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Email: [democraticservicesteam@huttcity.govt.nz](mailto:democraticservicesteam@huttcity.govt.nz)

“Overheads”, Rates Increases and Long Term Plan (LTP) Comparison.

Tēnā koutou katoa

The following questions from Cr Mitchell

Have any election candidates sought explanation of a \$100-\$120 million increase in "backroom overheads" that has been discussed online and in debates, despite no-one seeming to know the exact amount or what it represents?

If not, could officers please clarify the amount and provide to all candidates an explanation of the expenditure in question (additional to the notes to financial statements already provided in the LTP) and the impact of this expenditure on projected rates rises?

and From Cr Dyer

There has been claims on Facebook that people's rates have gone up by 30% over the past three years, and that under our current plans rates will go up by another 32% in the next three years?

Have there been any requests to the council about these increases and what explanations can officers give?

### **Response from Officers**

Officers have not been contacted for any explanation about “backroom overheads” which we understand from a press release and social media has been reported as a \$100M increase and subsequently as a \$120M increase.

#### 1) What spending is covered by the term “backroom overheads”

The calculations for “backroom overheads” as has been debated and referenced in social media is derived from comparing two activities in the Long Term Plan 2021-2031 (LTP 2021) and the Long Term Plan 2018-2028(LTP 2018). It is important to note that the scope of these two activities differ between the two LTPs, as does the naming conventions applied.

Table 1 is what we assume to be included in calculations of “backroom overheads” that are being referenced publicly.

Table 1: Comparison of the LTP activities deemed to be “backroom overheads”

LTP 2018-2028	LTP 2021-2031	Commentary on differences of the activities
Activity: City Leadership	Activity: Corporate Services	A broadened scope in the LTP 2021 which includes increased capacity and capability to deliver new LTP priorities and significant step-up in investment programme for the city. This includes increased capacity and capability for Policy and Planning, Enterprise Programme Management Office, People and Capability (including Health and safety, learning and development), procurement, customer services, community engagement and communications, finance (including revenue collection and budget management), legal etc. Both LTPs included costs for Information Technology and Corporate Leadership.
Activity: City Governance	Activity: Governance, Strategy and Partnerships	A broadened scope in the LTP 2021, which includes mana whenua partnerships and Te Ao Māori capability together with operational costs for Democratic Services Business Unit and Mayors Office. Both LTPs included governance related costs associated with elected members.

2) What is the comparison of costs between the two Long Term Plans?

In summary the difference is \$94M<sup>1</sup>, which is detailed in Table 2.

Table 2: Comparison of ten years budgets in the LTP 2021 and LTP 2018 for the two activities

LTP 2018-2028		LTP 2021-2031		Difference
	10 year budgets \$M		10 year budgets \$M	\$M
Activity: City Leadership	140	Activity: Corporate Services	217	77 <sup>2</sup>
Activity: City Governance	17	Activity: Governance, Strategy and Partnerships	34	17 <sup>3</sup>
Total	157		251	94

Note 1: Key assumptions:

- The comparison is based on the 10 years of the LTP 2021 starting in 2021/22 (being the first year of the LTP) and is compared to the budgets in the LTP 2018 starting in the same year 2021/22.
- The two activities in LTP 2021 Corporate Services and Governance, Strategy and Partnership are compared to the LTP 2018 City Governance and City Leadership, noting there is differences in scope.

Note 2: Key reasons for the \$77M increase in Corporate Services costs

- \$31M relates to Information Technology cost increases. This includes operational costs associated with the Go Digital Programme, the move to Software as a Service technology, core infrastructure maintenance, cyber security considerations etc. Investment in IT infrastructure is crucial to supporting the delivery of the LTP 2021.
- \$46M relates largely to increased capability and capacity as described in table 1 together with associated operational costs.

Note 3: Key reason for increase in Governance, Strategy and Partnerships costs

- The LTP 2021 includes increased funding for Mana Whenua Partnerships Agreements of \$1.75M over ten years compared to the LTP 2018. This had been budgeted at \$45k per annum in LTP 2018 (under City Leadership) and was increased to \$200k per annum in the LTP 2021 (under Governance, Strategy and Partnerships) (uninflated budgets). It is important to note that this funding is not considered to be “backroom overheads”.

### 3) Impact of this expenditure on projected rates rises?

The LTP 2021 has factored in the full costs for the two activities Corporate Services and Governance, Strategy and Partnerships. The LTP 2021 has a Financial Strategy and associated rating policy which allow for this funding. Table 3 provides an extract of the Financial Strategy projected rates revenue increases.

The rates revenue increases over the three year period 2023/24 to 2025/26 are projected to be 5.9% in 2023/24, 7.2% in 2024/25 and 7.2% in 2025/26. This excludes increased rates revenue expected from growth in the rating base. The new incoming Council will have an opportunity to review the rates increases as part of the Annual Plan 2023/24 and the Long Term Plan 2024-2034.

Table 3: Extract of LTP 2021 Financial Strategy showing the projected rates revenue increases (page 97 of LTP)

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Rates revenue increase	5.9%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
Assumed growth in rating base <sup>4</sup>	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Total rates revenue increase	7.0%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%

Note 4: The growth in the rating base relates to rates revenue expected from new buildings or developments/expansion of existing buildings.

- 4) An explanation about the claims that “rates have gone up by 30% over the past three years, and that under our current plans rates will go up by another 32% in the next three years”?

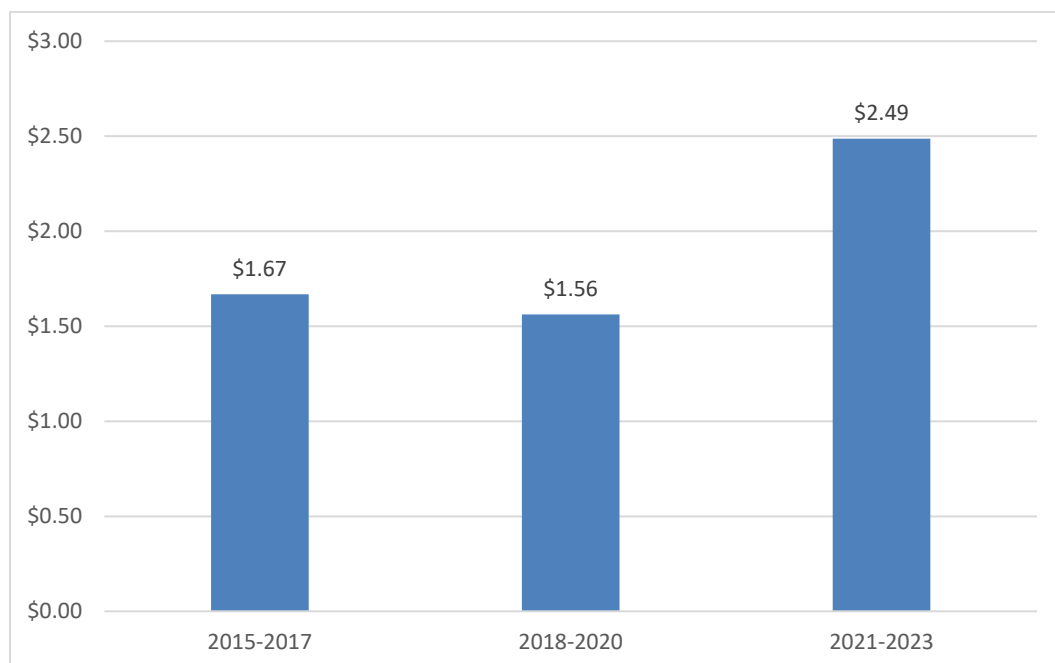
Over the three year period 2020/21 to 2022/23 total rates revenue (i.e the amount Council collects in total rather than the revenue increase per household) has increased by 29.2%, with the key components being:

- 7.9% for new waste services provided for households (refuse, recycling and green waste) which are funded via targeted rates (noting that homeowners had offsetting savings as there was no longer a need to purchase rubbish bags or pay for private rubbish collection services, this represented a saving for the majority of households)
- 8.8% for wastewater and water supply services
- 3.8% from growth in the city, such as new properties
- Balance of 8.7% for all other rates funded services (such as transport, libraries, parks, sportsfields etc).

Rates affordability has been a key consideration of Council in decisions about rates rises. Rates policy settings were reviewed as part of the LTP 2021 and were included as part of the key consultation matters.

Graph 1 shows a comparison of the impacts of Council rating decisions for residential properties. In the last triennium (i.e. 2020/21 to 2022/23) the average residential property rates has increased by \$2.49 per week, whilst in the prior triennium this was \$1.56 and \$1.67. Also of note is the \$2.49 increase per week over the last triennium, 56% of the increase related to wastewater and water supply services.

Graph 1- Comparison of average residential property rates increase per week over the last three triennium



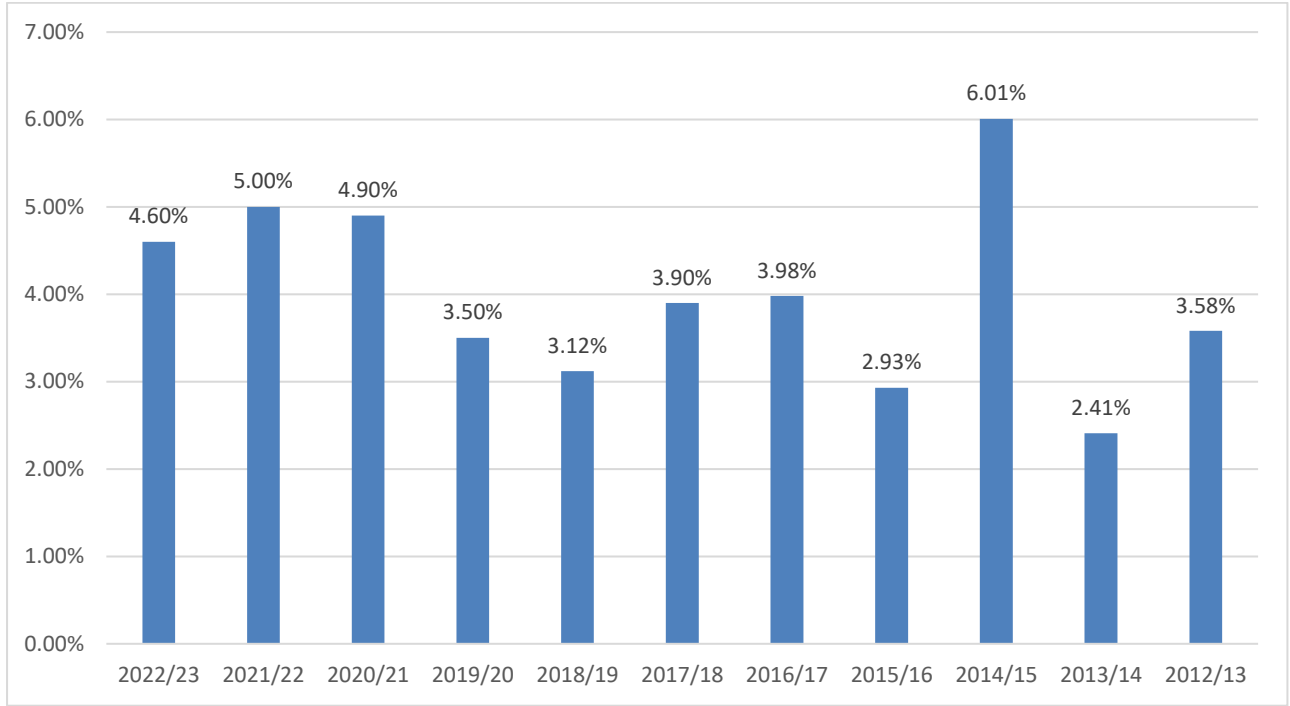
Note: that the increase in targeted rates for waste services (rubbish, recycling and green waste) in 2021/22 are excluded here as homeowners no longer needed to purchase rubbish bags or pay for private rubbish collection services.

As far as homeowners are concerned the easiest way to compare the impact of LTP decisions on the amount they pay individually in rates is via the average residential property rates increase, which is shown as a “per week” change in Graph 1. It can also be seen in Graph 2 which shows the average residential property rates increases a percentage, for each of the years from 2012/13 to 2022/23.

Key points to note:

- The average over the period 2012/13 to 2022/23 is 3.99%
- The average over the last three years (2020/21 to 2022/23) is 4.83%, whilst the average for the period prior to this was 3.68%
- Rating policy during the period up to 2019/20 favoured commercial properties and resulted in higher rates increases for residential properties. For example, in 2014/15 whilst the average residential properties had a 6% increase, the Business central properties had an average 11% decrease in rates.

**Graph 2 – Average residential property rates increase from 2012/13 to 2022/23**



#### 5) Future rates rises

In regards to future rates increase, table 3 shows the rates rises as outlined in the LTP 2021. The new incoming Council will have the opportunity to review these rates revenue increases, along with looking at levels of service, the capital investment programme and priorities for the future.

Ngā mihi nui,

**Democratic Services Team**