UPPER HUTT CITY

Funding and Financing Submission

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Upper Hutt City Council's submission to the Productivity Commission

PREPARED BY UPPER HUTT CITY COUNCIL

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Introduction

Upper Hutt City Council (UHCC) are pleased to have the opportunity to comment on the Productivity Commission's (the Commission) draft report on local government funding and financing. A lot of the points raised in our response to the earlier issues paper have been addressed in the draft report, however, some have not. We still consider there to be a strong case for a fund to aid investment in improvement activities in local government and re-emphasise our position that there is a lack of investment in organisational development across local government. Organisational development is vital in achieving productivity improvements but is difficult to justify as an investment priority for spending to our communities. We also note the Crown exemption on paying rates has been specified as out of scope in the Terms of Reference for the inquiry. We have strong views on this matter having a large amount of Department of Conservation land located in Upper Hutt.

We have followed a similar structure to our submission on the issues paper and have provided a response to all recommendations and most questions in the draft report. Our responses to each are set out below.

Question 3.1

Is the current methodology for preparing the Local Government Cost Index sufficient for forecasting the prices that local authorities are likely to face? If not, should the methodology be improved, such as by one or more of:

- carrying out more frequent reweighting;
- including output indices; and
- disaggregating by council type?

UHCC's response

UHCC considers that the current methodology could be improved through:

- reweighting the Local Government Cost Index more frequently (but no more than annually);
- including output indices with higher weighting given to more relevant indices such as the Construction Cost Index; and
- disaggregating by council type (as the cost of some inputs varies for Councils) with careful consideration given to what the most effective disaggregation considerations would be.

Question 4.1

To what extent are the Treaty-related costs associated with fulfilling the obligations and requirements under local government statutes "business as usual" for councils? And to what extent should they be considered costs incurred to fulfil obligations on behalf of the Crown under the Treaty of Waitangi?

UHCC's response

All public sector agencies have obligations under the Treaty that must be treated as "business as usual". Local government is required to take the Treaty into account, which is the "business as usual" part. The Crown is, however, responsible for giving effect to the Treaty and Treaty settlements are part of this obligation. These cannot be treated as norm. Treaty settlements require high initial costs and the ongoing governance and maintenance of co-management falls on local government once the Crown reaches their obligations. Iwi also need to be paid and this cost should not fall entirely on rate payers.

Where council is fulfilling Crown obligations we believe the cost should be at least co-funded by the Government. An example of where we feel co-funding would be appropriate is managing water through the Whaitua process.

Question 5.1

The Commission is seeking more information on the advantages and disadvantages of reducing the frequency of Long Term Plan (LTP) reviews, while retaining the requirement for annual plans. What would be the benefits, costs and risks of reducing the frequency of LTPs, from every three years to every five? What if five years were a minimum, and local authorities were free to prepare LTPs more frequently if they wished?

UHCC's response

UHCC believes that the most important aspect to focus on with regard to LTPs is addressing the existing development costs of LTPs and also in respect to auditing costs. It is acknowledged that audits serve an important function however, the cost benefit do not stack up in the present methodology.

The increase in frequency of LTP reviews from three years to five will go some way in relieving these cost pressures. The benefits of increasing the frequency of LTPs are:

- Reduction in the resource use (translating to cost reduction) that goes into a LTP review. However, given that there is the potential for change at the elected level (where decision making ultimately resides) every 3 years, there is a possibility of increased LTP amendments, thereby negating any financial gains falling out of a longer review cycle.
- Longer term thinking and planning is a definite advantage, leading to better outcomes for the community.

A risk of increasing the frequency of LTPs from three years to five is:

- Being close to (or beyond) the limit of being able to forecast with any certainty (particularly due to changes in the external environment), resulting in a high level of divergence between the plan and the 'real world' and making responding to change difficult. Response to change is slow mainly due to the legislative requirements imposed for any amendments or changes.
- This would likely increase the number of amendments thereby increasing costs on the community (e.g. engagement and auditing costs).

UHCC believes there is a great value in having consistent practice across the country on Local Government matters and that the frequency of completing LTPs should not be flexible.

Question 5.2

Is it appropriate for local authorities to include an adjustment for anticipated price inflation when they set rates each year? If not, what disciplines could be applied to the rate-setting process, to encourage local authorities to seek to manage cost and price pressures through productivity improvements? What would be the benefits and drawbacks of such an approach?

UHCC's response

UHCC's current practice for Annual Plans is zero based budgeting. For most cost centres, inflation over the year can be (and is) predicted as well as changes in level of service and is built into the budget development process. UHCC believe costs in a plan are more easily understood in current day dollar terms.

We do not see any evidence presented that productivity improvements would offset inflation or manage external pressures. Councils rely on the external market to provide efficiency due to the amount of work outsourced. Additionally, we do not need anything that adds complexity to local government finances as they are already complicated enough for the community.

Question 5.3

Would establishing a capital charge for local authorities be an effective way of incentivising good asset management? What would be the advantages and disadvantages? Are there other, more effective ways of encouraging better asset management practices in local government?

UHCC's response

Establishing a capital charge will increase the cost of infrastructure services to communities. It is a blanket approach penalising poor management resulting in more pressure applied to those already struggling. UHCC do not believe these types of financial instruments result in better asset management practice.

Inadequate asset management can be due to a range of reasons with practices varying across territorial authorities. Asset data is at the core of making asset management decisions and is often lacking due to data keeping practices at the time of construction and because assets are often located underground. A more effective strategy would be incentivising good asset management rather than a capital charge approach. For example, having a fund to reward those starting a project with good asset data would incentivise data collection which in turn would improve asset management.

Question 6.1

How desirable and useful would a tax on vacant residential land be as a mechanism to improve the supply of housing for New Zealanders? How would such a tax measure up against the principles of a good system of local government funding and financing?

UHCC's response

It is not clear what is meant by a tax on vacant residential land. UHCC already sets rates for all residential land which also includes vacant land. Assuming the said tax would be in addition to this; it could likely have the effect of improving the supply of land for housing but does not really align with local government rating principles.

While such a tax applied to central business districts and the commercial sector could also assist with economic policy, we consider the tax to be out of line with the benefit principle otherwise supported by the Commission in the draft report.

Question 6.2

What would be the advantages and disadvantages of a system of payments to territorial authorities based on new building work put in place in each territorial local authority? What would be the best design for such a mechanism? Would it be effective in incentivising councils to keep the supply of consented land (greenfield and brownfield) and local infrastructure responsive to growth pressures?

UHCC's response

UHCC supports a central government administered fund as it would help local government to meet the infrastructure needs of their communities. Ideally the fund should be targeted toward lead and not lag infrastructure.

Recommendation 5.1

The Department of Internal Affairs, Local Government New Zealand (LGNZ) and the New Zealand Society of Local Government Managers should work together to improve basic governance, including financial governance, skills and knowledge across elected members. In undertaking this work, they should consider:

- a range of mechanisms, such as formal training; peer support, mentoring (eg, via "sister council" links), and networking; and sharing of resources and best practice; and
- a variety of delivery platforms, including online media and collaboration tools.

LGNZ should ensure that resources and initiatives are well evaluated.

UHCC's response

UHCC agrees with this recommendation. It has been noted in the introduction of this submission that organisational development is vital in achieving productivity improvements which will lead to improved outcomes for our communities. For us, this includes development at the governance level as well.

However, the reality is that in many councils the elected member role is at best, part time, so development can become an imposition on those elected members. Cost is also a factor, which for some councils and communities can feel like an imposition. We feel these opportunities are already available, so that is not an issue in itself, what needs looking into, is how to remove the barriers (of cost and time) so uptake can be increased.

We agree with mentoring via "sister council" links, which could be one of the way of sharing and learning without the costs associated with formal training or conferences.

Recommendation 5.2

Local Government New Zealand should work to achieve greater participation in ongoing professional development by elected members, including new and existing members, to ensure skills and knowledge are built and periodically refreshed.

UHCC's response

UHCC agrees with this recommendation. Our response to recommendation 5.1 provides more detail. Another point to note is that where training is mandated by Central Government, Central Government should provide the funding (e.g. certification for RMA decision makers).

Recommendation 5.3

The Local Government Act 2002 should be amended to require all local authorities to have an Audit and Risk Committee (or equivalent assurance committee).

- Audit and Risk Committees should have an independent Chair, and ideally include at least one other external expert, to ensure they span the full range of necessary skills and experience.
- Independent members should be appropriately skilled and qualified.
- Councils should draw on the good practice guidance and resources that are available to develop and run their committees.

UHCC's response

UHCC agrees with this recommendation but do not think it is necessary for the chair to be independent.

Recommendation 5.4

The local government reporting framework (including the financial disclosures, Funding Impact Statement and performance measures for service delivery) should be subject to a fundamental, first principles review. This review would:

- identify financial disclosures of low value to users of financial statements;
- examine the mix of financial and non-financial disclosures, and recommend a revised framework that provides the most efficient, coherent and accessible way of reporting the range of information sought by both types of users;
- consider the potential for new forms of external reporting, including integrated reporting, to shape changes in the reporting framework; and
- be undertaken by a working group comprising the Department of Internal Affairs, the External Reporting Board and representatives of the local government sector and information users. The Office of the Auditor-General would be consulted.

UHCC's response

UHCC agrees a first principles review should be conducted. This is important as the framework is overly complicated and we do not think it delivers, particularly in regards to financial statements. Performance frameworks and disclosures need to be simplified and improved so they are easier for the public to engage with, thereby improving accountability to the community. It is also important that the measures in place are testing what they are intended to measure and the outcomes we are trying to achieve. There is nothing stopping local government from using integrated reporting and it is a good fit given the alignment with the four well-beings.

It is important to note that the same accounting standards are used across the whole of government and therefore any work in this area should be cross-agency. Otherwise, it could create inconsistency across sectors and a misalignment with international best practice. In this area the External Reporting Board:

- is undertaking a review of the Financial Reporting Framework;
- have released PBE FRS 48 Service Performance Reporting;
- is completing work into integrated reporting; and
- is conducting research into user needs.

Recommendation 5.5

The Department of Internal Affairs, Local Government New Zealand and the New Zealand Society of Local Government Managers should continue to work together to promote and encourage councils' participation in existing performance review and improvement initiatives, such as CouncilMARK™ and the Australasian Local Government Performance Excellence Program. The emphasis should be on learning for continuous improvement, rather than a one-off exercise. This work should include efforts to boost public awareness of initiatives such as CouncilMARK™ to increase demand for their use.

UHCC's response

UHCC agrees with this recommendation.

Recommendation 5.6

The legislated information requirements for the consultation processes of local authorities should be amended to:

- make the terminology around the required analysis of alternative options consistent across relevant sections of the Local Government Act 2002;
- clarify Long Term Plan (LTP) consultation documents must describe the reasonably practicable alternative options for addressing each identified issue; and
- explicitly require that LTP consultation documents include high-level information on the implications for rates and future service levels associated with each of the identified options.

UHCC's response

It is our view that creating a simple document that the community can easily engage with should be the core consideration for a Consultation Document. Additionally, territorial authorities know what their communities need and as such should be allowed flexibility in how to best communicate with their communities. UHCC:

- agrees with making terminology consistent across relevant sections of the Local Government Act 2002;
- feels care needs to be taken that describing the alternative options does not change one of the key considerations, to produce a transparent and less complex consultation document for the end user;

- recommends high level information on implications of the identified options should only be included as an appendix.

Recommendation 5.7

The Local Government Act 2002 should be revised to clarify and streamline the required content of Long Term Plans so as to reduce duplication, ease the compliance costs on councils, and help make them more accessible documents.

UHCC's response

UHCC agrees with this recommendation.

Recommendation 5.8

The scrutiny on long term planning provided by the audit requirements should not be considered a substitute for internal quality assurance processes. Councils should have robust quality assurance procedures across their Long Tem Plan process, including the use of expert review where appropriate (such as for significant decisions).

UHCC's response

UHCC agrees with this recommendation; however, there needs to be more clarity on the auditor's role so we do not run the risk of paying for the same thing twice.

Recommendation 6.1

The Government, Local Government New Zealand and the New Zealand Society of Local Government Managers should work together to develop standardised templates both for the development contribution (DC) policies of councils and council assessments of DC charges for individual property developments. Councils should be required to use the standardised templates.

UHCC's response

UHCC agrees with this recommendation.

There is a national level local government working group already established with 60 councils involved. This is the go to place for best practice and it is sector led. UHCC supports this approach.

Recommendation 6.2

While local authorities' general approach to depreciating their infrastructure assets is satisfactory, three issues are of concern and may require action:

- councils' decisions about the best use of the large amounts of cash that depreciation funding can give rise to should be part of formulating their wider financial and infrastructure strategies;
- councils should prioritise improving their knowledge of the condition and performance of their assets to, among other benefits, avoid the risk of underestimating asset lives and overestimating depreciation expense; and

- the Essential Services Benchmark should be reviewed as part of the wider review of the local-government performance reporting framework referred to in Recommendation 5.4. Any reframing should avoid the implication that individual councils must invest in as much asset renewal each year as their depreciation expense.

UHCC's response

UHCC agrees with this recommendation. There would be benefit in establishing some sector wide guidelines on the use of depreciation funding.

UHCC strongly agrees that:

- councils should prioritise improving their knowledge of the condition and performance of their assets as good asset data results in good asset management practices; and
- the Essential Services Benchmark should be reviewed (and in fact our preference would be for the benchmark to be removed).

Recommendation 6.3

In choosing among funding tools, rating bases and whether to charge rates as a percentage of property values or as uniform charges or some other targeted feature, councils should emphasise the benefit principle and efficiency in the first instance. They should also balance greater economic efficiency against lower compliance and administration costs.

Councils should factor in any significant concerns about ability to pay at a second stage in their decision making.

UHCC's response

As a general principle UHCC agrees with the approach of applying the benefit principle first and ability to pay second and this is the practice we currently follow. The benefit principle can be difficult to apply so there needs to be some flexibility in the application of the principle.

Recommendation 6.4

The Government should consider implementing a system of payments to territorial authorities, based on new building work put in place in each territorial local authority, to incentivise councils to increase the supply of infrastructure-serviced land to match growth in demand.

UHCC's response

UHCC agrees in principle with a central government administered fund, however, it appears this will fund lag infrastructure rather than lead infrastructure. It is preferable such a fund would be proactive in nature as opposed to responsive. Clarification around whether the fund will be application based or portioned across all territorial authorities would be welcomed.

Recommendation 6.5

The Government should direct officials to continue work on how to expand the use of Special Purpose Vehicles to finance investment in growth infrastructure in fast-growth local authorities that face debt limits.

If needed, the Government should promote legislation in Parliament to enable the placement of debt-servicing obligations on existing residents who will benefit from the infrastructure.

UHCC's response

UHCC find Special Purpose Vehicles non transparent and would be unlikely to use them. What are the risks of going over debt limits and using mechanisms to get around them?

Recommendation 6.6

In its review to improve the service delivery of the three waters, the Government should favour models capable of applying efficient scale and specialisation to help small communities meet the challenges of maintaining and upgrading their water, wastewater and stormwater infrastructures.

UHCC's response

UHCC suggests that the Commission defer to the work undertaken by the Government's commission of enquiry on water management. It is important to note that the size of a community is not necessarily an indicator of the improvement need or ability and that there are a whole range of differing circumstances determining this.

Recommendation 6.7

The Government should legislate to enable councils in tourist centres to choose to implement accommodation levies to recover the tourism-induced costs of providing local mixed-use facilities not otherwise charged for.

Councils in tourist centres should make greater use where possible of user pays for mixed-use facilities

UHCC's response

UHCC agrees with this recommendation.

Recommendation 6.8

The Government should provide funding from the international visitor levy for councils responsible for small tourist hotspots which cannot reasonably recover all their operating costs of providing mixed-use facilities from tourists through user pays or accommodation levies.

UHCC's response

UHCC agrees with the recommendation.

Recommendation 6.9

The benefit principle and maintaining the integrity of local government autonomy, responsibility and accountability should guide central government funding of local government activities. This implies that central government should generally limit its funding to where there are national benefits. Central government should not expect local government to act simply as its regulatory agent. Rather, the two levels of government should seek a regulatory partnership based on mutual respect and an agreed protocol.

UHCC's response

This recommendation needs to be stronger. Central government should include a full assessment when considering pushing standards to be managed or enforced by local government since the costs these will be incurred by local government.

UHCC strongly agree that central government need to fund the cost of mandates passed down to local government where there is a national benefit. Simply improving the relationship will not help local government to cope with the cost of unfunded mandates.

Recommendation 6.10

Central and local government should strive to achieve a more constructive relationship and effective interface through:

- central and local government providing input (formally or informally) into each other's relevant policymaking processes, under an agreed set of principles or a protocol;
- central government engaging in a meaningful dialogue with local government early in the process of developing relevant new regulations;
- cooperative approaches to tackling problems with implementing relevant new legislation, regulations or environmental standards;
- the creation of formal and informal feedback loops to identify problems with delegated regulations when they first appear; and
- the spread of information through the system and the sharing of expertise and knowledge

UHCC's response

UHCC strongly agrees that improving the working relationship between central and local government needs to be a high priority.

Recommendation 7.1

The Local Government (Rating) Act 2002 should be amended to remove rates differentials and uniform annual general charges. Councils should have five years to implement their removal.

UHCC's response

Removing these would effectively serve to swap one system for another creating more work and resulting in little benefit. UHCC would prefer an expansion of options in the toolkit rather than removing options that work for some communities.

Recommendation 7.2

Local government legislation should be amended to require councils to:

- match the burden of rates to the benefits of council services, as a first step in setting rates;
- consider ability to pay as a second step;

- set out the reasons for their rating decisions in each step in a clear and transparent manner; and
- (in applying the ability-to-pay principle) consider coherence and consistency with the income-redistribution policies of central government.

Councils should continue to have the power to determine, on reasonable grounds, the appropriate allocation of rates within their district or region.

UHCC's response

UHCC already do most of what is contained in the proposed amendments and strongly agree with applying the benefit principle first and ability to pay second, however, it can be difficult to consider ability to pay. For example, following a natural disaster, residents may no longer be receiving a benefit they are paying for. The focus in such a situation is on getting the services up and running again and revenue still needs to be collected to achieve this. A national policy for such situations could be beneficial.

Recommendation 7.3

Local Government New Zealand and the New Zealand Society of Local Government Managers should develop advice for councils on how to apply the benefit principle (the burden of rates should reflect the benefits received) in their rating decisions.

UHCC's response

UHCC agrees with this recommendation.

Recommendation 7.4

The Local Government (Rating) Act 2002 should be amended to remove the statutory cap on uniform charges.

UHCC's response

UHCC agrees with the recommendation.

Recommendation 7.5

The Government should work with local government and suitable financial providers to develop and implement a national rates postponement scheme. The scheme should:

- have a single set of clear and generous eligibility rules;
- be accessible and have provisions that are easy to understand and work with;
- have moderate and transparent fees; and
- be nationally promoted.

UHCC's response

In our experience, customers are very positive about the Rates Rebate Scheme and replacing it would not be a popular choice. UHCC would prefer a review of the current Rates Rebate Scheme improving user friendliness, decreasing the required administration and increasing awareness of the scheme. If a national Rates Postponement Scheme was rolled out it would be important that councils receive the money in real time and that costs of running the scheme are not born by the low income rate payers. Whatever scheme is in place should be administered centrally and not locally.

Recommendation 7.6

The Government should phase out the Rates Rebate Scheme (RRS) over a defined period, such as five years, from when an effective national Rates Postponement Scheme is in place. In the meantime, the current income abatement thresholds and maximum payments should be maintained.

UHCC's response

If a new scheme were to be rolled out, UHCC supports this recommendation. As discussed in our response to recommendation 7.5, we would prefer a review of the current Rates Rebate Scheme.

8 Adapting to climate change

UHCC's response

UHCC agrees with UHCC agrees with the following recommendations: 8.2, 8.3, 8.4 and 8.6.

Recommendation 8.2

The Government should implement a review of existing legislation and policy to ensure that considerations about climate-change adaptation are integrated and aligned within that legislation and policy where relevant.

Recommendation 8.3

National and local authorities should adopt anticipatory and flexible approaches to climate-change adaptation, in line with recognising the constantly changing nature of the risks. Any additional funding for climate-change adaptation should be conditional on the use of such approaches.

Recommendation 8.4

The Government should provide legal frameworks that give councils more backing and knowledge to make land-use planning and infrastructure investment decisions that are appropriate in the face of constantly changing climate risks.

Recommendation 8.6

The Government should create a new agency and a Local Government Resilience Fund. The new agency should work with at-risk councils and co-fund the redesign and possible relocation and rebuilding of wastewater and stormwater infrastructure when it becomes no longer viable because of sea-level rise and more intense flooding due to climate change.

The new agency should also assist regional councils and communities to work out the best way to lessen future flood risks from rivers. This could include moving to a new, more sustainable and best-practice paradigm of giving rivers room and developing multiple innovative uses of the wider river corridors.

Recommendation 8.1

The Government and local government should work together to establish centres of knowledge and guidance about climate-change adaptation for councils. One centre should be an authoritative and up-to-date source of advice on science and data while another should be a source of specialist advice on policy, planning, risk management, legal issues and community engagement.

UHCC's response

UHCC agrees with this recommendation. An important role of the proposed authoritative centre could be to provide impartial advice on matters such as insurance.

Recommendation 8.5

The Government should extend the New Zealand Transport Agency's role in co-funding local roads to include assistance to councils facing significant threats to the viability of local land-transport infrastructure from sea-level rise and more intense storms and flooding due to climate change. The amount of assistance should reflect the size of the threat facing each council and its rating capacity.

Assistance should be conditional on a strong business case and meeting engineering and environmental quality standards. It should only be available to defend existing infrastructure when business cases indicate that this option is superior to other options by a significant margin.

UHCC's response

UHCC agrees defending existing assets should be funded only in instances where the option is significantly superior to other options. 'Significant' would need to be clearly defined.

Wayne Guppy

Wayne Guppy
Mayor