likely to be limited in most instances. Furthermore, local boards are required to consider impacts on the wider communities served by their facilities when making decisions on local assets.

## Chapter 9: Use of local rates to fund local board activities

139. This chapter discusses the issues to be considered when using local rates<sup>2</sup> to fund local board services.

### Use of local rates

140. The Local Government (Rating) Act 2002 sets out the rating mechanisms available for rates and rating differentials. There is considerable discretion in how council complies with the provisions of the legislation including the extent to which different options are considered.
141. In developing the Revenue and financing policy and mix of rating tools used the council seeks to balance the following principles (based on the requirements of section 101 of the Local Government Act 2002):
- applying rates consistently across Auckland so similar properties pay similar rates
  - aligning rates to the level of benefit received (where private benefit can be identified, services should be funded through user charges or targeted rates)
  - minimising the impacts of change
  - considering the affordability of rates within sectors of the community.
142. In addition, the council seeks to ensure the rates are easy to understand and simple and cost effective to administer.
143. When considering the use of local rates there are a variety of tools available. This gives considerable discretion in how the rates can be charged. For example, a local rate can be charged to properties in a certain area or receiving a particular service. This makes them particularly useful to fund local board activities.
144. Local rates can be applied differentially so that different categories of ratepayers pay a different rate. If a different rate is used, this is called a “rating differential”. Differential rates can be used as either a fixed rate or a rate in the dollar. The differential categories used do not need to be the same as those used for the general rate.
145. Local rates do not have to be based on property value and can be based on other factors. Liability for a local rate can be calculated using a variety of factors including value, size, the amount of paved area, and the provision or extent of provision of a service. Where possible the choice of factor used should be linked to the service being provided.
146. Services provided by local boards and the associated funding needs are reflected in the local board agreements each year. Default levels of services may be funded through a general rate or region wide targeted rates for transparency reasons. However because local boards sit in defined geographic areas then any specific rates funding requirements to meet increased levels of service should only be met via the use of local rates.
147. The key decisions required when considering the use of local rates to fund local board services are:
- Which services will be funded by local rates?
  - Which categories of ratepayers will be liable for the rate?
  - How liability for local rates will be calculated?
  - How do they fit within the decision making framework?

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<sup>2</sup> For the purposes of this report the term local rate refers to a targeted rate set within a local board area to fund local board services.

### **Which services will be funded?**

148. The issue of which services could be funded via local rates is covered in the broader discussion within the local board funding policy and is not addressed here. This report mainly focuses on how local rates could be applied if local activities are to be funded by local rates.
149. Local rates can take one of two main forms. They can be used to fund local services that generally benefit the local board area where the benefit cannot be linked to individual ratepayers. Alternately they can be used to fund a specific service where there is a link between the service being provided and the benefit received by individual ratepayers.
150. Which categories of ratepayer will be liable and how the liability of rates is calculated will vary depending on the service being funded. Consideration of this should take place in the context of the service being funded. However, local rates may not be appropriate if the associated administrative costs outweigh the increased transparency of using them.

### **Which categories of ratepayer will be liable?**

151. Allocating costs to the groups that benefit most directly from services is perceived as fairer. Groups that do not use services, or who make less use of services end up paying less. However, there are some disadvantages, these include:
  - allocation of costs primarily to user groups may fail to recognise any wider community benefits associated with a service
  - allocation of costs can be made to groups who as a proportion benefit from the services, but this may not apply to individuals within the group. Different individuals may receive different levels of benefit from the services provided
  - increased use of local rates and differentials increases complexity of the rating policy making it more difficult to understand and more costly to administer.
152. Local rates can be applied to reflect levels of benefit received but only to a certain extent. At the simplest level there are sometimes services that are only available to certain groups and it is unfair for people to pay for services that they do not receive. Therefore, a local rate applied only to properties receiving the service is the most effective way of reflecting the benefit principle in this situation.
153. The rating policy splits the rating base into three main differential categories. These are business, residential, and farm/lifestyle. Both of the residential and farm/lifestyle categories contain residences while the business category does not. Therefore it is appropriate to consider that both residential and farm/lifestyle properties reflect residents of local boards. Conversely, businesses are the primary beneficiary of services provided to non-residents as the presence of non-residents in the local board area benefit local businesses.
154. With the exception of local economic development, local board services are provided mainly to the benefit of residents. Local economic development mainly consists of funding business associations and these are funded via business improvement district rates. In which case there is a strong argument to fund local board services from residents.
155. However, in some local boards, eg: Waitemata, non-residents as well as residents receive benefit from local board services. The benefit received by non-residents primarily accrues to businesses. Therefore, in some cases, there is an argument to fund local board services from business ratepayers on a benefits basis.
156. Businesses also have greater ability to pay. This is because businesses are able to claim back GST from rates and to treat rates as a business expense. Therefore, from

an affordability perspective, there is an argument to fund local board services from business ratepayers.

157. Which differential category is liable for local rates is dependant on the services that are provided by the local board. If the service is to residents then it is appropriate to charge residents, while if the service is to non-residents then it is appropriate to charge businesses. If the service is provided for the benefit of residents and non-residents then it is appropriate to charge both residents and businesses.
158. Using local rates to fund local board services may result in changes in the incidence of rates between business and non-business properties. An adjustment of the business differential and the long-term differential strategy may be necessary to maintain the overall proportion of rates from the business sector.

#### **How will liability for local rates be calculated?**

159. There are two main ways in which local rates can be charged. These are as a fixed charge per property or as a proportion of property value.
160. A fixed charge is usually used as a way of ensuring that all ratepayers contribute a certain minimum amount or where the benefit from services is equally distributed. A fixed charge reduces the rates on ratepayers with higher property values and increases rates on ratepayers with lower property values. When charged to businesses and residents it also will tend to move rates away from business towards residential properties.
161. The use of fixed charges within a local board shifts the incidence of rates between high and low value properties however the effects are limited to within the local board area. Setting a fixed rate within a local board does not impact on the incidence of rates to properties outside of the local board area.
162. The use of fixed charges across the region was a significant issue that the governing body considered when developing the new rating policy. The primary fixed rate tool is the UAGC which is applied region wide. Changing the level of UAGC shifts the incidence of rates between high and low value properties as well as between local boards. The level at which the UAGC was set was arrived at after balancing the principles outlined above.
163. Currently most local board services are funded via general rates. In developing the rating policy the governing body has given consideration on the appropriate balance between fixed and value based general rates. It has also given consideration on the appropriate balance of rates incidence between business and non-business. Should local rates be used to fund local activities that were previously funded via general rates then the governing body may seek to maintain the existing balance.

#### **How do they fit within the decision making framework?**

164. The governing body is solely responsible for making decisions on how rates are used as it alone has the power to set rates. This power cannot be delegated. Using local rates to fund local board services will need to be considered as part of a wider mix of rating policy tools and the final decision ultimately lies with the governing body. The process will be different depending on how the local rates are used.
165. To provide certainty to ratepayers, as part of the financial strategy, the council has determined limits on rate increases and the use of borrowing. It has also determined that where the user of a service can be identified and charged according to their use, then, within appropriate parameters, these users should be charged. Decisions on the use of local board funding tools must be consistent with the framework outlined in the financial strategy.

166. Local boards currently use local rates to fund specific services eg: funding for free access to swimming pools for adults. General funding for local services within each board area could be provided via a non-specific local rate that is set for each local board. A local rate in this form can be used to fund general activities undertaken by each local board in the same way the general rates are used to fund general activities undertaken by the council.
167. Legislation requires that any revenue generated by a local rate can only be used to fund local activities or services within the relevant board area. However, each board would be able to decide how this revenue is allocated between those services within the local board area.
168. The council will need to consult on and agree to the use and form of local rates during the development of the next long-term plan. Once the local rates are established any subsequent consultation process would focus on the amount of revenue sought from this source. They would form part of the standard local board agreement process each year and be part of the normal consultation process during the development of the Annual Plan. Savings made or increases in costs would directly reflect decisions made by each local board.
169. A local board might also wish to have local rates to fund specific services where there are ratepayers who receive an identifiable benefit from the service. In much the same way that the governing body uses targeted rates where the service is linked to private benefit. A local rate in this form would need to form part of the local board agreement and it would also come with the requirement to consult with those ratepayers directly affected by the rate.
170. In this case the local board would need to seek to adjust the revenue sought from this source using the local board agreement process. This would require a new local rate and consideration of the form it takes and who is liable will need to be established first by the local board and then agreed to by the governing body.
171. This type of local rate would be directly linked to the specific activity and could only be used for that purpose. The local board would not be able to re-prioritise the revenue and use it to fund alternate services.

## Chapter 10: Capital expenditure

172. This chapter of the report describes how capital expenditure will be treated under the proposed local boards funding policy.

### Capital expenditure for local assets

173. Acquisitions and upgrades of facilities are capital expenditure that is funded through debt. The consequential operating expenditure associated with this expenditure, such as depreciation and interest, is funded from rates. Significant investment in local assets (acquisitions and major upgrades) is the responsibility of the governing body. Local boards can undertake capital investment within parameters set by the governing body as locally driven initiatives.

### Governing body driven capital expenditure for local assets

174. Consequential operating expenditure associated with governing body investment decisions will be funded from general rates. Capital expenditure will be allocated to local boards in accordance with regional investment decisions on local assets, and the Asset Management Plans schedules for work such as renewals.

### Locally driven capital investment

175. Local boards are able to undertake capital investment within their local area, within any parameters set by the governing body. Currently, local boards are able to undertake local asset related capital works up to \$1 million or 30 per cent of the value of the asset. Investment over these levels needs governing body approval.

176. Under the existing local board funding policy, some boards retained discretionary capital expenditure for legacy investment projects. The policy then allocated a further pool of discretionary capital expenditure (capex) amongst the boards, based on the amount of discretionary capex each board had relative to population.

177. The new policy framework does not propose to allocate discretionary capex between local boards. The policy only considers the allocation of rates funded operating expenditure, either through the allocation of general rates, or funding from local rates.

178. Local boards will still be able to undertake capital investment within the current parameters, so long as they can fund the consequential operating expenditure, such as interest costs and depreciation, from the pool of funding that they have for locally driven initiatives. This means that local boards will be funding capital investment in the same way that the governing body does. It also ensures that there is an explicit link between decisions on capital investment, and the on-going operational expenses that such investment requires.

179. This raises the question of how the current allocation of discretionary capital expenditure should change under the new policy framework. It is proposed that the implementation of the policy differentiate between legacy capital projects, and discretionary capital expenditure as follows:

- (a) **Legacy projects:** Most of the significant legacy capital projects (over \$1 million or 30 per cent of the value of an asset) inherited by local boards have been completed, or will be completed in the next two years. As it was ultimately a governing body decision to allow these projects to continue, rather than for these funds to be reviewed against regional priorities, it is proposed that the budgets for these projects be treated the same as regional investment. This will mean that these projects will continue, unless the governing body decides otherwise. However, if the local board decides not to proceed with a legacy project, funds should return to the governing body to fund alternative local asset related projects, rather than being treated as additional discretionary funding for the board.

- (b) **Discretionary capex budgets:** This includes the pool of discretionary funding allocated under the current local boards funding policy, and any Special Local Improvement Projects/Local Improvement Projects (SLIPs/LIPs) budgets. Under the proposed funding model, local boards will no longer have allocated discretionary capex budgets. Instead, the consequential operating expenditure associated with these capital budgets will be treated as funding for locally driven initiatives. This funding will either be reallocated between local boards, if a general rate allocation model is adopted, or it will be funded by each board through a local rate if a rates based model is adopted.
180. Existing local board capex budgets will not be reallocated under the proposed local boards funding policy. Boards will be able to continue planned discretionary capital projects, but will need to fund the consequential operating expenditure from their allocation of funding for locally driven initiatives or from local rates.

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## Chapter 11: Implementation issues

181. This chapter discusses the issues that need to be addressed when implementing the local boards funding policy.

### Planning and resourcing for locally driven initiatives

182. To allow the council to effectively manage its resources consideration needs to be given to the timing and co-ordination of locally driven initiatives.
183. In most cases, local driven initiatives are delivered on behalf of local boards by the council's operational departments. At present, resourcing for these activities has largely followed legacy provision.
184. Local boards' decisions to change existing service levels and to undertake new activities or projects will alter operational resource requirements over time. Local boards are not permitted under the LGACA 2009 to appoint, suspend or remove employees; however it is to be expected that some of the decisions they make on services will directly impact on council staffing requirements.
185. While most local driven initiatives will continue to be delivered by council as business as usual, decisions on significant changes to local services should consider issues of timing and resourcing. The outcome of these considerations will depend on the nature of the change being proposed, but may mean:
- large scale projects being coordinated through the council's three yearly planning cycle
  - access to specialist resources being coordinated across multiple local board areas, requiring local requests for these resources to be scheduled
  - a requirement for local boards to commit to minimum or fixed durations for some projects to enable the council to effectively allocate or contract appropriate resources.

### Budget errors

186. The local boards funding policy will be implemented using budget information prepared for the Long-term Plan 2015-2025. While every effort will be made to ensure the accuracy of the budget data for the policy, there is always the potential for errors to be identified after funding has been allocated.
187. The key issue that could arise is that either too much, or too little of current local expenditure is classified as being for locally driven initiatives, rather than asset related. The impact of any error will depend on whether local boards are funding through local rates or by an allocation of general rates, and if the change in funding is being transitioned over time.
188. If local boards are funding locally driven initiatives from local rates, they will be able to review the activities they undertake, and the level of revenue they need to raise from their community. It is not a significant problem if a particular project is later found to be an asset related activity, as it will then be governing body responsibility to ensure that the board is funded it from general rates, and the board can adjust its future revenue requirement accordingly.
189. It is more problematic if the Governing Body wishes to move responsibility for expenditure from being general rate funded, to being funded by the local board. Such an adjustment would need to be negotiated with the local board, who would have the right not to continue the activity if they do not wish to fund it. Any transition would need to align within the annual planning cycle, to enable the board to include adjustments in its required expenditure in its rate requirement.

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190. Funding local boards for their locally driven initiatives from general rates will result in current expenditure for these activities being reallocated across local boards in accordance with a funding formula. This will result in significant change in the level of funding each board receives.
  191. The level of change associated with potential funding reallocation options means that it is likely that the application of funding change will be transitioned over three or more years. Any initial issues with expenditure being misidentified as locally driven initiatives (to be reallocated) or asset related (not reallocated) can be resolved through the transition process.
  192. The main issue under this scenario is if asset related expenditure is incorrectly identified as a locally driven initiative, and therefore able to be reallocated. In this case a local board may find that it is receiving insufficient funding to maintain its local assets. If an error of this nature is found after funding has been allocated, then it should be the governing body, to resolve the funding shortfall in the interim, until the issue can be corrected as part of the transition of the funding policy.

### **Budget overruns**

193. In previous planning cycles, costs for local activities have been subject to repeated review and amendment as a result of adjustments to budgets by operational departments. It is proposed that alongside the implementation of the local boards funding policy, a charging model for the delivery of local services is adopted.
194. This would see operating departments committing to deliver specified services for local boards, at a specified cost. The costs will be identified in the local board budget, and the operating department is then required to deliver the service. Once costs have been committed to the budget, they should not be revised within the same budgeting cycle, unless there is a request to change the scope of the deliverables.
195. Under this model, operating departments will have a responsibility to accurately cost local services. Any cost overruns as a result of inaccurate forecasting or errors by the operating department will need to be met from the department's budget.
196. Operating departments should identify any potential uncertainty when costing projects, and agree with the local board the appropriate course for resolving these. Changes to the scope and cost of the project during the course of implementation will need to be considered and agreed by the local board.
197. Any changes to local board budgets as a result of decisions by the local board, such as changes to the scope of a project, will need to be met from the local budget.

### **Allocation of corporate overheads**

198. A proportion of the council's operating costs are associated with internal council services, such as information services, property and democracy services. These costs are in part driven by the deliverables of the operational areas of the council. Where appropriate, these costs are allocated as corporate overhead to the relevant operational activities or projects. This provides a more accurate view of the cost to the council of undertaking these activities.
  199. Just under half of local activity operating expenditure is corporate overhead. Corporate overhead allocation has been included in all modelling provided in this report. This means that any overhead costs associated with locally driven initiatives is included in the models showing options for allocating funding between boards. Similarly, models showing the impact of funding locally driven initiatives through local rates assume local board expenditure includes the associated cost of corporate overhead.
  200. Giving local boards responsibility for funding corporate overhead associated with locally driven initiatives gives a clearer view of the costs associated with local
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decisions. Costs for services provided by operational departments will include corporate overhead as appropriate.

### **Change in funding for local activities over time**

201. Under the existing local boards funding policy, expenditure on local activities is budgeted to increase at the council's rate of inflation. No allowance for growth has been made. Individual board budgets may have significant change year to year, reflecting the timing of legacy projects.
202. Under the proposed funding model, the governing body is responsible for funding local assets. Decisions on future investment in local assets should reflect demand for services as a result of population growth, as well as the need to harmonise existing service levels where appropriate. This investment will be largely funded from general rates, though some types of growth driven investment, such as local parks in new housing areas, will be funded from development contributions<sup>3</sup>.
203. How funding for locally driven initiatives changes over time will depend on the funding mechanism chosen. If these activities are funded through local rates, then the amount collected in each board area will automatically grown in accordance with growth in the local rating base. Each board will also be able to adjust the level of rates to be collected from their board area when deciding their annual rate requirement.
204. If local boards are funded through an allocation of general rates, then the total amount of funds available for allocation each year will be decided by the governing body. The amount of change for individual local boards will depend on the formula used to allocate funds, and how often the factors underlying the formula are adjusted.
205. It is expected that local board population size will be the key driver of any funding allocation formula. The Auckland Growth Model provides annual projections of population growth by local board, based on census data, council plans and building consents. This information would enable the funding allocation to be adjusted annual reflect growth in local communities. If this approach is adopted however, the total pool of funding allocated annually should be increased for overall population growth. If funding is not increased for growth, local boards with slower than average population growth will experience declining funding year on year.
206. Other factors that may be used in the funding allocation formula, such as the deprivation index are reviewed every five years alongside the census. There is insufficient data to assess change in these factors between census surveys. Furthermore, such factors are used to indicate relative demand for funding between boards, rather than necessarily indicating a need for greater overall funding for local initiatives. The use of non-population based factors for funding allocation should be reviewed every five years following the release of the relevant census data.

### **Capital expenditure for local assets**

207. To ensure council investment is optimised, regional capital investment should be viewed as being attached to projects, rather than local boards. If a project is delayed, then any capital expenditure, and consequential operating expenditure allocated to the project is not available for the local board to utilise.
208. Instead, to ensure the council delivers significant capital projects as efficiently as possible, the expenditure may be used to advance other capital projects in the interim.

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<sup>3</sup> Development contributions can only be used to fund certain types of growth related infrastructure and assets as defined by the local Government Act 2002 and the Auckland Council's Contributions policy. Funds are allocated via the council's Asset Management Plans in accordance with Governing Body decisions. DC funds cannot be used for operating expenditure, and are not available to fund non-asset related locally driven initiatives.

Decisions on the changes to the timing of Governing body initiated capital projects lie with the Governing Body, local boards will be consulted through the normal process of decision making.

209. Renewals budgets are another area that may benefit from a more regional approach to the management of funds. At present, renewal funds are allocated to local assets over the long term planning cycle based on models of the expected replacement life cycle for different asset classes. There may be a variance between the expected timing for the renewal of an asset, and its actual life span - some assets may perform better than expected, while others will need replacement sooner than expected.
210. Money allocated for asset renewal can only be used for renewals. To ensure optimal use of renewals funds, it is proposed that the allocation of renewal budgets be managed regionally, to ensure that the council's renewal of local assets is optimised across all local boards, and all asset classes. This will mean that when the council develops its annual work programme for renewals, planned expenditure will be reviewed against actual current need for asset replacement, and reallocated accordingly.
211. Under this model, local boards will be consulted on expected renewal expenditure within their board areas as part of the development of Long-term Plan and the Asset Management plans. Boards will also be consulted on the development of the annual work programme for renewals in their area, and will retain decision making when there is need to assess competing priorities for their local assets.

Ultimately, the council is legally required to renew its asset base and the decision to renew an asset should be determined by its condition. Political decision making should primarily relate to whether assets are retained or not, or upgraded or altered, with asset renewals being a business as usual activity for the council

## Chapter 12: Rates remission and postponement policy

212. This chapter discusses the need to review the Auckland Council rates remission and postponement policy alongside the review of the local boards funding policy to ensure consistency in the approach to supporting community and other organisations.
213. The Auckland council has eleven legacy rates remission and postponement schemes for community and heritage activities that need to be reviewed. There is a significant overlap between the purpose of these rates relief schemes and grants schemes controlled directly by local boards. It is proposed that these rates remission and postponement schemes be reviewed alongside the development of the local boards funding policy to ensure that funding for these activities is consistent across local boards.

### Legacy remission and postponement schemes

214. The Auckland Council provides ten rates remission and postponement policies inherited from the previous councils that provide some level of rates relief for community and sporting organisations, and land with environmental, historic or cultural value. Each policy is only available to properties within the former council area that offered it. The council also offers a rates postponement for commercial properties on Great Barrier Island that may be considered as a local rather than regional scheme. The table below summarises these remission and postponement policies:

Rates remission schemes for community and sporting organisations				
Former Council	Applies to	Value of remission	Amount (\$) (2013/14)	No of properties
Auckland Regional	Community, sporting and other organisations	5-10% of the rates	\$101,061	127
Franklin District	Community, sporting and other organisations	50-100% of the rates	\$105,135	48
North Shore City	Community, sporting and other organisations	Up to 100% of the rates	\$734,667	44
Rodney District	Organisations (sports, recreation and welfare) that benefit residents of Rodney	50-100% of the rates	\$144,005	54
<b>Total rates remitted</b>			<b>\$1,084,868</b>	<b>273</b>
Rates postponement scheme for community and sporting organisations				
Former Council	Applies to	Value of postponement	Amount (total \$)	No of properties
Manukau City	Sports Clubs	Postponement of difference in rates if development potential of property excluded from the rateable value	\$85,654	2
<b>Total rates postponed</b>			<b>\$85,654</b>	<b>2</b>
Rates remission schemes for heritage activities				
Former Council	Applies to	Value of remission	Amount (\$) (2013/14)	No of properties
Auckland City	Land covenanted for conservation purposes	Up to 100% of the rates for the covenanted area	\$36,652	24
Auckland Regional	Land protected for natural or historic or cultural conservation purposes.	Up to 10% of the rates for the protected area	\$8,946	31
Franklin	Land protected for natural	Up to 100% of the rates for the	\$7,465	13

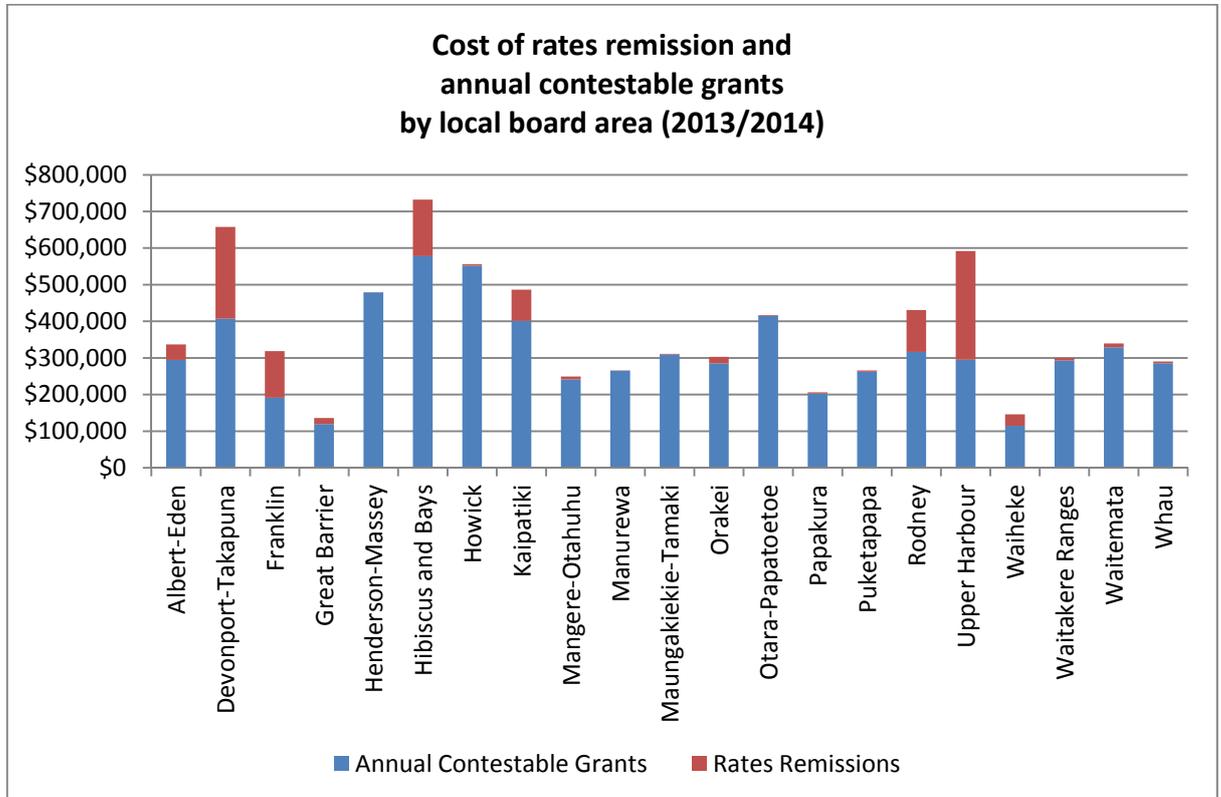
District	conservation purposes	protected area		
Papakura District	Land protected for natural conservation purposes	Up to 100% of the rates for the protected area	\$0	0
Rodney District	Land protected for natural or historic or cultural conservation purposes.	Up to 100% of the rates for the protected area	\$19,059	32
<b>Total rates remitted</b>			<b>72,122</b>	<b>100</b>
<b>Rates postponement scheme for commercial properties</b>				
<b>Former Council</b>	<b>Applies to</b>	<b>Value of remission</b>	<b>Amount (Total \$)</b>	<b>No of properties</b>
Auckland City	Commercial properties on Great Barrier Island	Up to 100% of the rates for the covenanted area	\$2,752	4
<b>Total rates postponed</b>			<b>\$2,752</b>	<b>4</b>

215. As can be seen from the table, the amount of rates relief available, and the criteria for eligibility, varies significantly across Auckland. Not all types of remission are available in all local board areas.
216. While the objectives of the remission schemes largely fall within the scope of local activities, the rates and postponement remission policy and its administration is a regional responsibility. Local boards have not had input into the design of the schemes or their application.

### Grants schemes

217. The council also inherited a range of legacy grants schemes from the former councils. Apart from a few regional funds, control of these grants schemes passed to those local boards in whose areas they were originally offered. The level of grants funding transferred to local boards varies significantly.
218. The purpose of the legacy grants schemes varied between the former councils, though most support objectives similar to those underpinning the rates remission schemes described above. This includes providing support to a range of organisations, such as community support services, sports and recreation clubs and local arts groups. Other schemes seek to encourage the preservation of the natural environment or other heritage features.
219. Local boards that have inherited legacy grants schemes usually have discretion over the types of activities they support, or whether to utilise funds for other activities. Boards that did not inherit legacy grants schemes are still able to provide grants from other discretionary funds or by reprioritising their budgets.
220. In some areas, such as in Auckland City, grants schemes were a direct replacement for earlier remission schemes for community organisations, and may be explicitly granted to cover rates related costs of those organisations.
221. In other cases legacy grants schemes reflect differences in funding models between the former councils. This is the case for the former northern councils, who often used grants to third party organisations to deliver services which were provided directly through council owned facilities in other areas.
222. Under the proposed local boards funding policy, local grants schemes that support the provision of facility based services which are provided directly by the council in other areas, will be funded on the same basis as council owned local assets. In this case, boards will be funded from general rate for the cost of providing these grants.
223. Other local grants schemes are classed as funding for locally driven initiatives, under the proposed policy. These funds are considered to be discretionary for local boards. It is these latter schemes that are comparable to the rates remission schemes that support community organisations and heritage activities.

224. The table below shows indicative figures for 2013/2014 grants budgets that will be treated as part of locally driven initiatives funding. It includes community related rates remissions and annual contestable grant funding, but does not include recurring grants. The figures shown also incorporate the regional funding delegated to joint funding committees of local boards through the interim community funding programme, as this provides a truer picture of 'current state' local grants funding.



225. Work is currently underway to separate recurring grants supporting discretionary activities and non-asset-based outsourced community services, from recurring grants supporting asset-based outsourced community services (i.e. grants to third parties operating Council-owned facilities). Asset-based recurring grants will be held at the regional level alongside other asset-related expenditure, while all other local recurring grants will form part of locally driven initiatives funding.
226. This information has been drawn from the review of Council's 'total community investment', currently being undertaken by Community Policy and Planning. The purpose of the review is to consistently categorise and quantify all community related expenditure. Findings from this review will be discussed with local boards as part of workshops on the Community funding policy scheduled for March.
227. The proposed local boards funding policy seeks to reallocate funding for locally driven initiatives across local boards, or to fund these activities through local rates. It is therefore proposed that the rates remission schemes for community and sporting organisations and heritage activities be reviewed alongside the development of the local boards funding policy. This is to ensure there is consistency in how these activities are funded across local boards.

### **Reviewing the rates remission and postponement schemes for community and sporting organisations and for heritage activities**

228. It is proposed that the scope of the review be limited to those ten legacy rates remission and postponement schemes that provide support for community and sporting organisations and for heritage activities. The review will also consider the

rates postponement scheme for commercial properties on Great Barrier Island. All other rates remission schemes will not be included in the review.

229. There are two key principles that should underpin a review of the schemes for community and heritage activities. These are:
- the rates remission policy should be consistent across the region, as it is a regional policy
  - responsibility for decisions related to local activities should belong to local boards
230. The first step in reviewing the remission and postponement schemes will be to assess the remissions/postponements that have currently been granted under the policy against the both the allocation of decision making, and the criteria used to define locally driven initiatives under the proposed local boards funding policy.
231. While the objectives of the remission and postponement schemes generally fall within the remit of local decision making, there may be elements of the schemes, such as support for heritage activities, where a regional scheme may be appropriate. It may also be the case that some of the remissions for facilities may fall within the definition of support for local assets under the local boards funding policy. Support for such facilities should be included in the regionally allocated funding for local assets.
232. The review will look at options for harmonising the remission and postponement schemes. This may include options for a regional remission policy, but will also consider options for replacing the schemes with local and/or regional grants schemes. There are advantages in moving from rates relief schemes to grants schemes, as the latter allows:
- greater decision control for local boards on how funds should be utilised for the benefit of their local communities
  - greater transparency and accountability as to how support is given and for what purpose
  - the ability to offer support to organisations who are not ratepayers
  - funds for local rates remission and postponement schemes can be incorporated into the local boards funding policy on the same basis as grants used for the same or similar purposes.
233. There may be costs associated with moving from rates remission and postponement schemes to grants schemes. These will be assessed as part of the review.
234. It is proposed that the review of these remission and postponement schemes be coincide with the development local boards funding policy. Any proposed amendments to the rates remission and postponement policy will be consulted on alongside the Long-term Plan 2015-2025, so that changes can be implemented alongside the implementation of the local boards funding policy.