

General Comments

What services should local government provide?

The Issues Paper assumes that there is such a thing as 'traditional core business' for local government. Early in local government's history, health, education, water supply and other services were provided by a range of special-purpose authorities established to run them - Education Boards, drainage boards, hospital boards, river boards - there was a board for everything.

The proliferation of local authorities was encouraged by two main factors - strongly localised interests and central government's approach to funding. Subdivision of large local authorities was incentivised through central government loans, subsidies and grants. From the 1890s onwards central government made many attempts to reform the local government system only to be thwarted by strong provincial interests' intent on maintaining power through avoiding centralisation.

It is clear that people's preferences and loyalty to location strongly influenced local body decision making and that local people would not willingly let go of the decision making power they had. Even clearer was the fact that central government's approach to funding local government influenced local decision making. In the 21st century, the local response to government's attempts from 2008 onwards to press for amalgamation of local authorities demonstrates that neither people's loyalty to location nor government's desire to influence, direct and fund local government has changed.

By the early 20th century, councils in New Zealand's main cities provided electricity and gas line networks, piped water supply, tramways, domains and public gardens, libraries, and swimming pools. Some even provide housing, sports fields, museums, and zoos. Larger city councils owned and ran a variety of business enterprises. For Example, Auckland City operated a fish market and fishing fleet and Dunedin built a hydroelectric dam to generate power for local consumers¹. In other words, there was no 'view' on what 'services' local government should provide - it provided what its communities wanted at any given point in time.

For county councils the concerns remained reading, wharves and river control. Rural local authorities with small populations tended to face the greatest financial difficulties. Their services were often comparable with larger wealthier districts, yet their rates income was far smaller. Growth in vehicle numbers exacerbated the problem - the Main Highways Board was established and in 1936 control of 6,500 kms of main highway was transferred to this Board². Again, costs for small rural Councils have always been an issue they have faced.

¹ N.1 above, p.7

² Later renamed the National Roads Board

Gradually, a number of national and district Boards were established to manage the delivery of electricity, soil conservation and river control. Essentially, as the country grew it was no longer practicable or affordable for services that could once be delivered and paid for locally to continue to be so. Centralisation at either a district or local level became inevitable for efficiency and effectiveness reasons. At its most basic, growth/demand will always dictate what the community wants and the best way to deliver it.

Economic depression in the 1930s forced amalgamation even where this was against the wishes of the local population however there was still substantial duplication in the system. The Local Government Commission was established in 1946 to act as an independent review board with wide powers to recommend local government restructuring and amalgamation. Residents and ratepayers then, as they do now, were usually able to overturn proposals to unite, merge or abolish local authority districts. Localism was alive and well.

As growth continued, particularly in the larger urban areas, regional councils were introduced the first being in Auckland in 1963. By the late 20th century most ad hoc functions were under regional or central control.

Community services

From the 1970s local and regional, as well as national, government was obliged to respond to increasingly well-organised and vehement community-based campaigns over many of their policies and decisions. Partly as a result of this grass roots activism, city and town councils expanded to provide a range of community activities and services. The first Citizen's Advice Bureau opened in Auckland in 1970, and others followed to form a nationwide network. Pensioner housing, creches, community centres and adventure playgrounds became part of the urban landscape and councils developed close links with community welfare programmes. The community will get what it wants because local government, as with central government, is politically driven.

In 2019 we find that:

- people continue to organise themselves where they perceive 'a gap that needs filling';
- central government continues to want to influence/control what local governments do;
- money continues to be an issue with the wealthy being able to afford services and the poor going without or needing subsidies;
- there needs to be manageable order and equitable funding otherwise communities get only what they can afford; and
- the wealthier people are the more influence they have whether that be at local or central government; and
- neither people's loyalty to location nor central government's desire to influence and direct local government has changed.

In essence, New Zealand's local government has always been citizen-driven and centred until the reforms of 2010 which diminished citizen input, constrained local government's role and provided minister's with stronger intervention powers, placed efficiency above all other values with a focus on reducing local government spending and shifted power from citizen's to the centre effectively changing the constitutional relationship between central and local government without first clarifying what if any constitutional relationship existed.

The purpose of Local Government

The funding and financing of local Government should be considered within the context of the purpose of local government and its constitutional relationship with central government. Until that role (form) and the constitutional relationship is decided, the functions of local government cannot be confirmed and any inquiry into how local Government is funded seems destined to fail to provide a robust framework on which future decisions can be made. Constant change based on political preference must be avoided if local Government is going to successfully contribute to the overall success of New Zealand and its people.

Local citizens are loyal to location and will continue to drive the local political agenda. To them the purpose of local government is to manage local issues and provide local communities with the services and support they need to succeed. It is local citizens that set the priorities for local government - their demands are not constrained by central government legislation but their local authority may be unable to respond to local demands because it is constrained by that legislation.

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

HCC agrees with LGNZ that the 'type' of local authority has a direct bearing on understanding local government funding and financing. The preferences of the local population also need to be considered - what services are important to them? For example, our community values the presence of city safety officers who essentially carry out the role of patrolling the city to reduce vandalism and assaults that occur at specific times e.g. Thursday, Friday and Saturday nights. Business demand on Councils - most local businesses expect their Council to support the economic development of the city so that those businesses can flourish. This does mean that residential ratepayers are, to a certain extent, subsidising business interests and economic development in the city. An example of this is Council's investment in fostering the development of the science sector in the city. Cross-subsidisation - residents to business.

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?*

HCC agrees with LGNZ's comments however we believe that the point concerning intergenerational has been lost here - depreciation simply reflects the consumption costs of the assets by today's ratepayers and in this way depreciation reflects inter-generational equity.

Depreciation policies are subjective however they are also subjected to independent audit as well as needing to reflect the value of Council assets at fair value. A long standing argument has been that asset renewals should match depreciation and form part of a prudent benchmark measure. However, where this is not the case, and provided it can be fully justified, it does not mean that Councils are running down its assets but rather Councils are managing assets through using best practice asset management guidelines and methodologies.

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?*

HCC agrees with LGNZ's comments. HCC recommends that Councils be required to explicitly link development contributions to actual growth.

Clear distinction needs to be made between population growth and growth in the rating information database. The latter enables local authorities to spread the additional 'growth' related costs across a larger base. Where there is little to no growth in the rating information database but significant population growth (for example - an increase to

size of the average household), this then provides significant funding pressures for local government as rates become unaffordable.

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

HCC agrees with LGNZ's comments. Again, intergenerational equity is of major significance here as most local authorities' rates fund depreciation and the older population in an area generally feel that they should not be paying for assets that future generations will enjoy. However, they do not take into account the use they have had of assets that previous generations paid for.

Getting depreciation right ensures that today's ratepayers pay for the services they consume and benefit from today. The central government rebate certainly helps ratepayers whom qualify however, \$630 need to be reviewed in light of the cost pressures imposed on local government, particularly from the construction industry and central government.

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?*

HCC agrees with LGNZ's comments. Is there a possibility that a local tax for tourist related purposes would produce similar compliance costs for councils and local businesses to those that already exist although this would be dependent on how it is collected and then redistributed?

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?*

HCC agrees with LGNZ's comments.

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?*

HCC agrees with LGNZ's comments.

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?

HCC agrees with LGNZ's comments. The main thrust of the proposed Local Government Risk Agency is to enable smaller rural territorial authorities that lack the resources necessary to undertake effective risk management to do so. A critical issue for local authorities is the transfer of some natural catastrophe damage to assets to third party insurance, particularly for local authorities in the Wellington Region. Of significance, is that New Zealand insurers are exiting the Wellington market, requiring local authorities to seek underwriting from off-shore insurers that are now applying more expensive technical rates to the cost of insurance. Local authorities will not be able to sustain these increased premiums and it is not clear that insurance capacity will be available, given the increase in natural disasters world-wide is likely to continue and intensify.

The other related issue is increased costs for Councils to protect community infrastructure and other assets. For more information, the commission should refer to the recent LGNZ report on the likely cost impacts of climate change and sea level rise on local government assets.

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

HCC agrees with LGNZ's comments.

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

HCC agrees with LGNZ's comments and notes that construction prices have increase significantly in the Wellington region following the 2016 Kaikoura earthquake with demand outstripping supply.

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?

See general comments at the beginning of the submission. HCC also agrees with LGNZ's comments.

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

HCC agrees with LGNZ's comments. Local government is subject to extensive community consultation requirements. The community determines the level of non-statutory service-levels required and this can and does have funding implications. Local authorities are legally required to have funding and financing policies which determine the private/public funding split for each activity and this is consulted on every three years as a minimum.

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

HCC agrees with LGNZ's comments. Currently , central government supports local government with a 60/40 funding split regarding natural catastrophe damage to infrastructure assets, up to pre-determined probable maximum Losses. Central government may change its position and this could significantly impact the cost of insurance for local government.

Another, but different example, relates to Councils having to incur extra staff costs to respond effectively to legislative requirements. For example, because changes affecting roading need such as parking limits, parking restriction as and so on, have to be approved by Council (they cannot be approved at an operational level), Council employs a person specifically to undertake community consultation (those affected by any change can object or agree) and write the traffic subcommittee reports related to these changes.

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

HCC agrees with LGNZ's comments.

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

HCC agrees with LGNZ's comments.

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?

HCC agrees with LGNZ's comments.

- 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?***

HCC largely agrees with LGNZ's comments however we are unsure of how much disaggregation could occur before the lack of clear linkages between the various policy statements and Council strategy, particularly the Infrastructure, and the budget would render it difficult for the average reader to understand Councils strategic direction and the associated budgets.

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

HCC agrees with LGNZ's comments.

- 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?***

HCC agrees with LGNZ's comments.

- 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.***

HCC agrees with LGNZ's comments. HCC is committed to identifying new technologies where this improves customer services and increases the effectiveness and efficiency of infrastructure assets and the levels of service these provide.

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

HCC agrees with LGNZ's comments.

- 22. *What are the most important barriers to local government achieving higher productivity?***

HCC agrees with LGNZ's comments. Staff costs can be a barrier to achieving higher productivity. Local government competes with the private sector and cannot always attract and retain the best staff because it cannot offer the same pay rates or employment benefits. Higher costs require more funding.

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

HCC agrees with LGNZ's comments.

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

This forms part of every annual and long term planning round. In particular budgets are scrutinised for productivity savings, that is, what resource requirements are actually required to reduce costs and/or increase revenue through greater productivity.

- 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?**

Again, this forms part of every annual and three yearly long term plan determinations.

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

HCC agrees with LGNZ's comments. Local authorities tend to focus on how to assist/reduce the rates burden for the most vulnerable members of the community. Rating systems are reviewed every three years, mainly to ensure that the rating basis does not unduly disadvantage the lower valued properties, through for example, high fixed charges and/or uniform annual general charges (UAGCs).

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

HCC agrees with LGNZ's comments.

- 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?**

HCC agrees with LGNZ's comments.

- 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?**

HCC agrees with LGNZ's comments. Councils achieve this through accurately determining depreciation of Council owned assets as well as regular asset valuations and impairment reviews to best ensure that today's ratepayers are paying for the cost of the assets they consume and/or benefit from today.

- 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?***

HCC agrees with LGNZ's comments. While Councils are already incentivised to invest in growth as this adds to the Rating Information Database and provides Councils with the ability to spread additional growth related costs across a larger base, Councils would be more incentivised to make economic growth investments in our communities the fiscal benefits in addition to rates, fees and user charges i.e. direct taxes were captured to some extent by Councils.

- 31. *How effectively is the existing range of local government funding tools being used?***

HCC agrees with LGNZ's comments.

- 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?***

HCC agrees with LGNZ's comments. HCC sees the benefit in applying volumetric water pricing in particular however community opposition to this makes the decision to introduce a difficult one from a political perspective.

- 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?***

HCC agrees with LGNZ's comments. Capital value rates are better understood and support the premise that those in higher capital value properties can afford to pay more rates.

Land value rates require 'fairness' by introducing differentials. This can lead to extensive and complicated rating systems. An advantage of land value rates is that this would discourage land-banking.

- 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?***

HCC agrees with LGNZ's comments.

- 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?**

HCC's view is that the public are already confused about gross and net debt and the difference between these and this would add an additional layer of complexity. Treasury Management treat all debt as debt.

- 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?**

HCC agrees with LGNZ's comments.

- 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?**

HCC agrees with LGNZ's comments.

- 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?**

HCC agrees with LGNZ's comments.

- 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?**

HCC agrees with LGNZ's comments.

- 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?**

HCC agrees with LGNZ's comments.

- 41. What are the pros and cons of local income and expenditure taxes?**

HCC agrees with LGNZ's comments.

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

HCC isn't clear on whether any real difference would be made other than unnecessarily complicating the tool to apportion rates revenue.

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

HCC agrees with LGNZ's comments.

- 44. How can the transition to any new funding models be best managed?**

HCC agrees with LGNZ's comments.

- 45. To what extent does the need for particular funding tools vary across local authorities?**

HCC agrees with LGNZ's comments.

- 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?**

HCC agrees with LGNZ's comments. HCC would like to see further investigation of TIFs and work on developing a 'New Zealand-friendly' model being undertaken.

- 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?**

HCC agrees with LGNZ's comments.

- 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 sport private investment in infrastructure?**

HCC agrees with LGNZ's comments.

- 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?**

HCC agrees with LGNZ's comments.