



8 March 2019

CONSIDERATIONS FOR THE PRODUCTIVITY COMMISSION INQUIRY INTO LOCAL GOVERNMENT FUNDING AND FINANCING

The Upper North Island Strategic Alliance (UNISA) has developed a series of considerations to put forward to the Productivity Commission's (the Commission's) Inquiry into Local Government Funding and Financing.

Introduction

1. UNISA is a partnership between Auckland Council, Northland, Waikato and Bay of Plenty Regional Councils, Hamilton and Tauranga City Councils and Whangarei District Council. The aim of UNISA is to manage and respond to a range of inter-regional and inter-metropolitan issues.
2. UNISA is supportive of the Productivity Commission's inquiry into Local Government funding and financing. This submission aims to highlight joint concerns and comments from the UNISA partners.
3. UNISA appreciates the Commission's approval of an extension of time until early March 2019 to allow sufficient time for development of the submission.

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The Upper North Island context

5. The Upper North Island (UNI) consists of the Northland, Auckland, Waikato and Bay of Plenty regions. Despite being only 20 percent of New Zealand's land area, these regions contain over half of New Zealand's population and economic activity and include nationally significant infrastructure.
6. The UNI comprises:
 - 53 percent of New Zealand's population
 - 52 percent of New Zealand's GDP
 - 52 percent of all filled jobs in New Zealand
 - 64 percent of New Zealand's cargo by value traded through UNI ports
 - 49 percent of freight movements by weight
 - 54 percent of international tourism spend
 - 52 percent of New Zealand Maori asset base
 - 70 percent of New Zealand's refined oil needs through Marsden point.

7. The infrastructure networks of the UNI regions connect key growth areas and support the majority of national economic activity. These networks not only provide for the movement of people and exchange of goods and services, but also facilitate improvements in accessibility both regionally and sub-regionally.
8. The UNI is considered the 'gateway into New Zealand' as it includes Auckland Airport (the arrival point for the majority of New Zealand's international visitors) and Ports of Auckland, Tauranga and Northport. These ports are responsible for handling the majority of New Zealand's international goods trade.
9. The most recent set of Long Term Plans suggests the combined annual expenditure of UNISA councils is approximately \$7.6 billion, of which \$6.7 billion is from Auckland Council. The financial position of each UNISA council varies, due to different circumstances, cost pressures and incoming revenue.
10. For the reasons outlined above, the UNI is a key sub-region in New Zealand. It is critical the regions and cities within UNI are funded and financed appropriately to ensure the effective functioning of New Zealand Inc.

Shared challenges

11. A key part of the inquiry is identifying factors driving local government costs now and into the future. This part looked at factors such as population growth and change, expansion of local government responsibilities, and climate change.

Planning, funding and financing urban and economic growth

12. Auckland, Hamilton, Tauranga and Whangarei are all identified as high-growth urban areas in the National Policy Statement on Urban Development Capacity 2016. The resident population of these urban areas is projected to grow by more than 10 percent between 2013 and 2023, according to the Statistics New Zealand median urban area population projections for 2013(base)-2023. Councils in the UNI also deal with the pressure growth places on existing services and systems, in particular transport and the environment.
13. Some councils in UNISA cannot access the capital needed to meet these investment demands without facing substantially higher interest costs. The impact of these councils approaching debt limits has a flow on effect to other councils and their constituents due to the inter-related nature of local government funding. For example, a downgrade in Auckland Council's credit rating would also impact the credit rating of the Local Government Funding Agency (LGFA). This would then impact the borrowing costs for all other councils that raise funds through the LGFA.

Responding to climate change

14. Climate change is projected to increase the likelihood of existing infrastructure not meeting current agreed levels of service, or being lost to coastal inundation or erosion. It will also result in increased frequency of storm events, and increased demand for local government services such as emergency and flood management.

Responding to central government policy changes

15. Local government responsibilities are increasing through new or revised policy direction, national policy statements and other government initiatives.

Changes to the funding and financing system

16. UNISA considers there is scope for the government to make changes to enhance the existing funding and financing framework. Useful changes could include:

- New requirements from central government being accompanied by appropriate resources, adequate lead-in time and consideration of local government funding cycles.
- Central government support to make infrastructure networks resilient to climate change. It is certain that for some councils and communities, absorbing the impact of managed retreat will be beyond their capability.
- Exploring of alternative transport funding solutions. Some UNISA partners have started support for regional fuel taxes and congestion charging while other UNISA partners are more cautious, because of concerns about the potential impact on low income communities.
- New tools to fund and finance the development of infrastructure. This could include developing tools that enable councils to finance infrastructure in a way that is not restricted by existing limits on borrowing, as well as access to interest free loans. While several UNISA councils borrowed from the Housing Infrastructure Fund, including Hamilton and Tauranga City Councils and Auckland Council, concerns remain the approach is adhoc, can create financial uncertainty and the benefits are not evenly spread. As such, the process and certainty around similar interest free loans could be improved.

Conclusion

The UNI is a key sub-region of New Zealand and is experiencing high levels of growth and resulting pressures. Funding and financing all of local government in the UNI is critical to ensuring the functioning of New Zealand as whole. UNISA looks forward to the Commission's draft report on innovative ideas to reduce capital expenditure and how to ensure a sustainable funding and financing system in the short, medium and long term.

On behalf of UNISA Chief Executives,



Stephen Town
Chief Executive of Auckland Council



Richard Briggs
Chief Executive of Hamilton City Council

