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Local government funding and financing inquiry  
New Zealand Productivity Commission  
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Attn Steven Bailey, Inquiry Director

Dear Steven

**Submission from the Manawatū District Council to the Local Government Funding and Financing Inquiry**

Thank you for the opportunity to make a submission to the Commission in response to the Issues Paper into local government funding and financing.

The Manawatū District is a provincial District with an equal mix of rural and urban ratepayers. Of primary concern to the Manawatū District Council is the expanding scope of local government responsibilities from new Central Government legislation and increasing environmental standards without additional resourcing. As outlined in the responses to questions below, the Manawatū District Council recommends that a greater proportion of tax revenue be transferred from central to local government to reduce reliance on property taxes.

The Manawatū District Council already makes use of a range of local government funding tools and manages cost pressures through use of shared service agreements, consolidated purchasing and joint procurements. However, the Manawatū District Council sees little value in new approaches to local government funding and financing that will increase local government debt, particularly given the current rules around setting of the debt cap.

Below are the Manawatū District Council's responses to each of the questions included in the Issues Paper. These responses represent the views of Elected Members as well as Council staff.

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

Council's differ in the percentage of non-rate paying land.

Economic cycles are also relevant for understanding funding and financing issues. Economic downturns affect political will to increase costs, effectively putting a hand-break on spending, due to concerns about affordability for ratepayers. A reduction in regional GDP creates disincentives for Council spending.

Economic downturns also result in a reduction in the number of building and resource consents lodged. However, as regulatory functions are largely user-pays this does not become an issue unless councils are over-staffed for consent volumes.

When the Government fixes fees at a level that does not cover actual and reasonable costs, councils have to supplement activities through rates.

Changes in industry related economic activity has an impact on costs for local government. For example, as production of primary goods increase, greater volumes of heavy trucks on local roads increases maintenance costs for local councils. Differences in the mix of industries means there is significant variation in the impacts on local government funding between local government authorities.

Some councils are in a difficult position of having to finance loans where they have over-invested for growth, for example, just prior to an economic downturn (such as Taupo just prior the global financial crises of 2008).

Climate change can have significant impacts on infrastructure, particularly coastal infrastructure. Significant weather events can also result in significant cost pressures for local government.

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?*

The primary reasons for the difference between depreciation and the amount spent on renewing assets relate to the date from which Councils started depreciating assets and the age of the network. Funding for depreciation is a relatively new thing for Councils. The Manawatū District Council started funding for depreciation in the 2009 Long Term Plan, at which time a significant number of assets were at the end of the expected useful life. As a result, it is expected that the depreciation reserve will periodically go into deficit and require short term loan funding to fund renewals.

Depreciation anticipates a 'like-for-like' replacement of assets. Increasing environmental standards and technological advancements mean that the cost of replacement is not always equivalent to the depreciated amount.

The age of the network is key as there is no need to do renewals while the network is new. Some councils fund renewals only as long as they can maintain a balanced budget.

Artificial financial constraints limit the renewals that can be done.

In the Manawatū District Council's Infrastructure Strategy 2018-2048, a decision was made to deliberately reduce renewals spending. This was due to the constraints in the ability to fund renewals because of the debt cap. The change in approach from a proactive programme to a reactive heavy maintenance programme will increase the risk of failure and means that maintenance costs may increase. However, the risk of failure is considered acceptable given that Council has made a considerable investment in water and wastewater renewals over the past six years. It is envisaged that Council will 'catch up' on its renewals programme in subsequent Long Term Plans.

If there is a political desire to keep rates low, reducing depreciation is often used to balance the budget as this impacts future maintenance rather than current levels of service. It is worth noting that criticism of rate rises has often been driven by central government politicians.

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?*

Population growth is the biggest challenge facing New Zealand as a whole and is significant for the Manawatū District. When rates of population growth significantly exceed Statistics New Zealand forecasts this can result in councils playing 'catch-up' in infrastructure investment. If councils invest in anticipation of growth they must either heavily rate existing ratepayers or have high development contributions, which can deter further growth.

The Feilding Framework Plan is Council's adopted urban growth strategy for Feilding. Council is providing for residential and industrial growth in Feilding through the rezoning of land through the District Plan Review. Due to financial constraints, new roading, stormwater, wastewater and water networks are only planned within Feilding residential growth precinct 4 and industrial growth precinct 5, within the 10 year period to 2028. No money has been allocated in the Manawatū District Council's Long Term Plan 2018-2028 for growth projects within the villages or the other Feilding residential growth precincts.

Council's performance targets for building consents, code compliance certificates and resource consents are deliberately set below statutory obligations. The targets are considered more realistic than statutory requirements, given the high number and complexity of building and resource consents and code compliance applications lodged in recent years as a result of growth and development in the district. Council has already taken steps to improve performance by employing one additional Building Officer, a Graduate Planner and a Senior Planner.

Centralisation and urbanisation of the Manawatū District's population to the town of Feilding, particularly in the older demographics, has increased pressure on existing services. Expectations and demand for cultural and recreational facilities may increase with the reintroduction of the four wellbeings to the purpose of local government, and to meet the needs of an ageing population. This is particularly evident in the increased demand for social housing, with fewer older people owning their own home.

As a whole, New Zealanders are culturally adverse to intensification. The preference for stand-alone homes is a reason why the Auckland Unitary Plan has only been marginally successful at addressing urban sprawl. It is also cheaper to build stand-alone homes for the homeowner. However, cultural preferences ultimately mean more cost to Council to provide infrastructure. There needs to be Government incentives to increase urban intensification.

Also significant to the Manawatū District is the relocation of Government Services. For example, the relocation of the Royal New Zealand Air Force Squadron No. 5 from Whenuapai to Ohakea will mean an estimated 270 additional service personnel and their families will need to be housed in the Manawatū and surrounding districts.

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

An ageing population impacts on ratepayers ability to pay, as a greater proportion of the population are on fixed incomes. The high urban rates in the Manawatū District mean that rates will become unaffordable quicker than in other Districts.

As Kiwisaver is not compulsory, people can choose not to invest or draw on Kiwisaver early, for example to help purchase their first home. People are living longer. This means that retirement savings need to last for longer. It is inevitable that the superannuation age will have to rise. People are working longer for financial and other reasons.

Demographic changes also affect the priorities and needs of the community in terms of infrastructure provision. For example, there is a trend of increasing informal recreation and less organised sport.

The implications of an ageing population have been considered through the Manawatū District Council's Long Term Plan 2018-28. For example, the Manawatū District Council's Engineering Standards for Land Development (2017) include increased footpath widths and improved street lighting to cater for an ageing population. Planning for 3-Waters infrastructure (water, wastewater and stormwater) within the Feilding residential growth Precinct 4 includes capacity for intense housing pockets, such as for retirement villages and smaller unit housing.

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?*

Tourism growth in the Manawatū District is primarily manifesting as increased demand for public toilets and campervan parks. Relative to population growth, tourism growth in the Manawatū District is manageable. Another concern is around the availability of housing for workers within the tourism sector.

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?*

Yes, the expansion of local government responsibilities is having a significant effect on cost pressures. For example, the earthquake prone building legislation makes local authorities responsible for enforcement, consultation, engineering reports and supporting owners to comply with the regulations. However, local authorities are not able to recover these costs.

Changes made to the Resource Management Act have made the consenting process more complicated and therefore more costly for local authorities to administer. In particular, the National Planning Standards introduced to the Resource Management Act as part of the 2017 amendments mean that each local authority must undertake a plan change to meet the new requirements. For the Manawatū District Council this means a re-ordering of priorities within the Sectional District Plan Review Schedule, delaying other plan

changes, to meet new statutory requirements. The template plan requirements add considerable cost, particularly for small councils who are not well resourced. In addition, the new requirements mean delays in District Plan Review schedules, meaning that outdated rules cannot be reviewed as quickly as planned.

The National Policy Statement on Urban Development Capacity 2016 places requirements on high growth councils. While the Manawatū District is not a medium or high growth urban area, Council is still required to demonstrate that there is sufficient zoned and serviced land available for residential and business growth over a 10 year period. Council also has to provide choice for a range of dwelling types and locations, working environments and places to locate businesses.

Another example of central government legislation increasing costs for local government without compensation is in relation to Easter Sunday trading. The amendments made to the Shop Trading Hours Act 1990 required every Council to go through a special consultative procedure to determine whether to have a adopt (or to amend or revoke) a local Easter Sunday shop trading policy.

The reintroduction of the four wellbeings to the purpose of Local Government will likely increase expectations for community funding, which will increase cost pressures for councils. Large urban councils will likely be better placed to deliver on the social and cultural wellbeings than small rural councils.

When central government agencies partner with local government, the administrative costs usually fall on councils. For example, while the funding for the Creative Communities Scheme comes from Creative New Zealand (the national arts development agency of the New Zealand government), the administrative costs for the fund fall on local councils.

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?*

The Manawatū District Council is engaged with eight iwi presenting at different stages of the Treaty of Waitangi Settlement process. Iwi within the Manawatū District present in one of the following two phases, pre-settlement or post-settlement. Those iwi who have identified statutory areas of interest as a result of the settlement processes are located on the periphery boundaries of the district. Though costs for engagement with them continues to increase, Council is yet to realise the full impact of implementing the specific requirements incurred by the Treaty of Waitangi Settlement process. We anticipate that we will see this become more prevalent within the next three to four years.

Co-governance and co-management arrangements, once established, will likely add time and expense to resource management activities. Additional resourcing will be required to give effect to new arrangements which are yet to be realised pending settlement by iwi more centrally located in the Manawatū district.

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?*

The Manawatū District Council's Infrastructure Strategy 2018-2048 (the Infrastructure Strategy) identifies both climate change and natural hazards as significant risks to infrastructure. The costs of climate change and natural hazards are moderate and increasing. Council must respond to climate change and natural hazards by increasing the resilience of its networks. However, there is a considerable cost associated with building resilience into networks up-front.

Climate change forecasts from the Ministry for the Environment, based on the Fifth Assessment Report from the Intergovernmental Panel on Climate Change, suggest there will be changes in weather patterns over the next 20 to 30 years. Likely changes include an increase in average temperatures by +0.7°C to +1.1°C by 2040 and +0.7°C to +3.7°C by 2110. Droughts are likely to increase in both intensity and duration. Daily temperature extremes are also projected to increase, with a 40% to 100% increase in the number of hot days (maximum temperature of 25°C or higher) by 2040. The risk of flooding could become up to four times as frequent by the end of the century. Drier than average conditions and more intense rainfall at times could lead to increase problems with erosion, landslides and sedimentation in rivers. More extreme weather events will also have implications for farming. There will be increased demand for flood protection and increased demand for irrigation.

The Infrastructure Strategy notes that climate change will impact on the way that activities allocate resources and the type of proactive projects undertaken. For roading infrastructure, increased frequency and intensity of rainfall events means that additional investment is required in structures maintenance, drainage and resilience projects to reduce the cost of emergency works. For water infrastructure, longer periods of drought result in increased demand for water, while flood events create turbidity.

Increased frequency and intensity of rainfall events will result in increased volumes of wastewater to be treated as a result of infiltration and inflows to the network, as well as a decrease in stormwater levels of service. The 2018-28 Long Term Plan includes a district-wide stormwater project that involves a full assessment of the stormwater networks in Feilding, Tangimoana, Rongotea, Himatangi Beach, Sanson, Cheltenham and Halcombe. The purpose of this assessment is to determine a prioritised work plan to increase the stormwater Levels of Service provided.

More frequent or prolonged drought also has implications for wastewater discharge as it limits river discharge options. Operating programmes to mitigate impacts of climate change such as reducing peak demand for water and leak detection in wastewater are already underway and are built into the operating budgets of Council.

Financial impacts of climate change will be mitigated by ensuring adequate insurance cover is used and appropriate maintenance is undertaken as a preventative measure. However this assumes that insurance for natural hazards and climate change impacts is affordable. In NZ an additional significant earthquake event, such as Christchurch or

Kaikoura, in the next 5-10 years may make earthquake insurance for councils in high risk areas, such as Manawatū, unaffordable.

Natural hazards are also identified as a significant risk to infrastructure in Council's Infrastructure Strategy 2018-2048. The Strategy states that "natural hazards can impact significantly on infrastructure assets, causing damage and interrupting delivery of services. Council aims to reduce the vulnerability of infrastructure to natural hazards by increasing its resilience over time." Minor events resulting in damage are generally dealt with through normal operating budgets and existing reserves. Council has an insurance reserve of around \$900,000 for unforeseen damages to assets.

Council has also taken a conscious step in the Financial Strategy to limit the level of debt to a cap that is \$5 million less than the limit set in the Borrowing Management Policy. This is to allow Council further flexibility to respond to natural disasters in the future. Council also has a \$10 million credit facility with the Bank of New Zealand to allow access to funds if required. Major natural disasters are assumed to attract Government and private charitable sector support.

A series of natural disasters may exhaust Council reserves and prudent borrowing ability. Other natural hazard events elsewhere in New Zealand or the world mean that there may be periods of time where insurance cover is not available, or not available for certain types of events. The repair or renewal of lower priority infrastructure may be delayed due to a lack of borrowing ability and the need to focus resources on high priority projects.

As well as the costs faced by local government to prepare for and to respond to climate change and natural hazard events, there are secondary costs in meeting reporting requirements. Local councils experience significant time, cost and resourcing pressure in response to central government initiatives such as the regulatory functions associated with the earthquake-prone building legislation, and to demonstrate how climate change and natural hazard events are being factored into all aspects of long term planning.

Local authorities are looking to central government for leadership in response and adaptation to climate change. Local government cannot afford to act ahead of central government. Central government policy is needed to prescribe an approach for managed retreat as local government is limited in its ability to require residents to leave their property and move inland against their will.

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?*

They are not the same measures! The Local Government Cost Index measures the prices of goods and services purchased by local government whereas the Consumer Price Index measures the prices of goods and services consumed by households. Price pressures between local government and households differ. A significant proportion of cost pressure for goods and services purchased by local government is due to the high proportion of infrastructure spending, where capacity constraints are pushing up costs faster than for household consumption. Contributing to higher relative cost increases are

increasing construction costs, government infrastructure pressures, rising fuel costs, high employment, skill shortages, negative net migration, changes to migration legislation, and construction/industry company collapses.

Construction companies and industries are particularly vulnerable as their asset base is their plant and when operating with fixed price contracts they are unable to pass on any increases in costs during a project. Sustainable pricing (such as NZTA's an open book project cost model) reduces risk and may reduce the contingency that must be built into a project to account for the level of risk. Incentives alone are not enough.

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

Not really. There is some regional variation based on average wages and taxes. However, this is not significant, especially given that councils are increasingly using collaborative purchasing.

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?*

Like most councils, infrastructure makes up a major part of the core activities of the Manawatū District Council, accounting for 51% of operating expenditure and 85% of capital expenditure in the 2016/17 financial year.

The Manawatū District Council's expenditure has not shifted over time as these activities have generally been considered as a core part of business. However, there have been some variations between years and how expenditure has been applied. The Manawatū District Council did not reduce budgets for 'non-core' activities when the wellbeings were removed from the Local Government Act 2002.

Manawatū District Council regularly formally reviews expenditure to determine if services should be retained and if there is a better delivery model.

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

Yes, the Manawatū District Council subcontracts other providers in all 'non-traditional core activity' spaces – the Central Economic Development Agency, Feilding District Promotion and Sport Manawatu. As these activities do not make a profit they would not be provided by the private sector. In addition, local authorities are better placed to understand local needs.

If the scope of activities that local government is involved in is expanded as a result of the reintroduction of the four wellbeings to the purpose of local government, this will increase cost pressures.

As noted above, the Manawatū District Council's expenditure is predominantly on traditional 'core services.' However, given the importance of these other activities to the Manawatū community, their removal would have a disproportionate effect.

Local government plays an important role in sustaining community services. While central government often has a single issue focus, such as teen suicide, local government often supports capability to cover a wide range of issues. As focus shifts there are changes to the services established to support that issue.

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

- **Government Legislation**

The most significant factor that will generate local government cost pressures into the future is considered to be government legislation.

For example, the Zero Carbon Bill, once adopted, will likely drive significant land use change in the Manawatū District. If the transition towards a zero carbon economy is not carefully planned and gradually phased in, this could result in significant, detrimental effects to the communities of the Manawatū District. A good recent example of how not to do this would be the Oil and Gas announcements in Taranaki – local government had no input and received less than 24 hours' notice.

Also, future changes to legislation, such as the Health Act 1956 and the associated Drinking Water Standards for New Zealand 2005 (revised 2008), as a result of the recommendations in the Havelock North Water Inquiry Stage 2 Report, will likely result in will result in additional capital and operational expenses for Council that have not been budgeted for in the Long Term Plan 2018-28.

- **Public, Iwi and Regional Council Expectations**

Another significant factor is changes in public, iwi and regional council expectations. Changes to public, iwi and Manawatū-Whanganui Regional Council (trading as 'Horizons') expectations around the discharge of wastewater has led to the development of land-based wastewater discharge at the Feilding Wastewater Treatment Plant and a proposal to centralise wastewater from the villages to reduce water-based discharges. Council needs to continually review levels of service to ensure that community expectations can be met within financial limits.

- **Other factors include:**

- Changes to the cost of local government borrowing i.e. increasing interest rates
- Changes in the labour market
- Capacity constraints
- Fuel availability around the world
- Climate change

- Changes to Regional Council rules and requirements.

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

It is hoped that future trends will impact positively on local government cost pressures. Digitisation of regulatory services at the Manawatū District Council has improved service, response times and accessibility to information, but it has shifted costs rather than reducing them. New technologies are useful for providing people with the services that they need and want but are not likely to reduce the cost of providing these services.

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

The long term plan process is effective as Council must consider costs into the future. However, while the plan is supposed to be a 10 year plan it is effectively only a three year plan. The three-year review period is too short as it incentivises electoral-cycle planning.

The Manawatū District Council recommends four or five year terms for local government elections and long term plan reviews.

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?*

Council reviews levels of service when setting rates as part of the Long Term Plan process. When reviewing levels of service, Council considers the results of quarterly customer satisfaction surveys, issues raised in submissions to preceding Annual Plans and minutes from Community Committees.

However, the long term plan consultation process itself is not very successful in gauging residents', businesses' and other organisations' preferences and willingness to pay for capital investments and levels of service. In the experience of the Manawatū District Council, the vast majority of submissions focus only on an individual ratepayer's change in rates. A few submissions from rural ratepayers mention levels of service, particularly those services they do not receive from Council. Numerous requests are also received for community grants.

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?*

To improve the effectiveness of the long-term plan processes Government would need to remove the need to review it every three years. An example of a better performing model is Singapore. They have a 40-50 year vision and a series of 10 years plans. The 10 years plans are reviewed after 10 years not three! This means long-term infrastructure projects are delivered without short-term concerns impeding them. The long term plan consultation process every three years creates a huge expense in both time and money. Council has to ask the community about every decision we make. Very prescriptive compliance removes our ability to be flexible.

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

Local government is already doing this to the best of its ability. There is very little scope to manage assets and deliver services more efficiently. Local government is already required to provide detailed plans developed through a rigorous planning process that are independently audited, reviewed by elected members and the public. Local government is already subject to more auditing than is required of any central government agency.

*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?*

Section 101B of the Local Government Act 2002 requires councils to prepare and adopt an Infrastructure Strategy for a period of at least 30 consecutive financial years as part of their Long Term Plan. The goal of the Manawatū District Council's Infrastructure Strategy is to "to provide the Manawatū community with resilient infrastructure in a cost effective way, meeting both current needs and future growth and demand."

The Manawatū District Council has improved the way it manages its infrastructure assets and the efficiency of infrastructure services by restructuring its asset management, project delivery and operations functions and recruited suitably qualified engineering staff with the required experience and skill set to deliver the 3-Waters work programmes.

Condition monitoring of assets enables Council to replace assets when condition warrants, rather than just replacing assets based on their age. Staff also keep track of new technologies such as slip lining (trenchless technology) and industry changes to optimise infrastructure delivery.

The Activity Management Plan for roading assets was developed following the Activity Management Guide for Approved Organisations Road Networks (February 2015) Local Government New Zealand EquiP – Road Transport Unit. The network is relatively stable so the majority of the programme in the AMP is focussed on maintaining the network to the agreed customer levels of service, and performance measures. Condition measures for the roading network are reported in terms of the One Network Roding Classification (ONRC). The Roding Activity Management Plan considers not only the extent of the network beyond a certain threshold limit, but also performance trends within individual road classifications.

A s17A review of the 3-Waters services in 2015/16 found an in-house model to be the most cost-effective model. Council updated its 3-Waters Asset Management software from Hufner to Asset Finder to enable more accurate data entry, recording and retrieval and its improved functionality for forward works planning. The quality of the asset data Council holds has improved over the last five years. Council has an improvement plan in place for its 3-Waters Asset Management Plan to achieve an intermediate level of asset

management maturity (as defined by the International Infrastructure Management Manual).

The Manawatū District Council makes use of procurement policy that emphasises cost efficiency. The Manawatū District Council has access to consolidated purchasing and joint procurements along with its seven partner councils within the Manawatū-Whanganui Region that are part of MW LASS Limited (Manawatū-Whanganui Regional Council, Horowhenua, Manawatū, Rangitīkei, Ruapehu, Tararua and Whanganui District Councils). The focus of this CCO is to find cost savings and efficiencies for participant councils in any way it can. Activities range from joint tendering projects to actually employing staff to more effectively run council operations such as archives. Consolidated purchasing and joint procurements go some way to managing cost pressures.

The Manawatū District Council has adequate capacity and skills in asset management, project delivery and operations to deliver on Council's Infrastructure Strategy (2018-2048) and the projects budgeted for in the Long Term Plan 2018-28 and Asset Management Plans. However, some of the smaller councils may struggle to have the necessary capacity and skills. In some instances this is managed through shared service contracts between councils.

For example, the Manawatū District Council has a shared service contract with the Rangitīkei District Council for roading maintenance services, roading professional services and 3-Waters professional services, operations and treatment. The Manawatū District Council employs staff and delivers services to the Rangitīkei District Council. The Rangitīkei District Council pays a share of the costs. Each Council owns their own assets and sets rates and charges. Opportunities continue to be explored with all neighbouring local authorities to advance collaboration of specialist work functions.

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.*

New technology is not necessarily going to reduce cost pressures but enable Councils to deliver improved infrastructure levels of service with the same level of investment. An example of this is slip lining (trenchless technology) of Council's wastewater network. Council is able to re-line a greater length of sewer for the same money.

Examples of technologies employed to improve efficiency include the GPS tracking of contractors infrastructure (such as graders), the use of drones to survey infrastructure works (such as dune blowouts and bridge inspections) and to assess infrastructure damage during emergency events (such as road access).

The Manawatū District Council has also employed new technologies to improve service delivery at the Feilding Public Library. For example, the Feilding Public Library is the first in New Zealand to have a CloudLibrary. This gives Manawatū District Library members free access to hundreds of ebooks and eAudiobooks through a digital lending platform.

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

Productivity improvements allow a council to deliver the same levels of service at lower cost, thus reducing rate rises. As from a management and political perspective this is the most desirable outcome it is already highly incentivised.

However, as is well known, significant productivity improvements in industry come from greater capital (automation and business transformation), labour market changes (offshore outsourcing), expanding customers (increased production from the same assets) and scale changes (amalgamation, acquisition and integration). Since none of these are easily achievable by industry, productivity improvements are very hard for local government to achieve.

For those who tout amalgamation as the productivity panacea, it should be noted that the largest amalgamation in NZ local government history, the creation of the Auckland SuperCity, may have resulted in productivity improvements, but has not resulted in a reduction in debt and rates.

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

The most important barrier to local government achieving higher productivity is central government. Increasing regulation results in lower efficiency for local government. Two examples are the Resource Management Act 'improvements' made in the last 10 years and the suggestion that councils should survey rental properties for compliance with rental building standards. The former will and the latter has increased costs without the ability of councils to recover them leading to a reduction in productivity.

Note also the comments on barriers to achieving higher productivity outlined in the response to question 21 above.

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

Council produces internal monthly finance reports on performance against measures and targets. The focus is on the provision of services, not productivity.

The Taxpayers Union attempts to measure local government productivity performance, but this is difficult to do. With these types of assessments outsourcing always appears to be more productive. Metrics are not useful as ratepayers are more concerned with service delivery than relative scores.

Metrics such as debt to income ratios typically create perverse incentives – some debt is good, but too much debt is bad – how do you score that? It also suggests that ratepayers have a choice – they do but only by moving. The community already directly drive councils by their votes. They don't need metrics.

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

Response merged with question 23 above.

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?*

Productivity is the wrong thing for councils to measure. Performance in relation to cost-effectiveness is most important. Section 17A of the Local Government Act requires local authorities to review the cost-effectiveness of current arrangements for meeting the needs of communities for good quality local infrastructure, local public services and the performance of regulatory functions. Local government is adverse to risk, particularly in the regulatory area and infrastructure.

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

It is not possible for councils to measure rates affordability as we do not have income information for our ratepayers. Rates rebates are available to ratepayers on lower incomes. However, the Manawatū District Council recommends a review of the rates rebate to ensure that it is keeping up with rates rises.

The Manawatū District Council also has a Rates Remission and Postponement Policy that assists ratepayers by providing rates relief in a variety of situations and circumstances based on a set of conditions and criteria.

The governance team concerns itself with affordability. The purpose of Council, as set out in Section 10 of the Local Government Act 2002, includes meeting “the current and future needs of communities for good quality local infrastructure local public services, and performance of regulatory functions in a way that is most **cost-effective** for households and businesses” (emphasis added).

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

The Manawatū District Council has user-pay funding splits that are reviewed every three years as part of the long term plan. Council measures demographic changes and uses soft indicators.

‘Ability to pay’ would only work accurately if council funding was based on income rather than rates.

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?*

Yes, councils distribute costs fairly across different groups of ratepayers. However, ‘fairness’ is a political and not an economic consideration as it is subjective.

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*

Council's use intergenerational funding to distribute costs fairly among generations, within the limit of the financial rules under which we operate. An increase in flexibility around the funding rules under which councils are required to operate could lead to fairer outcomes.

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?*

1. When new legislation imposes additional responsibilities or requirements on local government, Central Government should provide local government with additional resources to meet the additional costs. One suggestion is the introduction of a Funding Assistance Rate [FAR] for 3-Waters infrastructure.
2. Increasing local government debt is not a good idea and not a solution, unless the financing is interest free. Funding and financing is needed that either reduces cost or increases revenue. All the other tools available to local government are essentially the same as borrowing.
3. Approaches need to be targeted. There are significant differences between councils and each needs to retain their autonomy. What works for Auckland doesn't necessarily work for provincial New Zealand. For example, the earthquake-prone building requirements disproportionately affect provincial New Zealand where the proportion of earthquake-prone buildings is high and rents are low.

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

There is not a great range of funding tools available to local government. The existing tools available, including fees and charges, development contributions, loans, investments, and the maximising of NZTA subsidies are all effective but still result in debt that has to be paid back.

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?*

The Manawatū District Council makes extensive use of both targeted rates and user charges. There are not any factors that inhibit the use of these approaches. The Manawatū District Council introduced new targeted rates for stormwater through the Long Term Plan 2018-28.

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?*

There are significant costs in shifting to a land value system and no benefits as the change does not generate any additional revenue. The shift from a capital value system to a land value system is just a redistribution of costs and could result in shifting rating from urban to rural. This cost shift would need to be re-balanced through changes to rating differentials.

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?*

The costs involved in Annual Value rating means that it is not a useful rating system for the Manawatū District Council.

There are many situations where user charges do not cover actual costs faced by Council, particularly where fees are set in legislation. For example, the alcohol licensing fees set by the Sale and Supply of Alcohol (fees) Regulations 2013 and the amusement devices inspection fee set by the Amusement Devices Regulations 1978.

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?*

See previous comments in relation to the Long Term Plan (answers to questions 15-17). In short a long term plan which is changed every three years is not a Long Term Plan.

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?*

Yes, the local government funding system is too reliant on rates, but it is the basis for local government funding by design. Local government is largely forced to rely on rates by the Rating Act.

One of the cons of a funding system based on property rates is that it is difficult to understand affordability. Council has no information on the portion of the asset that the ratepayer owns, or their income.

GDP growth does not equal more money for Council. When property values increase a council's income does not change.

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?*

The circumstance is the current unbalanced central control of tax revenue. Central government currently takes 88% of the tax revenue. Tax revenue should be rebalanced through the transfer of funds to local government to support service delivery (based on current responsibilities). However, the Manawatū District Council recognises that it would not be efficient in a country of our size for additional responsibilities to be transferred to local government, such as social welfare, health and education.

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?*

No, there are not financial incentives, only political incentives to accommodate economic and population growth. Growth is needed for the survival of local authorities. The current

funding and financing framework could be changed by central government giving a percentage of GST to local government.

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?*

N/A

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?*

The only realistic option for responding to funding pressures associated with a declining population is amalgamation. Government legislation is required to make it happen otherwise the decision becomes a political one around representation. In every case where it has been considered it has been rejected by voters.

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

The cons of local income and expenditure taxes is in the administration required.

It is not clear where the administrative costs would lie. If local income and expenditure taxes are to be collected directly by local authorities the administrative costs would lie with local government. There would be transfer costs if the taxes are to be collected by the Inland Revenue Department and then transferred to local government. It would be much more efficient for central government to collect the taxes and give local authorities their share (based on a formula). Simple solutions are needed.

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

See question 41 above.

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

A greater share of tax revenue transferred to local government, as outlined above.

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

Any tax revenue transfer must be managed at the central government level and would have to be introduced progressively. Consideration needs to be given as to what proportion of tax revenue central government is realistically able to transfer. The transition would mean a gradual shift in local government funding from property tax to income tax.

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

The need for particular funding tools varies significantly across local authorities. Differences exist between high growth and low growth areas. There are also significant

differences in investment income and debt levels as a result of historical circumstances (such as inheriting significant infrastructure, for example ports).

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?*

Changes are needed to the rules around local government debt. The debt cap is set externally. The Manawatū District Council has a self-imposed buffer between the financial strategy and the Borrowing Management Policy to ensure there are adequate borrowing facilities available in case of emergencies.

Local government financing is benefitted at present by the ease of access to borrowing through the LGFA and overseas. This helps to keep capital costs down.

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?*

Tax increment financing is an alternative approach to development contributions for growth-related infrastructure investments. However, it is not more or less useful than development contributions as a council is still limited by the amount of debt it can take on. The key difference is in where liabilities sit.

Tax increment financing may work out more expensive for the property owner than development contributions. This is because with tax increment financing the finance company carries the liability and so may want to lower risk by building in a greater revenue margin.

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 support private investment in infrastructure?*

Local government could make better use of public private partnerships (PPPs). However, such partnerships are really only a good option for big infrastructure projects supported by big populations. PPPs are generally only considered worthwhile for projects valued more than \$50 million. The assumption is that private companies are more efficient at delivering projects than councils. This is not always the case. Also, there is some distrust in New Zealand of the private sector.

Changes are needed to the Kiwi/Govt bond structure to better allow New Zealanders to invest in New Zealand infrastructure.

The BOOT (build, own, operate, transfer) model for private investment is attractive when interest rates increase.

Obtaining private finance is not the issue, the issue is local authority debt and how to pay back loans.

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?*

Local government is over-audited. The audit process could be improved by a shift in focus from trivial matters such as technical non-compliances to what really matters to the organisation and the community. Some of the benchmarks used to audit local authorities are irrelevant. Outside of the financial area, there is a lack of understanding by Audit New Zealand of the local authority business.

The Manawatū District Council also wishes to express its general support to the submission prepared by the Society of Local Government Managers (SOLGM), except in relation to recommendations 8 and 28. The commentary around recommendation 8 includes a statement that “investigating alternative tax bases is not a high priority item.” This statement is not supported by the Manawatū District Council submission which strongly recommends that consideration be given to giving a portion of GST to local Government. The Manawatū District Council questions how considerations of affordability would be assessed by local government in the absence of income information for ratepayers. The Manawatū District Council therefore does not support recommendation 28 of the SOLGM submission to amend the funding policy set down in Section 101(3) of the Local Government Act 1974 to require explicit consideration of affordability.

The Manawatū District Council supports the submission prepared by Local Government New Zealand (LGNZ) in full. While the LGNZ’s response to the questions contained in the Issues Paper are based on their experience as a national organisation of local authorities, the Manawatū District Council submission is specific to the experience of the Manawatū District Council.

Thank you again for this opportunity to provide feedback on the local government funding and financing Issues Paper. We look forward to seeing the outcomes of this inquiry.

Yours sincerely



Helen Worboys  
**Mayor**



Richard Templer  
**Chief Executive**