

### 3. REVIEW OF LOCAL GOVERNMENT NEW ZEALAND SUBSCRIPTION FORMULA

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The purpose of this report is to advise the Council of a new formula proposed by LGNZ for assessing member contributions, and to seek the Council's approval for the resulting increase which will occur in the case of Christchurch City.

#### THE EXISTING FORMULA

The subscriptions formula was last reviewed in 1996. It consists of:

- a fixed charge which accounts for 60 percent of the revenue Local Government New Zealand collects via subscriptions
- a variable charge which accounts for the remaining 40 percent of the revenue Local Government New Zealand collects via subscriptions. This charge is allocated to local authorities based on operating expenditure
- a concessionary rate for the Chatham Islands (which pays 10 percent of the flat fee and the variable fee based on its operating expenditure)
- a cap on subscriptions which is set at the subscription level paid by the council with the lowest operating expenditure of more than \$100 million. Five councils have their subscriptions capped in this way, including Christchurch.

The flat fee reflects the basic value of Local Government New Zealand's policy and lobbying work that was considered to benefit all members equally regardless of size. The exact mix of the fixed and variable components was determined from the strategic plan; that document indicates that 60 percent of the work of Local Government New Zealand is policy development and advocacy.

The cap sets a maximum subscription and is designed to ameliorate the impact that the variable component would have on subscriptions. For example, if there were no cap some councils would be paying up to \$130K in subscriptions, the cap reduces this to \$57.5K.

A schedule of current subscriptions paid by all councils was presented to the 22 November Future Focus meeting, and this showed a wide disparity of contributions in relation to the population in each council area. Smaller councils pay more per capita and in relation to operating expenditure than large ones, due to the fixed charge accounting for 60% of the cost and the calculation related to operating expenditure (for the remaining 40%) being capped at \$100 million. To take an example of the regressive nature of the subscriptions, there is a territorial authority which pays an annual subscription of \$18K (of which \$17K is the flat fee). This is equivalent to 0.6 per cent of its operating budget with each resident paying \$4.49 in Local Government New Zealand subscriptions alone.

It was therefore agreed that a review of the formula for calculating subscriptions was desirable to see if costs for councils could be spread more equitably.

#### THE PROPOSED NEW FORMULA

LGNZ has submitted the following list of attributes which it considers desirable for a subscriptions methodology. Obviously this is a "menu" of considerations, and in practice judgement calls and tradeoffs have to be made between the criteria.

The methodology should be:

- **robust** – the methodology should stand the test of time
- **transparent** – members should be able to work out how their subscriptions were arrived at
- **fair and equitable**
- **simple to operate**
- **reasonable** – the formula should not create an unduly large impost on any local authority, or group of local authorities without good reason.

Local Government New Zealand staff modelled 18 different formulae in an effort to find a formula which best met the above criteria. The National Council considered three of these before agreeing that the formula presented in this paper was the most equitable overall.

The key features of the proposed formula are:

- the split of flat to variable rates would be altered to a 50 percent flat fee: 50 percent variable
- the cap on subscriptions for the bigger local authorities would remain but would be lifted to \$125 million. Four local authorities would have their subscriptions capped under this treatment
- the concessionary fixed rate for the Chatham Islands would remain
- local authorities with an operating budget of \$5M or less would pay only the flat rate
- a population based cap on subscriptions would be introduced. No local authority would pay a subscription that was more than \$2.50 per head of population. Any local authority that exceeded this would be given a concession on their fixed rate. (Two local authorities would qualify for a concessionary rate under this criterion). The amount of the concession would depend on how far over the cap the local authority was, thus different local authorities would have different concessionary rates. This cap would be justified on the grounds of fairness and equity.

The impact of the proposed changes to the formula is attached (with accompanying letter from the President of LGNZ). The calculations at this stage include a 10% increase in local subscriptions as indicated in the President's letter. Also note that the operating expenditure figures in the table were those used in calculating the 2000/1 subscriptions (ie operating expenditure for the year ended June 1999) those for the 2001/2 year will of course be slightly different. The subscription figures in the attachment should therefore be viewed as a "ball-park" figure and not the final subscription figure.

Any review of the share of members contributions to the funding of an organisation such as Local Government New Zealand is clearly going to result in some paying more and some less. To illustrate this point the attachment includes some comparative figures which show the level of subscription per person, and the subscription as a percentage of the operating budget. These figures show that although a small number of large councils will face substantial increases as a result of changes in the formula, they still impose less of a financial burden in relation to total council budgets than in most provincial and rural authorities.

#### **NEXT STEPS**

At the Future Focus meeting of 22 November 2000, there was discussion on the issues of representation, the impact of subscriptions on various member councils, whether the level of subscriptions paid should have a more direct relationship with voting rights and so on. There seemed to be a general agreement that a review of the formula for calculating subscriptions was appropriate, but at that time it was assumed any change could be agreed at the AGM in July 2001.

However, in view of the financial situation outlined in the President's letter, the National Council now believes that an immediate review is appropriate and a Special General Meeting of members will be held in April to coincide with the anticipated Roothing Forum, which the Association expects will be attended by most members.

If an agreement on a changed formula is reached in April, subscription accounts can be sent out immediately to members for 2000/2001 year (which commences on 1 April). The issue of voting rights can then be addressed as originally intended at the AGM in July.

The Association seeks the comments of individual member authorities by no later than 20 February 2001, to allow these to be considered by the National Council at its meeting on 7-8 March 2001.

#### **IMPACT ON CHRISTCHURCH CITY COUNCIL**

As can be seen from the schedule, the new formula proposed will result in an increase of \$25,565 per annum (\$83,100, currently \$57,535) in the case of the five largest authorities, ie:

Auckland City  
Christchurch City  
Manukau City  
North Shore City  
Wellington City

The stated purpose of the new formula is principally to relieve some of the pressure on small councils.

As the President points out in his letter, because of the difficult financial position which LGNZ currently finds itself in, an increase of subscriptions of nearly 10% will be necessary to maintain the viability of the organisation and the delivery of the services which it provides.

## DISCUSSION

In the past ten years local government has established itself as a credible voice with central government. Effective representation of the needs of local communities has resulted in local government being seen as an important policy and implementation partner. For example, the local government sector has initiated, and is now a key contributor to, the reviews of the Rating Powers Act, the Local Government Act and the Local Elections and Polls Act.

The increased profile and influence of local government at a national level has increased that need for effective and credible leadership for the sector.

Overall, LGNZ has in recent years provided more effective leadership than formerly.

## GOVERNANCE ISSUES

Local Government New Zealand strategic reviews, and discussions between local authority members, have in recent years raised a number of governance issues:

1. Metropolitan local authorities are not adequately represented on the National Council or the Presidential Team, despite representing a large segment of New Zealand's population and contributing a large share of the organisation's budget.
2. Aiming for consensus on every issue dilutes the views of interest groups such as metropolitan local authorities.
3. The zone structure (which divides the country into six sections) is too large and cumbersome to effectively represent regional views.

These particular issues were previously discussed by this Council last year when it was resolved that the Council support changes to the constitution to:

- allow for the election of a former elected member as president
- increase the voting power of metropolitan local authorities
- provide for greater representation of metropolitan local authorities on the National Council

LGNZ advises that these issues are now being addressed as part of its current constitutional review, and that any resulting changes will be submitted for approval to the Association's AGM in July. LGNZ staff have indicated that the constitutional review is likely to result in proposals to change the constitution along the lines sought by this Council.

- Recommendation:**
1. That the Committee consider and decide whether it wishes to indicate its support for the new formula for assessing subscriptions proposed by LGNZ.
  2. That, in view of the fact that comments on the proposals are sought by no later than 20 February 2001, such submissions be forwarded immediately following the Strategy and Resources Committee meeting, and submitted to 23 February Council meeting for information.

The Chairman comments:

The increase to \$83,100 proposed for Christchurch and other major cities is reasonable. If Christchurch were to pay at the rate of the smallest councils (\$2.50 per resident) our subscription would be \$800,000. LGNZ is doing an excellent job on the current legislative reviews and must be resourced for the work.

### Chairman's

**Recommendation:** That the Council inform LGNZ of its support for the new formula.