The Omokoroa Residents and Ratepayers Association Inc. submits on the following aspects of the proposed Annual Plan 2023-24:

1. The proposed spend and resulting increase in rates (7.41%), is considerably in excess of the annual rates increase signalled for this and subsequent years in the LTP 2021-2031 (4% cap) and grossly in excess of the target band for annual inflation in New Zealand (1-3%) that the Reserve Bank (RB) is tasked to achieve.
2. The proposed increase in fees and charges (average increase of 10%), is considerably in excess of the current aggregate rate of inflation (6.7%) and the target band for annual inflation of 1-3%.
3. A lack of transparency and honesty during Council decision making being made worse by the proposed charging for the provision of information for LGOIMA requests.
4. Not using funds held in the ‘Roading Current Account’ (Balance around $14-$15M) to fund the increased road-based capital projects, resulting in an increased rate burden on ratepayers.
5. Not using more of the funds held in the ‘General Rate Reserve’ for essential one-off capital projects that do not require ongoing funding, to reduce the proposed rates increase.
6. The increased reliance on debt funding, which has a three-fold negative impact:
    a. The interest on debt is greater than interest on Reserves,
    b. The value of the sum held in Reserves is being diminished by high inflation,
    c. There would be diminished ability to access loan funds in the event of an emergency when the debt ceiling is approached or reached.
7. The inclusion of project number 280001- Elder Housing Capital works of $104,800, for approval without a detailed business case showing that the Elder Housing Enterprise will not constitute a financial burden on Ratepayers, as required by a Council decision on 23 September 2021.
8. The inclusion of project number AP24-2 - Elder Housing external funding ($4.6M) for the redevelopment of Elder Housing at Heron Court and Tui Place, Katikati as a means of obtaining approval for this without a detailed business case showing that the Elder Housing Enterprise does not continue to be a financial burden on Ratepayers, i.e. non-compliance with policy PP 22-5.26 and the recommendations contained in the S17A report adopted at the council meeting held on 23 September 2021 including PP21-5.1 and APLTP21-3.12.

9. In setting the annual rental for Elder Housing, Council has not clarified whether the net rental charges will be 35% of the tenant superannuation payment and whether the rental charges will cover all the expenses of the ring-fenced Elder Housing enterprise, including repaying the accumulated loss to date of approximately $3M.
10. The substantial opportunity cost to ratepayers arising from the Council decision to apply to use $5M of Better off Funding available to Council for Elder Housing and an undefined benefit to Maori, rather than essential projects that would benefit a larger portion of ratepayers and would have reduced the proposed rate increase to less than 3%.
11. The Government's withdrawal of the second tranche of the Three Waters Better-off-funding makes the Elder Housing project a greater risk to ratepayers as debt funding and/or grants are required to complete this project.

1. Proposed overall spend and excessive rates increase

The monetary committee of the Reserve Bank (RB), when announcing a 50 basis point increase in the official cash rate from 4.25% to 4.75% in February 2023, made the following statement

> *"The Committee agreed that the OCR still needs to increase, as indicated in the November Statement, to ensure inflation returns to within its target range over the medium term. While there are early signs of price pressure easing, core consumer price inflation remains too high, employment is still beyond its maximum sustainable level, and near-term inflation expectations remain elevated. ….The Committee agreed that monetary conditions need to tighten further, as indicated in the November Statement, so as to be confident there is sufficient restraint on spending to bring inflation back within its 1 to 3% per annum target range. The Committee remains determined to achieve its Monetary Policy Remit".*

Since then the OCR was increased by 50 basis points to 5.25% in April 2023, further signalling the resolve of the RB to depress the economy in order to meet the annual inflation target of 1-3%.

In addition, the latest inflation (CPI) figures released on 20 April show that the increase in inflation has decreased only slightly but, more alarmingly, non-tradable inflation has increased slightly, to 6.8%. This is expected to lead the Reserve Bank to further increase the official cash rate in order to depress domestic activity.

The proposed annual plan spend, resulting in a rate increase of 7.41%, is adding fuel to the inflationary fire, entrenching the inflationary cycle, and unless reduced will have significant adverse effects on ratepayers:

- First and most importantly, the excessive increase in rates will put extra pressure on the budgets of ratepayers, particularly those on fixed incomes (retired) and those in their 30's and 40's with young families and large mortgages,
- Secondly, an increase in rates of 7.41% contributes to a further increase in non-tradable inflation, contributing to pressure on the Reserve Bank to further increase the OCR to engineer the recession now deemed necessary to reduce annual inflation to within the 1%-3% band.

It is both irresponsible and demonstrably the 'wrong thing to do' for Council to ignore the inflationary effects of the proposed budget and the harm that an increase of 7.41% will inflict on ratepayers.

We consider that the 'Right Thing' for Council to do is to reduce expenditure for the 2023-24 financial year and to make strategic use of reserve funds so as to ease the burden on our ratepayers and to avoid contributing to the entrenchment of inflationary behaviour which will ultimately cause the RB to continue to increase the OCR until economic activity reduces sufficiently for the annual inflation rate to fall within the target rate of 1% to 3%.

With this objective in mind, we recommend that the following nice-to-have but not essential projects be removed from the 2023-24 annual plan and either not undertaken or held over until expenditure on these projects does not have any inflationary effect on rates:

Suggested Project Savings - Recreation and open spaces		
217805	Ōmokoroa Sports Ground (Western Avenue) Capital Development	$134,668
246810	Midway Park & Pukehina Parade -Sportsfield Medium 2nd stage	$ 70,027
260105	The Landing - Jetty	$183,148

357601	Otaiparia Kaituna River	$104,800
260307	Kauri Point - Walkway development	$ 26,934
218406	Ōmokoroa Domain concept plan implementation	$ 91,520
260315	Kauri Point - Ātea development	$131,759
354401	Wairoa Road Rowing club Reserve	$ 65,179
353701	Dog Parks - Capital Development	$ 53,280
260730	Tohora View and Brown Dr Reserve -Walkway development	$ 22,624
320801	Asset Replacement Projects funding	$915,742
322301	Waikaraka Drive LP and Stopped Road	$ 54,945
244113	Maramatanga Park concept plan implementation	$ 43,094
260316	Kauri Point - North Beach development	$ 38,784
330801	Matakana Island Panepane Point Development	$107,734
260320	Kauri Point - South Lookout palisades entranceway	$ 37,707
260319	Kauri Point - Lookout interpretation maps & panels	$ 37,492
345301	Cycleways & Walkways funding	$269,336
345401	Ōmokoroa Active Reserves	$524,000
260317	Kauri Point - Northern Lookout fences for Pa	$ 33,736
354201	Conway Road Reserve Concept Plan Implementation	$299,502
354601	Precious Family Reserve Concept Plan implementation	$110,966
357501	Bell Road Kaituna River access	$ 32,159
322710	Pongakawa Park - reserve development	$ 23,594
260306	Kauri Point - Car Park	$ 21,547
260415	Pahoia Domain Carpark extension	$ 21,547
260318	Kauri Point - Interpretation Design Guide	$ 12,928
354301	Waitekohekohe Reserve concept plan implementation	$220,856
260314	Kauri Point - Owarau Pā planting,restoration etc	$116,482
322101	Wilson Park	$410,000
258204	Pools - Katikati Dave Hume Pool Covering	$1,201,532
281507	Coastal & Marine Projects funding	$ 53,867

295203	Ōmokoroa Domain funding	$538,672
358901	Coastal & Marine - Panepane Wharf Replacement	$1,048,000
Total cost savings - recreation and open spaces projects		**$4,976,216.00**

Suggested Project Savings - Transportation		
303020	CIP5A - Ōmokoroa SP - Ōmokoroa Rd - Rail Pedestrian Cycle Bridge	$ 274,209
357701	Park and Ride Facilities Ōmokoroa	$ 13,287
307601	Walking and Cycling	$1,300,320
307604	District Walking - Off-road	$ 54,180
Total cost savings- transportation projects		**$ 1,641,996**

Suggested Project savings - Support services		
259803	Property - Office Furniture & Fittings capital and renewal	$ 78,456
259903	Property - Office Alterations	$ 221,000
259905	Office Refurbishment	$ 113,705
259908	Property - Service Centre Alterations	$ 99,450
338302	Property - Katikati Development	$ 568,523
315701	Property - Vehicle Purchases	$ 652,66
Total cost savings - Support services		**$ 1,081,13**4

By identifying projects that are ‘nice-to-have’ but that are not appropriate during a pending and deep recession, and projects that have been brought forward to the 2023-24 financial year that have a significant impact on rates, we have identified $9M of savings that can be made for the 2023-24 financial year. This cost saving, if the projects are funded by rates, is equivalent to a 11% reduction in rates.

The two Elder Housing Projects (280001 and AP24-2) are not included in the above list of cost savings because they are subject to specific policy requirements and are discussed in sections 7 and 8 of this submission respectively.

Clearly, additional cost savings and reductions in rates can be made by terminating or delaying and progressively implementing 'nice-to-have' projects following the pending recession.

A reduction in project activity also opens up the potential for staff cuts to reduce Council operating costs and the rates funding required for the year.

2. Proposed Increase in Fees and Charges

The proposed average increase in fees and charges of 10% is excessive, considerably above the current inflation rate of 6.7% and grossly in excess of the target annual inflation rate (1- 3%) that the RB is required to achieve. It adds fuel to the inflationary fire, entrenching the inflationary cycle, and will have significant adverse effects on ratepayers, particularly through increased building costs.

We recommend that:

- Any increase in fees be limited to the RB target rate of inflation of 1-3%, and
- The CEO be directed to implement cost cutting measures, including redundancies, to reduce council operational costs by 10% for the 2023-24 financial year, and in subsequent years such that any future annual increases in fees and charges are within the RB's 1% to 3% target inflation band. Redundancies should include staff whose role is effectively the duplication of work currently undertaken by the Regional Council, such as the recently appointed Climate Change Project Manager.

3. Council Transparency and Honesty

This Council is less than transparent with decision-making and less than honest replying to LGOIMA requests for information:

- Confidential Committee and Council meetings have been used to approve expenditure when there is no commercially sensitive reason for doing so, e.g. the construction of Elder Housing at Beach Road, Katikati.
- Public are excluded from Council workshops where decision-making is often undertaken.
- Community Board Chairs are now excluded from Council workshops.

- The annual plan and long term planning process are being used to obtain approval for expenditure in a manner that avoids meaningful consultation and compliance with existing policy, e.g. Elder Housing.
- Council has been less than transparent and honest when responding to LGOIMA requests for information, resulting in protracted procedures and referral to the Ombudsman and the Auditor General to obtain information that should be readily available to ratepayers.

LGOIMA requests are now absolutely essential in order to maintain a minimum level of transparency and honesty for Council decision-making. For this reason the imposition of charges for responding to LGOIMA requests for information will be a significant barrier to democracy and should not be imposed.

We recommend, in the interest of open democracy, that no charges be levied for responding to LGOIMA requests for information.

4. Roading Current Account

The Roading Current Account balance is currently around $14-15M. Roading works are not funded from money held in the Roading Current Account, but from the interest received on this balance, supplemented by rates as required. During this period of high inflation, this is an extremely inefficient use of money because the decrease in the purchasing power of this money due to high inflation is greater than the interest received on this money.

We recommend that the funds held in the Roading Current Account be used to directly fund the essential roading works identified in the annual plan.

5. General Rates Reserve

The General Rates Reserve (current balance $5.1M) is available to fund capital projects that do not require ongoing funding. It is currently proposed to use $1.6M from the General Rates Reserve to reduce the proposed increase in rates from 9.07% to 7.41%.

During a period of high inflation, it does not make economic sense to hoard this money while using rates to fund necessary projects; the current high inflation rate reduces the purchasing power of this money each month it is held in reserve.

The use of additional funds held in the General Rates Reserve could be used in combination with:

- the deferral of non-essential projects, and
- a reduction in fees and charges, and
- a reduction in Council operating costs, and
- the use of money in the Roading Current Account to fund essential roading projects,

to reduce the annual increase in rates to less than 2% (the mid point of the RB target CPI range).

6. Over-reliance on Debt Funding

In the LTP 2021-31, Council indebtedness was projected to reach the debt ceiling of 180% of annual rate income by 2031.

This heavy reliance on debt-funding has several consequences:

- The interest cost on debt entered into during a period of peak interest rates will be greater than interest received from money held in the Roading Current Account and the General Rate Reserve, particularly when interest rates decline as inflation is brought under control over the duration of the loan(s),
- Entering into loans during a period of high interest rates will lock Council (and ratepayers) into future excessive debt servicing costs,
- The purchasing power of funds held in reserve will be diminished by high inflation costs, and
- As the debt ceiling is approached or reached, Council will not have the ability to access loan money on reasonable terms in the event that essential unbudgeted works are required.

In order to avoid future excessive debt servicing costs to ratepayers, a target rate increase of less than 3% could be achieved through a combination of:

- not proceeding with non-essential (nice-to-have) projects, and

- using funds in the Roading Current Account to fund essential roading projects, and
- using funds in the General Rate Reserve to fund essential capital projects, and
- a reduction in Council fees and charges, and
- a programme of cost reduction within Council.

7. Project 280001 - Elder Housing Capital Works ($104,800)

Recommendations in the S17A Elder Housing Activity report (February 2021) were adopted in the LTP2021-31 (PP21-5.1 and APLTP21-3.12), i.e. that Council continue to provide elder housing, as an activity of Council, with the following conditions:

a. The activity is a ‘ring fenced’ activity of Council. This means the revenue (from rental income) covers the expenditure, including all interest costs, of providing the activity.
b. The activity is to provide elder housing for those aged 65 years and over (or the equivalent of the age of eligibility for New Zealand Superannuation) and with limited financial means.
c. Sites are redeveloped over the next 30 years to ensure the units are fit for purpose for tenants’ needs. Redevelopment will be funded from the activity revenue, and external sources on a case-by-case basis where that is an option.
d. An operational policy is developed which sets out eligibility criteria and tenanting guidelines. The policy will include a clause that weekly rents are set to no more than 35% of the net weekly rate of NZ Superannuation, minus the accommodation Supplement.

A business case has not been prepared for the ring-fenced Elder Housing enterprise demonstrating that, with the proposed expenditure and rental changes, the Elder Housing enterprise will be self-funding and will not continue to be a financial cost to ratepayers.

In the absence of the detailed business case showing that conditions 1 and 3 above are met, no further expenditure on Elder Housing can be undertaken.

It should be noted that Council has already agreed that in the event that conditions 1 and 3 cannot be met, the Elder Housing enterprise is to be divested to a Registered Community Housing Provider. Abbeyfield (a registered community housing provider) is now operating in Katikati building a new facility to provide elderly housing and transfer of Council Elderly Housing to this charity would result in tenants being financially better off.

ORRA recommends that project 280001 be removed from the annual plan (that is, not approved as part of the annual plan process) and that it only be undertaken if and when conditions (a) and (b) above have been met.

8. Project AP24-2 - Elder Housing Capital Works ($4.6M)

This project involves the use of $3.3M of Better Off Funding and an internal loan of $1.6M brought forward from 2025 to construct new elder housing at Heron Crescent, Katikati.

At the Policy Committee meeting held on 14 June 2022, resolution PP22-5.26 was passed that:

a. defined Council's role (recommendation 4) and investment principles (recommendation 5) in housing, and
b. provided agreement in principle to consideration of Better Off Funding being used to deliver specific housing outcomes for local communities, and
c. Requested the Chief Executive to prepare a high-level Investment Programme with an initial focus on elder housing regeneration, and vacant land opportunities in alignment with Council's role (Recommendation 4), and investment principles (Recommendation 5), to be brought back to the Policy Committee for consideration for use of Better Off Funding.

Based on the above Policy Committee resolution, at the Council meeting held on 30 September 2022, Council approval was given for an application to be made to use the Better Off Funding of $5.34M as follows:

- Total amount payable $5.340M
- Total cost of programme $7.000M
- Additional funding source $1.660M loan (internal to council) included in LTP 2025

- ID305 - Heron Crescent $3.3M
- ID306 - Tui Place $3.0M
- ID307 - Te Arawa ki Tai Maori land development plans $0.50M
- ID308 - Tauranga Moana Marae Communities Development Plans $0.20M

A report from the Auditor General dated 3 February 2023 confirms that Council has only approved that an application may be made for the use of these funds. No approval has been given by Council to spend these funds should the grant application be successful. Due process and formal Council approval is required before this money can be spent given that the application was successful.

Deferring to policy resolution PP22-5.26, the correct approval procedure for the expenditure of these funds on Elder Housing is to first refer this matter to the Policy Committee for their consideration, which must include a determination of whether the expenditure complies with recommendation 5(e) "*Council will ensure projects generate a return back to Council that covers project costs at a minimum*" and whether the project, as part of the "ring-fenced" Elder Housing Enterprise, will meet the requirements of resolutions PP21-5.1 and APLTP21-3.12, i.e. that the Elder Housing activity is self-funding - that is, revenue generated (primarily rental income) covers all capital and operational expenditure, without rates input.

Data contained in a staff report (File No. A5255509) table to the COuncil meeting on 27 April 2023 in support of the proposed construction of 22 units at Heron Crescent using Better off Funding and an Affordable Housing Grant shows that this project if not financially viable and will not be able to pay back the required Council loan plus interest.

As yet, no detailed business case has been presented to the Policy Committee or Council that shows that the "Ring Fenced" Elder Housing enterprise, incorporating all of the proposed redevelopment at Heron Crescent, is self-funding. For this reason, project AP24-2 cannot and must not be approved in the Annual Plan 2023-24 (as this would be a breach of policy and process) and should be removed from the Annual Plan and referred to the Policy Committee for their consideration. Failure to do so will result in further appeals to the appropriate bodies and setting aside of the unlawful approval that is sought in the annual plan.

9. Council to set Annual Elder Housing Rental

Council, as part of the Annual Plan process, is tasked with setting the rent for Elder Housing units for the financial year. The CEO has the delegated authority to reduce rentals on a case by case basis depending on personal circumstances. Council policy requires that the net rental (rent minus the accommodation supplement) does not exceed 35% of NZ Superannuation. Council policy requires that rental income covers all of the Elderly Housing costs, including repaying the estimated $1M debt currently owed to Council.

In the proposed annual plan, elderly housing rentals appear to have only been adjusted for inflation with a single unit rental increasing by $14 to $198 per week and a double unit rental increasing by $33 to $258 per week. Rent is supposedly set at 29% (single unit) and 31% (double unit) of the respective superannuation payments.

The calculated gross and net weekly rentals based on the current superannuation payments and the Accommodation supplements for Area 1 are provided below.

	Superannuation payment per week April 2023	Accommodation Supplement	Gross rent	Net rent (35% of Super)
Single living alone	$496	$165/person	$338.60/person	$173.60/person
Single sharing	$458	$165/person	$325.30/person	$160.30/person
Couple living together	$764	$235/couple	$502.40/couple	$267.40/couple

Not only do the proposed rentals not take advantage of Council policy and CEO discretion for personal circumstances, a detailed business case has not been provided to support the calculation of these rentals and to determine whether the proposed rental income will in fact cover all of the costs of the Elder Housing enterprise and pay back the outstanding debt (estimated $3M) owing to Council, in a timely manner.

We recommend that rents be set at the maximum allowable under the current policy adopted by Council as detailed in the above table. The CEO still has discretion to negotiate lower rentals where personal circumstances require, provided that the elder housing enterprise is not a financial burden on ratepayers.

10. Opportunity Cost - Proposed use of Better off Funding for Elder Housing

There is a very real opportunity cost associated with the Council decision to earmark and apply for the $5.34M of Better off Funding to be used for Elder Housing and Maori community plans.

By earmarking this money to spend on small minority groups, this money is no longer available to fund projects that would benefit the wider community, such as water or wastewater or roading or community infrastructure. By way of example, Tauranga city has allocated their Better off Funding to the development of the city precinct, which the wider community will benefit from.

The opportunity cost of Council's earlier decision to earmark this funding to Elder Housing and Maori community plans can be seen in the proposed excessive rate increase; based on Council's figures, $800,000 of spending/saving equates to a 1% increase/decrease in rates. So by applying the $5.34M of Better off Funding to essential projects, the rates would have been reduced by 6.7%, resulting in a rate increase of less than 1% ($800,000 of savings equates to a 1% reduction in rates).

The very real opportunity cost of earmarking Better off Funding to Elderly Housing needs to be accounted for as a loan from Council to the Elderly Housing Enterprise should, after following due process, Council decide to proceed with the re-development of Elderly Housing at Heron Crescent and Tui Place.

Once again we stress the importance of Council receiving and scrutinising the detailed Elderly Housing business case that takes into account all of the input and output costs, including the opportunity cost to ratepayers of using the Better off Funding for Elderly Housing redevelopment.

11. Withdrawal of Second Tranche of Better off Funding

It is understood that the cost of the redevelopment of Elder Housing at Heron Crescent will significantly exceed the combined sum of Better off Funding applied for and the Council loan earmarked for this project and that additional funding will be required if a decision is made to proceed with this project.

If it was intended to use the second tranche of the now withdrawn Better off Funding to fund elder housing redevelopment, an additional external source of funding will be required to enable this project to proceed.

In any event, a detailed business case has yet to be prepared for the Elderly Housing enterprise that shows that with all of the variables in play that it is self funding from rental income and able to repay loans plus interest to Council in a timely manner.

12. Conclusion

The Council is operating without due financial propriety (increasing costs, minimising returns for senior staff's pet projects and progressing without a proper financial assessment of future costs) in a time of financial austerity for both central and local government and ratepayers. This is the antithesis of "the right thing to do".

Council, in preparing the draft 2023-34 annual plan, has not heeded the very strong message given by the recent large OCR increases considered necessary to help reduce the near-term inflation and to operate cautiously so that rates increase are reduced to less than 3%, thereby reducing inflationary pressures.

It is cruel for the Council to increase costs and inflationary pressures at a time when it is said by the Reserve Bank that a major uplift in unemployment and further increases in the Official Cash Rate are imminent. Already economists are saying that the average household will need to find another $150 per week to survive this year.

With mortgage rates set to increase further and increases in the cost of living inevitable, the proposed excessive increase in rates may well result in mortgage defaults and mortgagee sales for couples with children and a substantial mortgage.

We have identified a number of measures that Council could consider to reduce the proposed rate increase from 7.4% to less than 3%, within the target range that the Reserve Bank is tasked to achieve.

We have also highlighted that council appears to be using the annual plan process as a backdoor means of obtaining approval for a proposed spend on Elderly Housing thereby avoiding financial scrutiny required by existing Council policy.

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