

ARF005 Delivery of Service Risk (affordability)

Risk Status Progress Report December 2020

Prepared: 05/11/20

Description of Risk and Impact

Affordability is acknowledged as one of Far North's key challenges. With a small rating base, diverse socio-economic factors and large distributed infrastructure base and service requirement, this will get worse over time without intervention.

Rates and charges provide the majority of FNDC funding.

Affordability in the context of rates has two aspects:

- The cost relative to income (and wealth to the extent that wealth can be converted into income).
- The ability of ratepayers to earn greater income in the future from the spending of the rates, e.g. investment in infrastructure that will allow an individual to earn higher incomes in the future.

Data from the Ministry of Social Development shows that 19% of the Far North District receives New Zealand Superannuation. In total, Infometrics calculations show that 31% of the Far North population in March 2020 was either on a main benefit or on New Zealand Superannuation. In 2018, the Far North District had a usual residential population of 65,250, living in 22,761 households or around 2.9 people per household. Business Economic Research Limited (BERL) analysis (Feb 2020) for the Far North provides a snapshot by household type:

Table 1 Household counts by the eight usual household types, Far North District 2018

Household Type	Household count	As a percentage
Single Superannuitant, no other income	2471	10.9%
Married Superannuitant, no other income	2961	13.0%
Single working person (no kids)	1504	6.6%
Single adult, 2 children, on benefit	409	1.8%
Single adult, 2 children, employed	102	0.4%
Couple, 2 children, one employed	749	3.3%
Couple, 2 children, both employed	1123	4.9%
Remaining households	13442	59.1%
Total occupied households	22761	
Two working adults, based in Auckland	763	3.4%

Existing Treatments

BERL Report

Council commissioned BERL to help us understand and communicate what we mean by 'affordability'. BERL examined the affordability of rates for eight usual household types, within the District (see table 1), to determine the percentage of household income spent on rates at different rating levels (see table 2).

The BERL report concluded that the following household types are most likely to experience rates affordability issues:

- Households in the lowest 40 percent of incomes
- One parent households with children
- One person households
- Households whose principal source of income is New Zealand Superannuation.

These households predominantly have low or fixed incomes.

The BERL analysis has used the affordability benchmarks of:

- Rates as a percentage of gross household income, where affordability issues are likely to arise when rates exceed five percent.

Rates figures include all local and regional rates, included targeted rates, and have a breakdown of local authority and FNDC values. The full BERL report is provided.

Table 2 Rates as a percentage of gross household income by the eight usual household types by ward:

Household Type	Household count	As a percentage	Rates as a percentage of gross household income:																				
Single Superannuitant, no other income	2471	10.9%	<table> <tr> <th></th><th>FNDC RATES %</th><th>MRC RATES %</th><th>TOTAL RATES %</th></tr> <tr> <td>Te Hiku</td><td>9.4</td><td>1.0</td><td>10.5</td></tr> <tr> <td>BOI-Whangaroa</td><td>9.9</td><td>1.0</td><td>10.8</td></tr> <tr> <td>Kaikohe-Hokianga</td><td>8.9</td><td>1.0</td><td>9.8</td></tr> <tr> <td>Total Far North District</td><td>9.0</td><td>1.2</td><td>10.2</td></tr> </table>		FNDC RATES %	MRC RATES %	TOTAL RATES %	Te Hiku	9.4	1.0	10.5	BOI-Whangaroa	9.9	1.0	10.8	Kaikohe-Hokianga	8.9	1.0	9.8	Total Far North District	9.0	1.2	10.2
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For all case study households, BERL compared the differences between lower, median and high quartile rates within each of the following areas:

- Total Far North District
- Te Hiku Ward
- Bay of Islands – Whangaroa Ward
- Kaikohe-Hokianga Ward

- Smaller areas (Kerikeri, Kaikohe, Opononi and Omapere, Kaitaia, Ahipara, Russell, Paihia, and Karikari Peninsula).

Table 3 Total rates as a percentage of gross income by household type, Far North District:

Household type		FNDC rates (%)	NRC rates (%)	Total rates (%)
Single superannuitant, no other income	Lower Quartile	7.4	1.1	8.5
	Median	9.0	1.2	10.2
	Upper Quartile	11.0	1.0	12.1
Married superannuitant, no other income	Lower Quartile	4.9	0.7	5.6
	Median	5.9	0.8	6.7
	Upper Quartile	7.3	0.7	8.0
Single working person (no kids)	Lower Quartile	3.4	0.5	3.9
	Median	4.1	0.5	4.6
	Upper Quartile	5.0	0.5	5.5
Single adult, two children, on benefit	Lower Quartile	9.1	1.3	10.4
	Median	11.0	1.5	12.4
	Upper Quartile	13.5	1.3	14.8
Single adult, two children, employed	Lower Quartile	3.4	0.5	3.9
	Median	4.1	0.5	4.6
	Upper Quartile	5.0	0.5	5.5
Couple, two children, one employed	Lower Quartile	3.4	0.5	3.9
	Median	4.1	0.5	4.6
	Upper Quartile	5.0	0.5	5.5
Couple, two children, both employed	Lower Quartile	1.7	0.3	1.9
	Median	2.0	0.3	2.3
	Upper Quartile	2.5	0.2	2.7
Two working adults, based in Auckland	Lower Quartile	1.4	0.2	1.6
	Median	1.6	0.2	1.8
	Upper Quartile	2.0	0.2	2.2

A number of emergent risks are out of our control and may impact affordability, such as:

Three Waters Reform.

Reform of three waters looks likely to proceed, although it may not be during the next three years. When and if it does, however, there is no guarantee that the cost to ratepayers will drop. Whether there will be any relief for ratepayers depends on whether the Government decides to spread the cost of service across the entire District or maintains the current scheme-based model. Until a proposal with funding model is available, we must assume that there will be no change in terms of affordability if/when the reform becomes law.

Rating of Māori land

The Local Government (Rating of Whenua Māori) Amendment Bill will soon go to its second reading. This legislation will make unusable/unproductive Māori Freehold Land unrateable. Council will then be in a position of having to spread operating costs amongst fewer ratepayers. This will exacerbate the affordability issue. It is highly likely that this legislation will be enacted at the beginning of July 2021.

Government grants

Economic stimulus and Provincial Growth Fund funding, while providing capital to build assets the District really needs, does not cover the cost of operating those assets into the future. Depreciation and other operating costs will have to be carried by ratepayers, which worsens the affordability issue.

These are the mitigation actions we can control:

Rating Review

FNDC is currently undertaking soft consultation on changes that could be made to the rating system to make it fairer and more equitable. The public have been asked to give feedback on potential changes Council believes could have a positive effect, including moving to Capital Value. If, on reviewing feedback, Council wants to go ahead and formally propose a change it will be included as a consultation issue in the LTP consultation document. Any changes as a result of consultation and decision-making would be put in place from 1 July 2021. By the time this report is read Council will have agreed whether or not to formally consult on changes.

Operating Costs

FNDC will continue to actively review operating costs by activity, asking the question “should we continue to do this?” and if yes, “is there a way to do it more cost-effectively”? An example of this is housing for the elderly. Council passed a resolution earlier this year to consult on either divesting housing assets to or partnering with another party, with an assumed reduced cost to ratepayers.

Delivering assets more affordably

Programme Darwin is a large project tasked with significantly improving asset management practices, asset data, asset operations and asset planning. Any financial benefits coming out of this work will result in less cost to the ratepayer.

Sustainable Procurement

The goal is to grow the economic capability and capacity of ratepayers to earn greater income in the future.

Where are the gaps? / what more could we be doing?

With the potential to compound Far North's affordability challenges are a number of proposed government reforms (e.g. Three Waters / Procurement Rules / Whenua Māori rating); and the impact of the government funding through the COVID-19 stimulus package and Provincial Growth Fund. Assets created with this funding will increase ratepayer funding requirements for their ongoing operation. There will be an interesting tension where one aspect of affordability is negatively impacted (increased rates), which will, hopefully, be offset by the economic benefit of enhanced ability of Far North ratepayers to earn greater income.

Inherent Risk:	Trend	Residual Risk:	Accountable:	CEO	Date raised:	29/11/18	Report frequency:
	↑		Responsible:	GM SPP	Date accepted:	30/05/19	Six monthly