UPPER HUTT CITY

Funding and Financing Submission

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UPPER HUTT CITY COUNCIL

Upper Hutt City Council's submission to the Productivity Commission

PREPARED BY UPPER HUTT CITY COUNCIL

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Introduction

Upper Hutt is one of a kind with outstanding natural beauty and a range of leisure and recreational opportunities. It is a great place for families and for people that enjoy the outdoors. This is encapsulated in our vision "Life. Leisure. Live it!" Our population has grown in recent years, and statistical analysis suggests this will continue. To fund all of the work planned, Upper Hutt's public debt will increase from $40 M to $114 M by 30 June 2028. Next year, rates will increase 5.5% but remuneration increases for residents have been restrained meaning household budgets are under more pressure. It is important for us to ensure that the relative affordability of rates is not a disincentive to commercial/industrial development. Balancing these concerns along with costs increasing differently to the Consumer Price Index against ongoing expectations of maintained and improved services and facilities is challenging.

Issues paper

Upper Hutt City Council (UHCC) are pleased to have the opportunity to work with the Productivity Commission to help ensure issues faced by local government in funding and financing are understood. We hope this review will result in workable solutions to the issues identified. On balance, we support the submission made by LGNZ. Our responses to questions are set out below. Main points are:

- Insurance, compliance and aging infrastructure are our largest cost pressures.
- Local government tends to focus investment on achieving direct community outcomes, as opposed to investing in organisational development. Productivity improvements depend on organisational development which is hard to justify as an investment priority even though it may yield long term benefits.
- Local government is in need of a greater range of funding tools to reflect the diverse nature of, and the range of issues faced by communities.

Question 1

What other differing circumstances across councils are relevant for understanding local government funding and financing issues?

UHCC's response

- In addition to factors identified in the issues paper and in LGNZ's response, two other circumstances are:
  - *Proximity to larger cities.* Upper Hutt is a commuter city; young families live in Upper Hutt but work in Wellington. Upper Hutt needs to have good facilities for its people, but we lack a large commercial base to generate rates. Therefore most rates fall on residents.
  - *Geographic size and content.* Upper Hutt has a lot of parks and because the Crown is exempt from paying rates we do not collect income from this land.

Question 2

What explains the difference between the amount that councils account for depreciation and the amount spent on renewing assets? Are changes needed to the methods councils use to estimate depreciation? If so, what changes are needed?

UHCC's response

- We agree with LGNZ's response to this question but suggest replacing the term 'lumpy' with 'variable'.
- UHCC do not fund depreciation through rates. Instead we borrow to pay for capital projects and fund the interest. We believe this is a fairer method of charging ratepayers for the use of assets and addresses the issue of intergenerational equity. This also accounts for the fact that assets will usually increase in value over time and therefore cost more to replace than what has been depreciated. Additionally, as the population grows, assets will need to change with demand and community needs. Therefore, funding asset replacements through depreciation on older assets will often leave a shortfall.

Question 3

In what ways are population growth and decline affecting funding pressures for local government? How significant are these population trends compared to other funding pressures?

UHCC's response

- We support the response of LGNZ.

Question 4

What are the implications of demographic changes such as population ageing for the costs faced by local government?

UHCC's response

- We support the response of LGNZ.

Question 5

To what extent is tourism growth resulting in funding pressures for local government? Which councils are experiencing the greatest pressure, and how is this manifesting?

UHCC's response

- We support the response of LGNZ and acknowledge that the Tourism Activity Fund and Tourism Levy will assist with relieving funding pressures resulting from tourism. However, the criteria for the Tourism Infrastructure Fund are too restrictive with the debt and tourism levels set too high.

Question 6

Is an expansion of local government responsibilities affecting cost pressures for local government? If so, which additional responsibilities are causing the most significant cost pressures and what is the nature of these increased costs? To what extent do these vary across local authorities?

UHCC's response

- New or modified regulatory responsibilities do impact/have impacted on UHCC in terms of additional costs, either as a one-off or on an ongoing basis. Some examples for UHCC are:
    - *Resource Management Act 1991 (RMA) reform.* For example, the removal of council's ability to maintain blanket tree protection has necessitated us initiating a plan change to move to protected tree groups. This came at the expense of other plan change review work and cost well in excess of $100,000 to complete.
    - *Affordable housing.* Pressures from central government on local government around affordable housing going forward.
    - *Regulation relating to the quality of fresh water.* This is likely to impose significant but unknown costs.
    - *The new Food Act.* This is taking more staff time to step through the new auditing regime and has been resource hungry in terms of one off transition resourcing over a three year transition period.
- With the size of our council, we have an appreciation of the financial impact of expanding responsibilities and the cost is significant. As all councils and communities are different, allowances need to be able to be made.
- Where Government approve higher standards of delivery it is reasonable they should contribute to the cost of achieving the new standard. This should not however result in the rewarding of non-performing councils only.
- We are responsible for processing rates rebates which is a central government initiative. This requires allocation of human resources to carry this out, which in turn is funded through rates. This could be more efficiently managed by central government.

Question 7

How is the implementation of Treaty of Waitangi settlements, including the establishment of 'co-governance' and 'co-management' arrangements for natural resources, affecting cost pressures for local government? How widespread is this issue?

UHCC's response

- We support the response of LGNZ. However, we note hidden costs such as resource to manage the relationship with mana whenua and act as a conduit between council and iwi.

Question 8

How are local authorities factoring in response and adaptation to climate change and other natural hazards (such as earthquakes) to their infrastructure and financial strategies? What are the cost and funding implications of these requirements?

UHCC's response

- A significant impact of the risk of earthquakes is the increase in insurance costs. UHCC's insurance premiums have increased by 40% over the last year and it was very difficult for our insurance brokers to obtain coverage to 40% of the value of the assets. UHCC has agreed, in principle, to investigate the option of a self-insurance fund which will be started through accumulated funds and then topped up with rates contributions. This is to mitigate the risk that we may not be able to obtain the desired level of cover in the future.
- As well as being on a fault line, there are other regional challenges for Wellington region such as flooding and water quality etc. The costs of risk mitigation need to be balanced with maintenance and growth, so trade-offs need to be made.
- There is confusion over the level of commitment from central government for coverage in a natural disaster. The understanding has been that central government will contribute 60% of the recover costs, so long as the council has made best endeavours to cover 40%. However, there is a lack of clarity as to the circumstances in which central government will contribute (i.e. levels of damage) and what "best endeavours" to obtain 40% insurance actually means.
- While we acknowledge there could be benefit of a risk agency to advise councils on how to assess and make provision for risk (as suggested in LGNZ's submission). This is not a pressing issue for UHCC.

Question 9

Why is the price of goods and services purchased by local government rising faster than the consumer price index? what extent is this contributing to cost pressures for local government?

UHCC's response

- We agree with LGNZ's response, the difference is probably due to demand of the services that councils procure. There is pressure on the construction industry which results in higher inflationary rates. For example, inflation on construction projects is running at 7% per annum
- The increased costs of insurance have flow on effects. For example, the bulk water fees we pay to Greater Wellington Regional Council have increased more than predicted due to greater insurance costs to the regional council.
- As well as delivery costs there are personnel costs and the outsource cost of consultancy fees. It is difficult to keep up with state sector payment bands.

Question 10

Do the prices of goods and services purchased by local government vary across councils? If so, what are the reasons for these differences?

UHCC's response

- We support the response of LGNZ.

Question 11

Is local government expenditure shifting away from traditional core business into activities such as economic development, sport and recreation and community development? If so, what is the rationale for this shift, and could these activities be better provided by other parties?

UHCC's response

- We agree with the response of LGNZ and have additional points:
  - Public recreation activities can be run by the council, which enables accessibility. In many instances, if there is a gap in what is being delivered the community expects council to fill it.
  - Section 17A of the Local Government Act (2002) (LGA) requires councils to review the cost effectiveness of current arrangements for providing local infrastructure, services and regulatory functions at regular intervals. This section encourages the exploration of opportunities to improve arrangements and to assess if there is a better way to deliver services including by another party.
  - The funding of these activities is only a very small cost pressure compared to others.
  - Economic development is an important activity for UHCC as we have a small commercial rating base and many people commuting from Upper Hutt to Wellington. A greater commercial rating base would allow us to ease pressure on residential ratepayers and would create more jobs in the area so that people do not have to commute. UHCC works in close collaboration with its regional counterparts to deliver on strategic economic development initiatives.

Question 12

Does the scope of activities funded by local government have implications for cost pressures? If so, in what ways?

UHCC's response

- We support LGNZ's response. In terms of UHCC's overall budget, the scope of activities funded does not present the greatest cost pressures. The greatest cost pressures come from things outside of our control such as insurance, construction inflation, climate change and mitigation, and seismic strengthening. Additionally there are significant cost pressures born from the legislative requirements associated with reporting, and its sheer volume.

Question 13

What other factors are currently generating local government cost pressures? What will be the most significant factors into the future?

UHCC's response

- In addition to the cost drivers described in LGNZ's submission, particularly in regards to central government intention toward local government (an example being the current review of 3 waters where future structure, management, funding and decision making is uncertain), there is also:
  - Insurance
  - Construction inflation
  - Cost of and retention of highly skilled staff

Question 14

How will future trends, for example technological advances and changes in the composition of economic activity, affect local government cost pressures?

UHCC's response

- In theory, technological advances should reduce the amount of manual work required and create efficiencies by automating tasks that have previously been done by hand. However, the likelihood is that cost savings would be re-directed to investing in more skilled staff so that there is less time spent on processing and more on analysis. This, in turn could ease cost pressures by ensuring things are done in the most cost effective way.
- As well as the impacts on the business of local government, technology will impact on the community demand for services provided from local government. One example is opportunities to work from home reducing demands on transport networks but increasing expectations around utility servicing.

Question 15

How effective is the Long-term Plan process in addressing cost pressures and keeping council services affordable for residents and businesses?

UHCC's response

- The Long-term Plan does not address cost pressures, but does ensure Councillors can see the financial impact of choices over a long period. The community provide a clear steer on their perception of affordability through making submissions.
- The Long-Term Plan tends to highlight external and visible projects such as community assets but the cost of overheads is lost in the detail. The risk is that external expenditure is prioritised over internal investment.

Question 16

How effective are councils' Long-term Plan consultation processes in aligning decisions about capital investments and service levels with the preferences, and willingness and ability to pay, of residents, businesses and other local organisations?

UHCC's response

- The consultation process for the Long-term Plan is good in terms of gauging residents' willingness to pay for additional or upgraded services that they can see. However, communities are very unlikely to support investment into internal council infrastructure such as upgraded computer systems. Therefore, cost pressures are most keenly felt inside the council as we struggle to keep up to date with changing technology and practice.
- We also agree with the points raised in LGNZ's submission.

Question 17

Is there scope to improve the effectiveness of Long-term Plan processes? If so, what, if any, changes would this require to the current framework for capital expenditure decision making?

UHCC's response

- We agree with LGNZ's response; however, it ultimately comes back to getting the compromise correct between the size of the document (accessibility), the meeting of statutory requirements and the need to provide adequate detail for effective engagement. There is a trade off in achieving balance.
- Legislative processes can make the auditing process cumbersome. All communities are different and there is a need for flexible processes to reflect this.

Question 18

How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently?

UHCC's response

- We agree with LGNZ's position. There is likely a lot of scope, however, programmes of change can be costly resulting in an added cost pressure and a lack of incentive to investing in improvements.

Question 19

What practices and business models do councils use to improve the way they manage their infrastructure assets and the efficiency of their services over time? How effective are these practices and business models in managing cost pressures? Do councils have adequate capacity and skills to use these practices and business models effectively?

UHCC's response

- We support the response of LGNZ.

Question 20

How do councils identify and employ new technologies to manage their infrastructure assets and produce services more efficiently? How effective are councils in using new technologies to manage cost pressures? Please provide specific examples of the use of new technologies to manage cost pressures.

UHCC's response

- Councils need to be prudent in their use of public funds and so investment needs to be in 'proven' rather than 'new' technologies.
- We also support LGNZ's summary of where councils learn innovative practices and agree the updating of technology varies across councils.

Question 21

What incentives do councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened?

UHCC's response

- There is not an incentive as such, but there is pressure to keep rates increases affordable each year. Therefore, if the council wants to complete projects, then a competing cost is internal investment. However, a way to manage costs is to find improvements. It is a chicken and egg situation.

Question 22

What are the most important barriers to local government achieving higher productivity?

UHCC's response

- We consider the lack of funds to invest in improvement activities to be the most important barrier to local government achieving higher productivity.
- There is a lot of effort spent obtaining data that may already be held by central government. We would support initiatives to improve/simplify access.

Question 23

How does local government measure productivity performance? Are these metrics useful? If not, what metrics would be better?

UHCC's response

- We support the response of LGNZ.

Question 24

To what extent, and how, do councils use measures of productivity performance in their decision-making processes?

UHCC's response

- UHCC attempts to benchmark itself against councils who are comparable in size and scale.

Question 25

Do councils dedicate sufficient resources and effort toward measuring and improving productivity performance? If not, why not, and how could effort toward measuring and improving productivity performance be increased?

UHCC's response

- It is difficult to find funding to increase productivity performance let alone measure it. A central government capability grant scheme would be beneficial to help get initiatives up and running.

Question 26

What measures do councils use to keep services affordable for specific groups, and how effective are they?

UHCC's response

- We support the response of LGNZ.

Question 27

How do councils manage trade-offs between the ability to pay and beneficiary pays principles? What changes might support a better balance?

UHCC's response

- We support the response of LGNZ.

Question 28

Do councils currently distribute costs fairly across different groups of ratepayers? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across ratepayers?

UHCC's response

- We support the response of LGNZ.

Question 29

Do councils currently distribute the costs of long-lived infrastructure investments fairly across present and future generations? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across generations?

UHCC's response

- UHCC achieves inter-generational distribution of benefits of our activities through borrowing and repaying the debt, normally over a 20 year period, but dependant on the life of the asset.

Question 30

What principles should be used to appraise current and potential new approaches to local government funding and financing, and how should these be applied? What are appropriate trade-offs across these principles?

UHCC's response

- We support the response of LGNZ.

Question 31

How effectively is the existing range of local government funding tools being used?

UHCC's response

- UHCC uses all of the funding tools available to it.

Question 32

Is there a case for greater use of certain funding tools such as targeted rates and user charges? If so, what factors are inhibiting the use of these approaches?

UHCC's response

- We support the response of LGNZ.

Question 33

What is the rationale underlying councils' approach to levying rates? What are the costs and benefits of shifting from a capital value system to a land value system?

UHCC's response

- We support the response of LGNZ.

Question 34

In addition to restrictions on how targeted rates are applied and the types of services where user charges can be levied, do any other restrictions on existing funding tools unduly limit their uptake or usefulness?

UHCC's response

- We support the response of LGNZ.

Question 35

How does the timing and risk associated with future funding streams influence local authority decision making about long-term investments? What changes to the current funding and financing system (if any) are needed to address these factors?

UHCC's response

- We support the response of LGNZ.

Question 36

What are the pros and cons of a funding system where property rates are the dominant source of funding? Does the local government funding system rely too heavily on rates?

UHCC's response

- We support the response of LGNZ.

Question 37

Under what circumstances (if any) could there be a case for greater central government funding transfers to local government? What are the trade-offs involved?

UHCC's response

- We support the response of LGNZ.

Question 38

Do local authorities have sufficient financial incentives to accommodate economic and population growth? If not, how could the current funding and financing framework be changed to improve incentives?

UHCC's response

- In the current funding model, economic and population growth tends to come at a net cost to councils due to the current funding and financing framework not being sufficient/efficient in regard to securing adequate development contributions to meet the cost of new supporting infrastructure.

Question 39

What funding and financing options would help councils to manage cost pressures associated with population decline? What are the pros and cons of these options?

UHCC's response

We support the response of LGNZ.

Question 40

Are other options available, such as new delivery models that could help councils respond to funding pressures associated with a declining population? What conditions or oversight would be required to make these tools most effective?

UHCC's response

- We support the response of LGNZ.

Question 41

What are the pros and cons of local income and expenditure taxes?

UHCC's response

- We support the response of LGNZ.

Question 42

What are the advantages and disadvantages of a local property tax as an alternative to rates?

UHCC's response

- We support the response of LGNZ.

Question 43

Are there any other changes to the current local government funding and financing framework, such as new funding tools, that would be beneficial?

UHCC's response

- We support the response of LGNZ. We are cautiously optimistic that the proposed Tax Swap as being developed by LGNZ as part of their localism initiative may provide a usable, optional tax-sharing scheme.

Question 44

How can the transition to any new funding models be best managed?

UHCC's response

- We support the response of LGNZ.

Question 45

To what extent does the need for particular funding tools vary across local authorities?

UHCC's response

- We strongly support LGNZ's response to this question. It is critical for councils to have a range of funding tools available so the relevant one can be applied to whatever the local issue happens to be. Councils represent different communities which face different challenges.

Question 46

To what extent are financing barriers an impediment to the effective delivery of local infrastructure and services? What changes are needed to address any financing barriers?

UHCC's response

- We support the response of LGNZ.

Question 47

If New Zealand replaces rates on property with a local property tax, should it also adopt tax increment financing as a way to finance growth-related infrastructure investments? What are the advantages and disadvantages of tax increment financing?

UHCC's response

- We support the response of LGNZ.

Question 48

What role could private investors play in financing local government infrastructure and how could this help address financing barriers faced by local governments? What central government policies are needed to support private investment in infrastructure?

UHCC's response

- We support the response of LGNZ.

Question 49

How effective are the current oversight arrangements for local government funding and financing? Are any changes required, and if so, what is needed and why?

UHCC's response

- We support the response of LGNZ.

Wayne Guppy

Wayne Guppy
Mayor