

ARF005 Delivery of Service Risk (affordability)

Risk Status Progress Report December 2021

Prepared: 08/11/21

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. The Government's Public Housing Plan will add more pressure to affordability as we our planning scope goes beyond population growth to planning for more dwelling demand (and consequently increased infrastructure capacity) that will result from reducing overcrowded housing and homelessness. The areas with the most demand are the areas that have the greatest affordability challenges.

Rates and charges provide the majority of FNDC funding, although in the past few years we have had access to substantial Crown funding opportunities. Although we may be fortunate to be able to access this funding to build needed infrastructure, we still must maintain and depreciate it, which puts more and more pressure on the required rates take.

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.

Existing Treatments

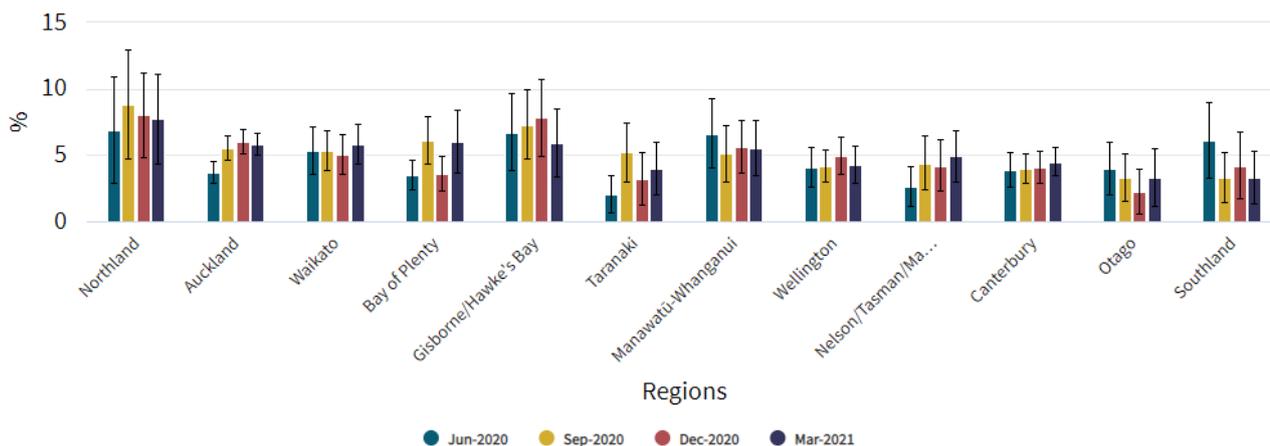
BERL Report

In Feb 2020 Council commissioned Business Economic Research Limited (BERL) to provide an analysis to help us understand and communicate what we mean by 'affordability'. The BERL report examined the affordability of rates (the percentage of household income spent on rates at different rating levels) for eight usual household types within the District.

This report was developed just before the first COVID-19 lockdown. The world has changed dramatically since then, and while some aspects of the report remain relevant, most of the findings may now be obsolete, and a refreshed study should be commissioned. This view is supported by the following economic updates provided by Infometrics at the Council workshop on 20 October 2021:

- Despite signs of a reasonably good bounce back after lockdowns in 2020, the Delta strain has raised a deeper level of national, regional and local uncertainty about the economic outlook.
- In level three 16% (4200) of the Far North's workforce were not operational. In level four that climbed to 37% (9600).
- Northland has the highest percentage of people, of any district in New Zealand, who have received help from a welfare organisation in the last 12 months to March 2021 (see Stats NZ graph below); and
- Infometrics economic monitor report: job seeker recipients, annual average change, increased by 25.1% and unemployment rate is 6.6% versus the national average of 4.7%.

Percentage of people who received help from a welfare organisation in the last 12 months, by regional council area, quarterly



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

Inflation

Despite early optimism from economists, 2021 brought with it a resurgence of COVID-19 cases and the Delta variant, re-introducing lockdowns to try to stem infection and disease. Business and Economic Research (BERL) release annual cost adjusters for the local government sector. In 2021, adjustor forecasts for 2022-23 and beyond are assessed against the backdrop of a reality that the global production and movement of goods has been severely hampered by lockdowns for over 18 months - this is particularly obvious in global shipping container prices, as well as global commodity prices. BERL advise that this will not resolve itself in the short-term, and although there will be recovery in output, it will come with price inflation. Local Government has already observed price inflation, particularly in contractor costs. This has been driven by strong domestic demand for construction works, as well as international price changes in raw materials. Both factors will remain for the medium to long-term and will be particularly strongly felt against the backdrop of labour constraints in New Zealand.

BERL's forecast cost adjusters incorporate the reality that the world rebuilding after lockdowns will do so only with significant inflation.

That said, the Local Government Cost Index adjustors have dropped slightly on what was previously forecast for 2022-23. In considering the almost daily commentary on the efforts of the Reserve Bank to control inflation through adjustments to cash rates has prompted the Annual Plan team to assume no change to the original forecast for inflation as a safety precaution.

Government reform such as the Three Waters Reform.

The Government's announcement that the reform of Three Waters will be legislated creates certainty that transition will occur, but at this point the financial implications to ratepayers is unknown. Council is expecting some form of financial assistance for the transition to the four new entities but the quantum of assistance that will be extended is unknown.

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.

The impact of mitigations actions within our control remain largely unknown:

Rating Review

The rating review is now complete with a result that does not improve the affordability profile for the Far North District. Until the operating details of the new three waters entities emerge It is too early to understand the implication of this reform agenda on rates.

Operating Costs

FNDC will continue to actively review operating costs.

Programme Darwin is a large programme of work 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 organisation's strategic intention to implement more initiatives that lean towards localism includes keeping the momentum going with regard to sustainable procurement. This is likely to positively impact affordability by improving the local economy.

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

There is a lot we don't know. This makes it difficult to mitigate. We continue to work to better understand the unfolding changes and to continue agencies in this space.

- The affordability profile of the Far North is likely to have changed because of COVID-19 lockdowns. Up to date information is required to enable further intervention. **Suggested activity:** A refreshed BERL affordability study.
- More information is needed on the Three Waters reform and the impacts on rates in the Far North. The announcement to legislate the formation of four new water entities was recent, and at this point how these entities will operate financially is unknown. If, for instance, reform means that costs for each entity will be allocated in a pro-rated fashion to all ratepayers in the entity's area of responsibility, this has the effect of removing targeted rates by scheme. This could have a significant effect on some communities. **Suggested activity:** Maintain watching brief and assess financial impacts as the likely operating models emerge
- The impact of the COVID-19 pandemic and changing ways of working on migration to the Far North
- The impact to our National and the International economies from the COVID-19 pandemic
- The impact of the Government's Public Housing Plan on housing the "hidden" homeless and the number of additional house in our district.

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