Long-term Plan 2024–34

Respondent No. 166

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Kāpiti Coast DISTRICT COUNCIL
Me Huri Whakamuri, Ka Titiro Whakamua

Personal information

First name	Ian
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I'm providing a submission (choose one):	as an individual
Please let us know what ward you live in	Waikanae
Do you want to speak to Council about your submission at our public hearings on 2 May?	No
Are you happy for your name to be published with your feedback:	My name can be published with my feedback

Submission

Is there anything else you'd like to tell us about this LTP?

The following are my comments on the Kapiti Council's proposals to increase rates by an average of 17 percent for the first year and then, alternatively by 6, or 7 or 9 percent per annum. The long-term objective is to reduce the debt level relative to the Council's operating income, though a $144 million debt reduction over the next 10 years.

I am broadly comfortable with a policy of maintaining the debt/income ratio at the current level. The issue is the need to substantially reduce that ratio by an accelerated debt reduction programme.

The Council has not presented this as an option. It should have. Instead it has just presented three variants of the debt reduction proposal as the alternatives to the status quo.

Council's Arguments for reducing debt

The Council has advanced the following arguments.

Climate change
We need to invest in our infrastructure so it can better cope with more frequent and extreme weather

events, changing weather patterns and rising sea levels. We also need to be ready both operationally and financially to whatever comes our way.

The Council is currently engaged on a climate change adaptation review project. The Council needs to hold back on debt reduction rating decisions until the outcomes of that project of what expenditures are required and when.

Natural disasters
We also need to reduce debt levels so we can maintain maximum borrowing capacity when and if a natural disaster leaves us with debilitating damage to our infrastructure and community well-being.

The Council has provided no information on the nature and possible costs of potential natural disasters. Nor did it present information on financial buffers other than the Council's borrowing capacity. The Council says (Annual report) that it has insurance of $600 million. It also has implicit support from the government, which has met part of the costs to local of natural disasters in the past.

Intergenerational equity
If we don't take action to reduce our debt now our children and grandchildren will inherit this ever increasing interest expense. Eventually someone will repay the debt and the longer we leave it the harder it will be.

We achieve this when rate payers pay their share and only their fair share of the costs of the assets they consume today. We don't believe we are getting this right. Right now, we don't fully rates fund depreciation.

The key issue here is that we never reduce our debt. Therefore we are pushing increasing debt and higher interest changes on future generations.

The Council's thinking on 'intergenerational equity is muddled and wrong. This can be illustrated by a simple example. Let's assume that we have three rate paying cohorts.

The first decides to borrow $100 million to fund a new facility that generates benefits of $15 million a year. After paying interest of $5 million and depreciation and running costs of $5 million a year this cohort is better off by $5 million a year and by $50 million over 10 years. In the first scenario the second and third cohorts roll the debt over and are also better off by $50 million over ten years. This is the equitable intergenerational position. The cohorts are all in the same net benefit position.

In the second scenario the Council decides to require the second cohort to pay the debt off over 10 years. The cohorts' net benefit positions are:

	Cohort 2	Cohort 3
Asset benefit	$150m	$150m
Interest costs	-$25 m	-
Depreciation	-$50 m	- $ 50m
Debt repayment	-$100m	-
Net benefit	-$25 m	$ $100 m

The debt repayment scenario does not meet a reasonable intergenerational equity test.

There is no imperative to repay debt. It suffices to maintain the level debt so there is no increased impact on future generations.

Respond to new opportunities
Affordably respond to growth and/or enrichment opportunities across the district for our community.

The present generation should not be required to enable a future Council to engage in a vague set of future 'opportunities'.' If a future Council has such ambitions then they can ask future rate payers for their consent.

Improve credit rating
Help to upgrade our credit rating to AA (stable to positive outlook). This strengthens our credit worthiness but doesn't lower our future borrowing costs.

There is no guarantee that the credit rating will be improved, and the Council admits this will not lower future borrowing costs. There is no benefit here in terms of lower funding costs.

Affordability
In developing our financial strategy we considered affordability for our community when considering affordability for our community when setting our three goals. In 2007, the Shand Report established that rates should not exceed more than 5 % of household income.

We have used 7% of household income as our affordability proxy on the basis that 5 % was established 17 yeas ago.

The fact that the Shand limit was set 17 years ago is not a reason that it should be ignored. The limit was set in real terms. A 5 % burden now is equivalent to a 5 % burden in 2007. The limit is as valid now as it was when it was set.

The current rates burden level of 4.7 per cent of average income will increase to 7.5%, which exceeds their new 'self-imposed' limit of 7 percent. Apparently the new self-imposed limit did not last for more than about 5 minutes.

The reality is that there is no evidence that the Council has given serious consideration to rates affordability issues. Many Kapiti rate payers are asset rich but income poor. The Council's proposals will result in a rates burden for many well in excess of 5 percent. Some will be forced to resort to reverse mortgages bearing a 10 percent interest rate to fund their rates bill. This is well in excess of the Council's borrowing cost.

Conclusion
The Council has not made a case for a substantially reducing debt. Discussion on the matter should be deferred at least until the financial implications of future climate change adaptation costs are understood.

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