



30 August 2019

Steven Bailey, Inquiry Director
Productivity Commission
Email: info@productivity.govt.nz

Dear Steven Bailey,

Inquiry on Local Government Funding and Financing Interim Report

1. Introduction

- 1.1. Property Council New Zealand wishes to thank the Productivity Commission for the opportunity to submit on the draft report of the Local Government Funding and Financing Inquiry. The current funding and financing system is broken. The constant under-investment in infrastructure has led to the significant problems currently facing New Zealand.
- 1.2. We would also like to commend you on a very thorough report. It covers many of the key issues required for consideration. Property Council is happy to offer any further assistance in helping the Productivity Commission work on your final report.
- 1.3. We have taken a high-level approach to this submission to supplement our submission in February.

2. Property Council Background

- 2.1. Property Council's goal is the creation and retention of well-designed, functional and sustainably built environments which contribute to New Zealand's overall prosperity. We support legislation that provides a framework to enhance economic growth, development, liveability and growing communities.
- 2.2. The property industry is currently the largest industry in New Zealand with a direct contribution to GDP of \$29.8 billion or 13 per cent. In a sense the property sector is a foundation of New Zealand's economy and caters for growth by developing, building and owning the buildings that house businesses.
- 2.3. Property Council is a member-led, not-for-profit organisation offering a collective voice for the commercial property industry. Our membership includes some of the largest commercial property holders in New Zealand, including several significant NZX listed companies. Our members include companies that undertake a range of large-scale residential and commercial development projects, including large commercial buildings, industrial parks, and retail precincts.

3. The system is broken

- 3.1. Property Council believes that the Productivity Commission could take a bolder approach to address system-wide failings. We note that the Productivity Commission suggests that the beneficiary system for funding and financing of local government is fit for purpose, whilst also at the same time questioning local government's decision making. We suggest that this is counter intuitive as one formulates the other.

NATIONAL OFFICE

Foyer Level
51 Shortland Street
PO Box 1033
Auckland 1140

P +64 9 373 3086
F +64 9 379 0781
E enquiries@propertynz.co.nz
propertynz.co.nz

Corporate Sponsors





- 3.2. We agree that a beneficiary approach would be fit for purpose if its decision making was also fit for purpose. However, we still believe the system is broken as there continues to be inadequate decision making.
- 3.3. A holistic approach needs to be considered including how central government contribute and collaborate on infrastructure funding. Previously, when infrastructure was keeping pace with our growth, central government was contributing to key infrastructure, and we agree with your assessment that central government could do more. The lack of investment over the previous decades has contributed to the issues being faced today.
- 3.4. After decades of under-investment something needs to happen to improve the situation quickly. We suggest the government needs to be looking at a system-wide approach to fix a systematic problem.
- 3.5. We welcome your recommendations to remove rating differentials and your endorsement of the Shand report's recommendations. We agree there is no economic rationale that supports business rates differentials.
- 3.6. We also note your comments regarding development contributions (DCs) being fair “if well implemented¹” and acknowledging our concerns with councils’ ability to explain the rationale behind their development contribution charges. We agree with your assessment that there is a lack of transparency associated with DC policies and methodologies and have continued to raise these concerns.
- 3.7. There are insufficient funding and financing tools in the toolbox, and we wait with interest on the Government’s work in the infrastructure funding and financing space. We need more than just the current financing tools, such as rates, to increase revenue for the much-needed infrastructure.
- 3.8. Special purpose vehicles (SPVs) are a ‘promising option’ to assist councils wishing to provide infrastructure for new residential development when they are nearing their debt limit for example the Milldale approach. Considering such options of imposing a tax on vacant residentially zoned land, as recommended by the 2019 Tax Working Group, could also be considered to stop large tracts of residentially zoned land being held idle for long periods of time. These individuals or organisations are trading in the market for capital gain and are not releasing or developing this land to allow the housing market to deliver.
- 3.9. A system of central government payments to territorial authorities based on the amount of new building work put in place in each authority’s jurisdiction – which the Commission considers would incentivise councils to facilitate development and construction in their districts.
- 3.10. Undertaking long-term planning within a spatial planning approach also promotes a more coordinated and integrated approach to strategic planning as well as investment decision making. Our members have been suggesting this approach for years.

4. Decision making

- 4.1. Property Council agrees with your assessment that many councils lack the necessary systems and skill-mix for effective decision making. Much of their strategic planning is inadequate and the long-term planning is inefficient and ineffective.

¹ New Zealand Productivity Commission (2019), *Local government funding and financing: Draft report*, p. 148.



- 4.2. Due to the inherent need to protect local government and the status quo, there continues to be very little incentive for change. Some councils are unskilled or under-skilled in managing the complexities of local government. With a few exceptions, councils continue to lack the capability and skills to manage their billion-dollar budgets. We understand the need for local democracy, but we also suggest local politicians need further skills and tools to adequately manage and scrutinise their budgets. We agree with your assessment for more upskilling.
- 4.3. In our initial submission we explained how the short election cycle limits the time newly elected members have to understand all the issues and their responsibilities for decision making. We are supportive of your recommendation for more training and resourcing for councillors to make better decisions, including the Department of Internal Affairs and Local Government New Zealand working more closely to establish better training for governance.
- 4.4. Local communities are becoming more apathetic, getting less involved and being less interested in the key decisions' councils are making. This is only heightened with fewer candidates running for council in the latest local government elections². The effectiveness of local government depends on the public understanding and involvement in the local democratic process both of which are inadequate. This lack of engagement weakens council's accountability for the quality of their decisions.
- 4.5. The period between elections and the long-term planning decisions are not aligned. We are therefore very interested in your recommendation for an assurance committee that is independently chaired to assist with decision making, or at the very least a mandatory "Audit and Risk Committee" with independent members. We are very supportive of this approach and are happy to assist to test some of these recommendations further.
- 4.6. We are also encouraged by your recommendations for greater uptake of existing performance reviews and improvement programmes. More streamlining of the legislative requirements for councils' Long-Term Plans could go some way to improve performance.
- 4.7. In our initial submission we suggested that there were too many mandated documents that councils were required to prepare and many of the smaller councils were just barely managing these functions. Any improvements in this area would be welcomed. This could ensure that councils focus on areas where they are under-performing like consenting processes and focus on their key functions.
- 4.8. We are also generally supportive of Council Controlled Organisation (CCOs) arrangements for more independent decision-making at arms-length from councils, particularly for 3-waters and transportation infrastructure. However, CCOs need to be managed effectively and also require good governance.
- 4.9. For example, in Auckland our members are generally supportive of many of the actions of Watercare as they tend to be more client oriented. However, criticism is often levelled at Auckland Transport as they tend to be more insular in their policy development as evidenced through their recent proposed speed limit changes for the region.

² <https://www.stuff.co.nz/national/politics/local-body-elections/115188604/worries-for-democratic-process-as-election-seats-go-uncontested>



5. No oversight

- 5.1. Our members were again encouraged to see that you agree with the shortcomings of no oversight. As mentioned above we are very interested in helping further test your recommendations in this area, such as the mandated assurance committee.
- 5.2. The lack of oversight has led to some of the major issues that have arisen over the last few years. We suggest the auditing of council financial management and reporting does not go far enough.
- 5.3. Property Council recommends more oversight and auditing requirements, including more auditing enforcement powers, are required, or at the very least more consistency and standardisation of reporting be introduced. We suggest any oversight at the very least would be welcome.

6. 3-Waters

- 6.1. We have been encouraged by the Government's recent announcements regarding the new regulatory regime for the 3-Waters however we suggest this could go further. We agree with your recommendation that further investigation of the Scottish approach be undertaken.
- 6.2. The Scottish Water approach where one entity manages the 3-waters has led to costs reducing by 40% and environment pollution incidents reducing from 750 to 250 per year. This model needs further investigation as New Zealand and Scotland are similar in many respects from geographical spread and population.
- 6.3. We agree with your assessment that the provision of the 3-waters has been poor for years, with little oversight, lack of enforcement, and costs likely to increase significantly over the next 10 years. Poor quality water continues to exist across New Zealand and its quality lessens as populations decrease in rural areas. We also agree that wastewater is also performing badly, as seen through the recent wastewater spill into Lake Taupō, and that poor governance and financing arrangements could be partially responsible.

- 6.4. We again are happy to work with you to test any further recommendations in this area.

7. Conclusion

- 7.1. Property Council agrees with many of the recommendations of the draft report and are happy to further test some of the more innovative recommendations. However, we continue to suggest the current system is broken, and it requires a systemwide approach to fix it. Our members are happy to continue working with the Productivity Commission and the Government to look at innovative ways to assist in this area to help build better communities.
- 7.2. Property Council again wishes to thank the Productivity Commission for the opportunity to provide feedback on the draft of the Local Government Funding and Financing Inquiry. We are again happy to engage further with the Productivity Commission to discuss our submission and provide any further assistance.
- 7.3. Any further queries do not hesitate to contact Jane Budge, Senior Advocacy Advisor, email: jane@propertynz.co.nz or cell (021) 863-015.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Leonie Freeman".

Leonie Freeman, Chief Executive
Property Council New Zealand