

# proposed staged redirection of investment income

## Introduction

The Northland Regional Council (NRC) is seeking public comment on the proposed redirection of Council investment income from a direct rates subsidy funding Council services, to funding specific projects that improve the economic, environmental, social and/or cultural well-being of Northlanders.

The Council will support projects that:

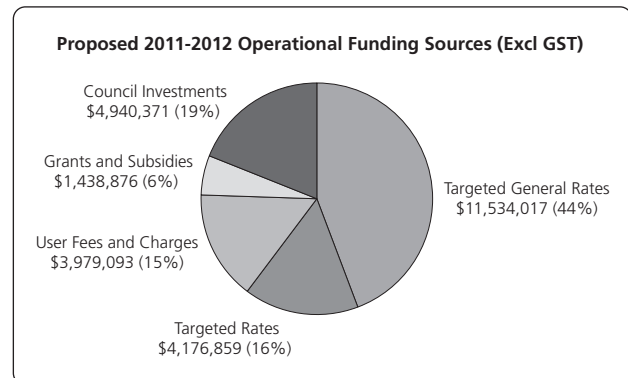
- Remove the obstacles to our success;
- Bring investment into our region;
- Create rewarding business and employment opportunities;
- Raise the living standards of Northlanders; and
- Increase our enjoyment of living in this special place.

With one of the lowest council rates in New Zealand, NRC wishes to reverse the cycle of underinvestment, and lead by example through investing directly in projects that deliver tangible benefits to current and future generations of Northlanders. It is important that we find new ways to develop the kind of growth that creates jobs and wealth for the region while at the same time, safeguarding our natural environment. Economic growth is vital for generating the resources needed to address some of the pressing problems affecting Northland such as poor housing, health and education. These three factors are often inter-related and until we make progress on all three, there will still be problems in our communities with poverty, poor health and unemployment. These problems not only create inequalities and affect Northlanders' day to day lives, but also impact on the region's image and businesses. Among the indirect results of poor education is high unemployment rates and crime. The capital of all Council investments will remain protected and continue to provide benefits to future generations of Northlanders.

It is proposed to make this change over a period of time, with several options for ratepayers to consider reflected in proposed increases in rates of between \$17.80 (including GST) per annum if bought in over 5 years, down to \$8.90 (including GST) if bought in over 10 years.

## Background

Currently, the Council's operating expenses are funded through a variety of sources. The graph (above) shows where the proposed 2011-2012 revenue outlined in this Annual Plan will be funded from.



As you can see, \$4,940,371 or 19% (23% or \$6,315,826 prior to the redirection of \$1.3 million of investment income) of revenue comes from Council investments including term deposit and bond interest payments, dividends received and lease payments from our commercial property portfolio. This relatively high proportion of revenue coming from such investments, does make the Council vulnerable to sudden changes in its investment income streams. If for example, income from investments reduced significantly, the Council would be left with a shortfall or deficit. This proposal would have the added benefit of "future-proofing" the Council against such income shocks, and preserve the Council's current levels of service to the community. It is proposed to redirect this investment income over time from a direct rates subsidy to specific projects that provide tangible benefits to Northlanders. The funding of such projects has long been a core activity of the Council and is reflected in the Regional Economic Development group of activities in the Northland Community Plan 2009-2019:

### Activity 3.2 Economic Development

#### 3.2.1 Support economic development initiatives that align with the Regional Community Growth Programme and/or benefit Northland.

- Provide community funding for regional initiatives undertaken by the Council or in joint venture or partnership with other authorities and organisations on a case by case basis.
- Develop a project funding strategy and risk assessment of any infrastructure priority that the Council decides to commit significant funding to.

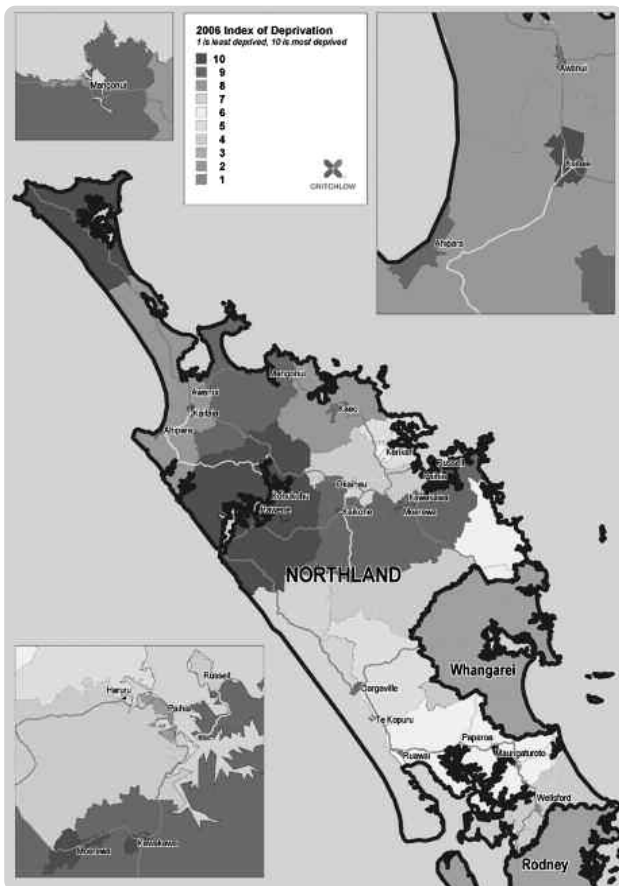
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## Reasons for the Proposal

Northland is an extremely diverse region both in socio-economic patterns and environmental characteristics. A relatively high percentage of the population identify themselves as Māori (43% in the Far North, 22% in Kaipara and 25% in Whāngārei), compared to 16% across New Zealand. Northland is internationally renowned for its coastline, harbours, natural landscapes and ecosystems of important conservation value. The Council wants to fund projects that create new opportunities for Northlanders and raise our overall standard of living. Economic improvement is vital for generating the resources needed to address some of the pressing problems affecting Northland such as low wages, poverty, unemployment and crime. The graphs below show how Northland compares to the rest of New Zealand in these important areas affecting our overall quality of life and demonstrate the need for improvement.

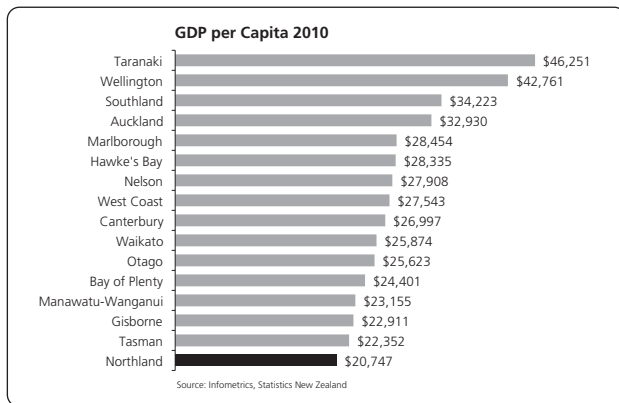
### 1. Levels of Deprivation

The Deprivation Index measures and interprets the socio-economic status of communities by ranking from the least deprived through to the most deprived. It is calculated using a range of variables including income, employment, access to telephone and car, educational qualifications and housing. The deprivation index is recognised as a good tool to measure and compare inequalities and overall living standards. As demonstrated below, areas of Northland are among the most deprived in New Zealand.



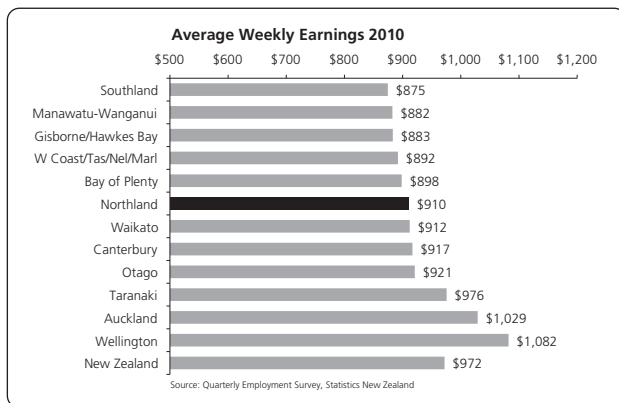
### 2. Regional Gross Domestic Product (GDP)

GDP is a measure of economic output and GDP per capita is a measure of the economic output per person. Northland had the lowest GDP per capita among New Zealand's 16 regions in 2010. Many factors contributed to this overall low productivity of the region including higher than average levels of unemployment among working age people and a relatively small service sector.



### 3. Average Weekly Earnings

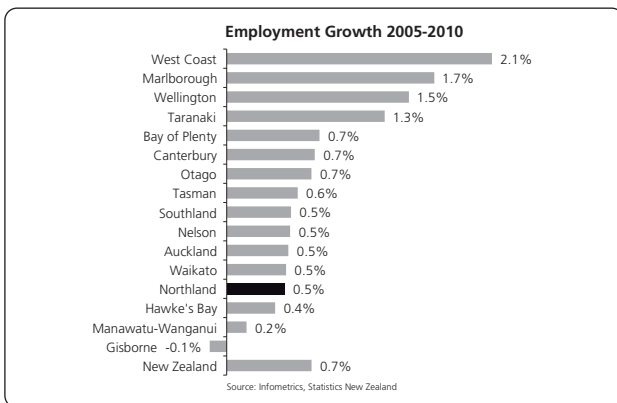
Northland's average weekly earnings of \$910 ranks the region 6th out of 12 regional groupings. Our earnings are similar to Bay of Plenty, Waikato and Canterbury. It is considerably lower than the New Zealand average of \$972 per week.



### 4. Employment

The number of people employed in Northland increased from about 61,000 in 2005 to 62,400 in 2010. However, growth over the five year period disguises a sharp decline in the last few years. The recession hit Northland very hard with almost 2,400 jobs being lost in the year to March 2010. Industries shedding the most jobs were construction, wholesale and retail trade, and manufacturing.

Northland's employment growth (0.5%pa) between 2005 and 2010 was lower than the national average (0.7%) and the region was well down the regional ranking. Its employment growth has been relatively slow as the industries that made the largest contribution to the region's economic growth are not labour intensive.



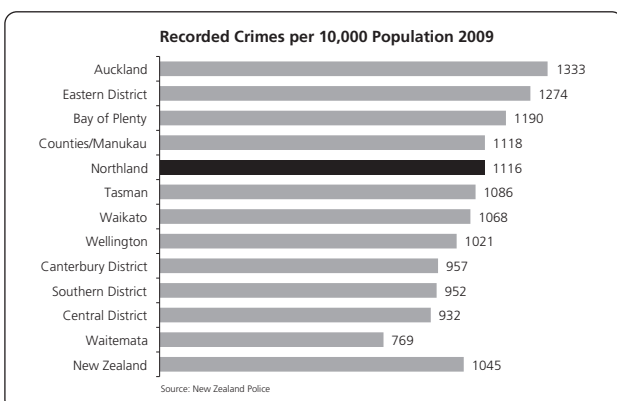
### 5. Life Expectancy

Northlanders' life expectancy at birth is among the lowest in the country. Life expectancy in Northland over the period 2005 to 2007 was 81.2 years for females (82.4 nationally) and 76.3 for males (78.2 nationally).



### 6. Crime

Northland Police District recorded 1,116 crimes per 10,000 population during the 2009 calendar year. This rate was above the national rate (1,045) and placed Northland in the top half of the police district crime ranking. The number of recorded crimes increased by 7% over the past two years, which was higher than the national growth of 4%.



### 7. Infrastructure

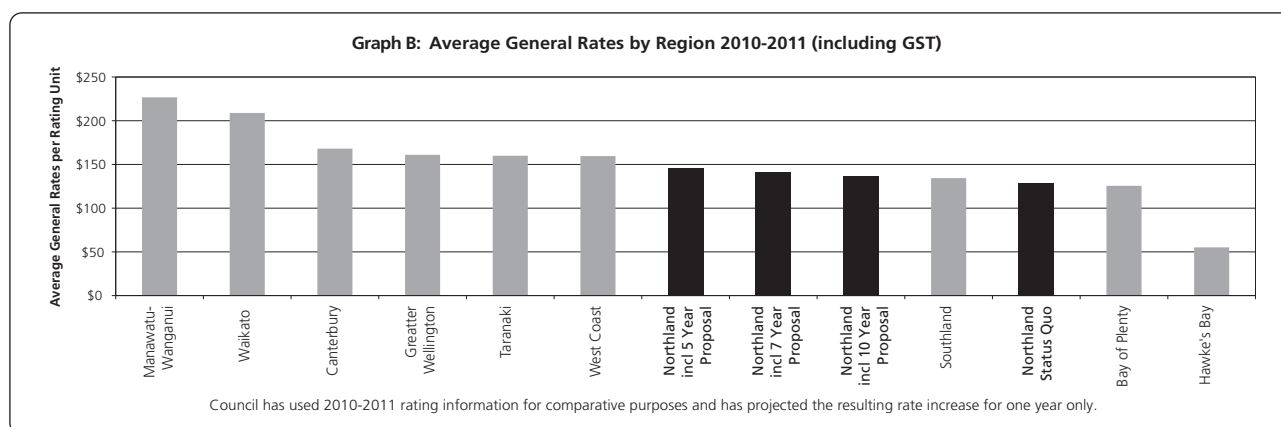
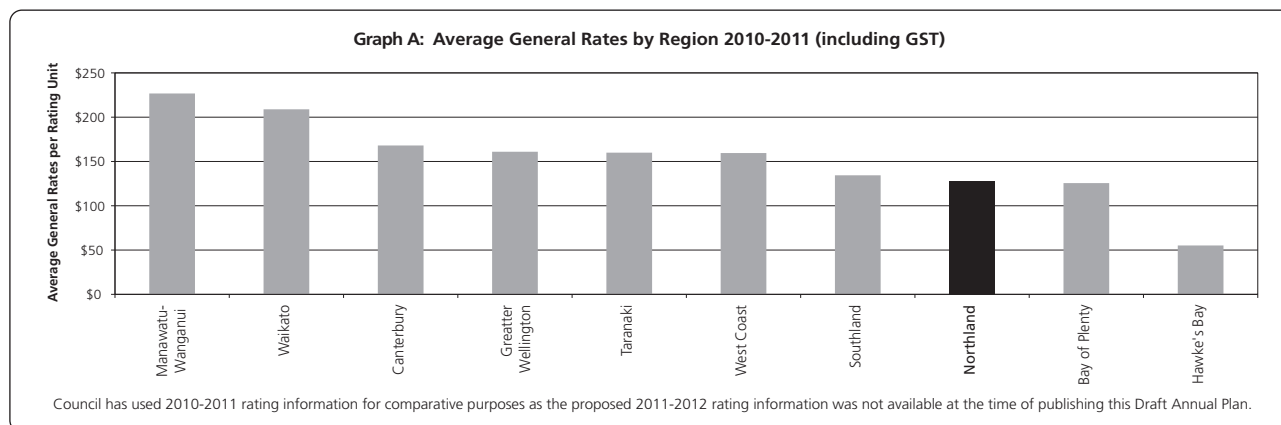
At both a regional and a district level, Northland has significant challenges in many key infrastructure areas. Supporting a growing population, developing a diverse economic base, and sustainably managing the natural environment requires well-planned infrastructure. Physical infrastructure includes transport networks, water and sewerage systems, energy distribution systems and telecommunications networks.

Much of Northland's infrastructure is aged and is being outpaced by the current needs of the community and business interests – let alone being sufficient for future growth and development. The region's water supplies are also increasingly coming under pressure. Another key concern is the security and stability of energy supply. Northland is currently able to generate only 5% of its energy demands.

A combination of affordability and a focus on keeping rate rises to a minimum has sometimes resulted in a lack of appropriate investment in, and maintenance of, infrastructure. Consequently, the capital to both catch up and provide for future needs is substantial. Where and how Northland's infrastructure will be developed and how it fits together locally and regionally are key questions facing Northland's leadership community. All infrastructure needs to be efficient and effective without undue adverse impact on the environment. Bringing regional infrastructure together with economic development could be a key beneficiary of this proposal to redirect Council investment income, providing additional funds to invest in the region's infrastructure needs.

As illustrated above, there is room for improvement in Northland's economic, environmental, social and cultural well-being. This is well understood and well publicised, with areas of below par performance having been identified for some time. Positive action is needed to address the inequalities and under-performance of the region.

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## Details of the Proposal

NRC receives investment income from a variety of sources including term deposit and bond interest payments, dividends received and lease payments from its commercial property portfolio. In the 2011-2012 financial year, it is expected that investment income will amount to \$7,149,537 or 28% of operating costs. Currently, this investment income is used to subsidise the cost of providing council services. NRC's long history of using its investment income to subsidise rates has resulted in it currently having the third lowest level of regional council general rates in New Zealand. **Graph A** (above top) illustrates the Council's standing relative to other regional councils for its current operations funded from general rates. It should be noted that these figures do not include targeted rates.

Should the Council go ahead with this proposal, the financial impact on ratepayers varies depending on the number of years over which the change is made. In order to manage issues of affordability, and to provide a level of choice for ratepayers, the Council is seeking public comment on the following options:

Annual impact on rates	Option 1 Phase in over 5 years	Option 2 7 years	Option 3 10 years
Whāngārei district	\$17.80	\$12.71	\$8.90
Kaipara district	\$17.80	\$12.71	\$8.90
Far North district	\$17.80	\$12.71	\$8.90

(All figures include GST)

**Graph B** (above) illustrates how the Council's level of general rates, relative to other regional council changes from the status quo, through to phasing in the redirection of investment income over 5, 7 or 10 years.

As you can see, the decision to phase in this proposal over the various time periods makes little difference to the Council's position relative to other regional councils. NRC would have the fourth lowest regional council general rates in New Zealand regardless of whether option 1, 2 or 3 was implemented.

It is proposed to redirect the investment income into a reserve used to fund specific projects. This will reduce the need to introduce new targeted rates to fund new projects, such as the Council has done in recent years to fund the Northland Events Centre, the Rescue Helicopter Service, the Marsden Point rail link designation and contributions to the Dargaville Olympic pool and Kerikeri sports complex. The Council will allocate funding from the reserve to projects benefiting economic, environmental, social and/or cultural well-being, in accordance with its existing levels of service as follows:

## Activity 3.2 Economic Development

### 3.2.1 Support economic development initiatives that align with the Regional Growth Programme and/or benefit Northland.

#### Performance Measures

- c. Provide community funding for regional initiatives undertaken by the council or in joint venture or partnership with other authorities and organisations on a case by case basis.
- d. Develop a project funding strategy and risk assessment of any infrastructure priority that the Council decides to commit significant funding to.

#### Performance Targets

- Conduct due diligence and the appropriate community consultation on significant projects as required in accordance with the requirements of the Local Government Act 2002.
- Report annually on any regional initiatives undertaken.
- Conduct appropriate due diligence and community consultation in accordance with the requirements of the Local Government Act 2002.
- Report annually on any regional initiatives undertaken.

The Council will allocate monies from the reserve to projects in accordance with set criteria. As part of this consultation process, the Council is seeking public comment on appropriate criteria to assess projects, which may include a combination of the following factors:

- Ability to generate employment;
- Return on the Council's investment (NB: This may not always be an economic return, eg for projects that primarily improve social and/or cultural well-being);
- Ability to have a positive impact on Northland's GDP or productivity;
- An impact report and a business case with an acceptable risk assessment.

Any project would have to be able to demonstrate tangible economic, environmental, social or cultural benefits to Northland, or a community within the Northland region. The decision to direct funding to any project will be within the Council's approved levels of service and made by resolution of the Council at a public meeting.

Northland Regional Council has a demonstrated track record of contributing to projects that provide improvements to Northlanders' current and future well-being. This includes projects that provide not only economic benefits, but have also had a positive impact in terms of social, cultural and environmental well-being. Recent examples include:

- **The Northland Events Centre (NEC)**

Funded jointly by the Northland Regional Council, the Whāngārei District Council and the Ministry of Social Development, this premier community asset resulted in around \$12 million of money being spent in the regional economy during a significant recession. There have been 155 bookings or events and just over 57,000 people through the gates in the first six months of operation. With the Rugby World Cup (RWC) coming to New Zealand later this year, at least two games will be played at the NEC and teams from Canada, Tonga and Japan will be based in Whāngārei and the Bay of Islands during September.

It is estimated that at least 38% of the 85,000 plus visitors coming to New Zealand for the RWC are coming to Northland. This event alone is expected to bring in excess of \$27 million of economic benefit into the region as a direct result of the \$18.5 million spent on this project.

- **Rescue Helicopter Services**

The Regional Council currently provides funding to the Northland Emergency Services Trust (NEST) which provides a region wide emergency helicopter/air ambulance service. Over 9,000 Northlanders in need of medical attention have been carried by this service to date, providing a positive impact on the health services provided to Northlanders.

- **Marsden Point Rail Link Designation**

This joint venture with ONTRACK has purchased the land required for the rail link corridor between the deepwater port at Marsden Point and the main trunk line, should the government decide to proceed at some stage in the future. The rail link designation has effectively secured the rail corridor against incompatible subdivision and development, preserving the opportunity for the region to benefit in the future. Benefits may include:

1. An alternative transport mode (rail) to serve the port;
2. Enhancement of the Marsden Point/Ruakaka area as a major regional growth node for industrial and commercial development;
3. Reduction of heavy vehicles on the road and the associated savings in road maintenance and road safety; and
4. Greater protection of the viability of the existing rail lines in Northland.

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### • Regional Recreational Facilities

The Regional Council has provided significant financial contributions to community facilities promoting health and social well-being in the Whāngārei, Kaipara and Far North Districts. These include:

1. A \$700,000 contribution to the 50m Olympic size swimming pool in Dargaville. This facility recently hosted the Northland Age Group Swimming Championship attended by over 200 swimmers and an estimated 300 parents, coaches and officials; and
2. A \$500,000 contribution to the Kerikeri Sport complex. This facility features 12 netball courts, three sports fields along with eight changing rooms, canteen, social area, officials meeting and control rooms, kitchen and tiered decking for spectators.

It is questionable whether these projects would have come to fruition without Regional Council support.

The proposed redirection of Council investment income will allow the Council to do more of the types of projects listed above, bringing further economic, social, cultural and environmental benefits and consequent opportunities to Northlanders.

It should be noted however, that the projects listed above may not necessarily be compatible with the criteria that will be developed to assess future projects.

### The Council's preferred Option

The Council is committed to working with other leaders in the region and the community to actively find ways to reduce inequality and reverse the trends of underinvestment and consequent underperformance of our region.

The Council prefers option 1 to phase in the redirection of Council investment income over a period of 5 years. This would amount to a general rates increase of \$17.80 per annum (GST inclusive) for all ratepayers in the Whāngārei, Kaipara and Far North Districts over each of those five years.

The Council prefers option 1 for the following reasons:

- It is a matter of prudent financial management to take steps to protect the Council's revenue streams and its ability to fund the services that it currently provides to Northlanders;
- It is a decisive move to more quickly establish an Investment Fund that can be applied to projects that will help Northland improve its future in areas of economic, environmental, social and cultural well-being;
- Whether the Council phases in this proposal over 5, 7 or 10 years, it makes little difference to the fact that NRC still has comparatively low rates for a regional council in New Zealand. NRC would still have the fourth lowest regional council rates in NZ after the introduction of this proposal, (refer previous graph).

The financial impact on ratepayers of this proposal maintains NRC's position as one of the lowest regional rates in New Zealand.

*Submissions on the Council's proposal to redirect investment income from a direct rates subsidy funding council services to funding specific projects, are invited by 3.00pm on 6 May 2011 using the submission form on page 21 of this plan.*