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Enquiries to: Hannah Beaven

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401 Grey Street
Hamilton East
Hamilton 3216

Productivity Commission
P O Box 8036
Wellington 6143

Private Bag 3038
Waikato Mail Centre
Hamilton 3240

ph +64 7 859 0999
fax +64 7 859 0998
www.waikatoregion.govt.nz

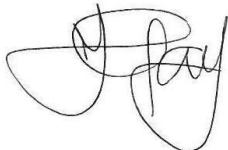
Tena koe Sir/Madam

Waikato Regional Council Submission to the Productivity Commission inquiry into Local Government Funding and Financing

Thank you for the opportunity to make a submission on the “the Productivity Commission inquiry into Local Government Funding and Financing”. Attached is Waikato Regional Council’s submission regarding this document. This submission was formally endorsed by the Council’s Strategy & Policy Committee under delegated authority on 12 February 2019. Waikato Regional Council looks forward to being involved in further discussion regarding the development of the inquiry.

Should you have any queries regarding the content of this document please contact Hannah Beaven, Senior Policy Advisor, on 07 858 4631 or at Hannah.Beaven@waikatoregion.govt.nz.

Regards



Tracey May
Director Science and Strategy

Submission from Waikato Regional Council on the Productivity Commission inquiry into Local Government Funding and Financing

Introduction

1. The Council appreciates the opportunity to submit on the Productivity Commission's (the Commission's) inquiry into local government funding and financing, and acknowledges the collaborative effort that has been underway to manage this area.
2. The submission is structured in the following way:
 - General questions
 - Cost pressures for Waikato Regional Council
 - Managing cost pressures
 - Future funding and financing local government system.
3. Each sub-section answers the questions set by the Commission.

Submitter Details

Waikato Regional Council
Private Bag 3038
Waikato Mail Centre
Hamilton 3240

Contact person:

Hannah Beaven, Senior Policy Advisor
Email: Hannah.Beaven@waikatoregion.govt.nz
Phone: 07 858 4631

General questions

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

As well as the factors identified in Chapter Two, greater recognition could be given to the type of local authority. The funding pressures for regional councils tend to relate to changing/higher environmental standards, extreme weather events and treaty settlements requirements. These differ to territorial authorities which are more related to the cost of infrastructure to support growth, changes in population and the cost of capital works.

To understand local government funding and financing issues, the following two circumstances are particularly pertinent for the Waikato region. As noted in question 37, there is a case for central government funding transfers for both of these circumstances.

- Cost of implementing treaty settlement legislation (explained further in Question 7)
A number of treaty settlement acts apply to the Waikato region. Council has considerable costs and challenges associated with acting as a Crown agent to implement treaty legislation and delivering appropriate levels of services. These costs are not met by contributions from the Crown and as such put substantial pressures for resourcing by local communities.
- Cost of maintaining our flood protection and land drainage infrastructure
Council operates New Zealand's largest river scheme and flood control infrastructure asset portfolio, with a total replacement value in excess of \$580m. This incorporates over 90 individual land drainage schemes managed by Council and is fundamental to protecting many parts of the region.

The assets were originally constructed with central government funding, but once built, the liability of funding and maintenance has transferred to local government. The council's forecasted expenditure in relation to the management of flood protection and land drainage assets over the next 50 years is forecast to be \$2,817.9 million (refer to Figure 1). The Council's ability to maintain and deliver appropriate levels of service presents one of Council's biggest affordability challenges.

Since building these assets, the environment has changed. There are now new and more stringent environmental performance expectations (for example, dams now need to enable fish to safely move through them, and new health and safety standards). Climate change is also projected to increase the likelihood of existing infrastructure not meeting agreed levels of service. This means new solutions must be developed and it is not a 'like for like' replacement.

Paying for these assets is funded primarily through targeted rates, with external borrowing used to match the funding required with asset lives. This aims to generate rates from those receiving a service. However, it may not be affordable for these rate payers (primarily farmers) to fund the maintenance of these assets, particularly given the environmental changes describe above.

For further detail on this issue please refer to the [report](#) 'River scheme asset and reserve management review update: A report for Waikato Regional Council (May 2018)', from pg. 190.

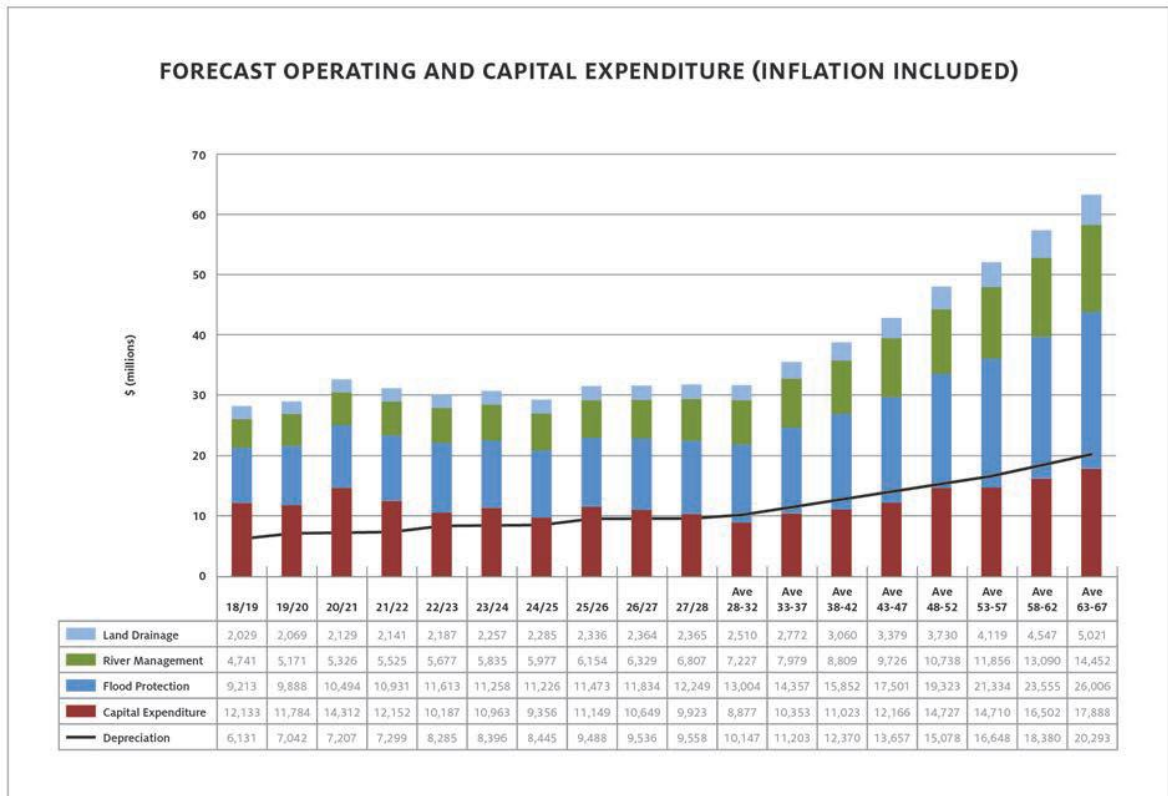


Figure 1. Waikato Regional Council 2018-2028 Long Term Plan, pg. 19

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?**

Ongoing opportunities exist for councils to enhance their overall asset management practices and knowledge and understanding of assets and asset performance. We note that the financial prudence measures require councils to be spending more than the depreciation funding provided in order to meet the essential services benchmark.

As noted above, the cost renewing assets is greater than the amount accounted for through depreciation because the replacements are not like-for-like. This is because of more stringent environmental and other performance expectations, as well as the need to account for the likely effects of climate change.

Cost pressures for Waikato Regional Council

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?**

See response to question 4 below.

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

Population growth and change varies across the Waikato Region, with some districts (such as Hamilton City, Waikato District and Waipa District) experiencing high growth and other districts (such as Otorohanga) experiencing lower levels of growth. Overall, the population within the Waikato has increased from 420,000 in 2013 to 470,000 in 2018.

Population growth puts additional pressure on many areas of regional council responsibility, such as planning and responding to growth through the Waikato Regional Policy Statement and other growth related strategies, pest management, demand for key services such as public transport and other supporting infrastructure, and so on. The significance of this trend, compared to other funding pressures, depends on the extent of population growth occurring and if it is a regional versus city or district council.

One example of how population growth impacts on cost pressures is the urgent need to invest in three waters infrastructure in the Waikato. This is to address increasing community needs, along with existing and future regulatory compliance costs. A sub-regional three waters study is underway to consider how to best meet long-term environmental expectations and growth pressures, while noting that current funding will not meet expectations.

Population decline, by comparison, creates challenges to fund rising expenditure, as it is not matched with an increasing population to pay for it. This means expenditure/funding requirements per capita increases. The alternative is to allow some infrastructure to degrade or level of service to fall.

An implication of population ageing is an increased proportion of the population on fixed incomes (such as retired people) who will struggle to afford rate increases. There will also be an increased demand for certain services (for example, public transport).

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 has an impact on the Council's cost pressures, but to a much lesser degree than territorial authorities, who are experiencing the greatest pressure. Territorial authorities provide local amenities such as toilets and car parking facilities and camping facilities for freedom campers. The regional council's role is around managing the spread of pests that occurs with increased visitors, taking tourist routes and numbers into account when developing strategic transport plans, and considering the impact on the environment.

The Council also has a responsibility for managing and supporting territorial authorities in managing pressures of tourism. There are highly localised impacts on biodiversity in certain locations with high visitor numbers. However, these factors discussed above are unlikely to create significant cost pressures for the Council.

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 a significant contributor to cost pressures for the Council. Arguably, the largest expansion to the Council's responsibilities is in meeting its obligations to iwi under various Treaty settlement legislation. This is discussed in question 7.

Local government responsibilities are increasing through new or revised national policy directions, policy statements and other government initiatives. The constantly changing policy 'goal posts' from central government create new responsibilities and rework. One example is the National Policy Statement on Freshwater which has been amended significantly since it was first introduced in 2011, and to which further amendments are expected. This is an area of significant cost pressure for the Council.

Upcoming policy and implementation in 2019 is scheduled to include:

- Freshwater updates, including at-risk catchments project, National Environmental Standard and National Policy Statement on Freshwater Management, and discussion on allocation of nutrient discharge
- National Environmental Standard drinking water review
- Resource Management Act Reform
- National Policy Statement for Indigenous Biodiversity
- New Zealand Biodiversity Strategy
- National Environmental Standard for Air Quality
- 3 Waters Review
- National Planning Standard on Urban Development Capacity
- National Planning Standard – Tangata Whenua section standard
- National Pest Management Plan – Kauri Dieback.

Most of the above projects require the Council to allocate resources to:

- Consider the proposed policy (including issues papers, draft policy statement/standards, working groups)
- Respond to proposed policy via formal submissions from the Council
- Implement the finalised policy (possibly by changes to statutory documents or new requirements for the Council).

The implementation of the finalised policy, through changes to statutory plans or new requirements, such as monitoring, is the area of greatest cost pressure to the Council. Any change to statutory plans under Schedule 1 of the Resource Management Act 1991 (RMA) is a costly and highly time consuming process. These processes over emphasise the importance of technical information, are adversarial and do not suit the collaborative processes Councils are increasingly using to develop plans.

It is also challenging to manage the logistics of Council plan or policy changes, given the number of connected government plans or policies being developed, all at different stages.

The significant number of plans being developed and implemented has also led to an increasing need for planning or other relevant expertise. There is a limited pool of talent which requires competitive remuneration and thus increases costs to the Council. This also subsequently results in resourcing for implementation and compliance resourcing.

Examples of new requirements

One example of a new requirement for the Council which will increase costs are the draft national planning standards (tangata whenua standard). This standard requires councils to engage with both tangata whenua and mana whenua to develop tangata whenua sections of regional plans, prior to notifying a plan. The engagement obligations have no timeframes and go well beyond pre-existing RMA requirements for iwi engagement. This will impose significant additional costs and increase planning timeframes.

Another recent example is the establishment of a regional rate to contribute towards emergency services in the Waikato. Council has taken over responsibility for local government contribution to emergency services, to ensure payments are more equitable. This is despite emergency services being a central government responsibility. This will transfer of responsibility will contribute to the perception of increased rates for observable improvement in services levels.

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 of local government? How widespread is this issue

Overview

The implementation of Treaty of Waitangi settlements is one of the greatest cost pressures for Council. Treaty settlements are agreements between the Crown and Iwi Maori designed to provide some redress for historical breaches of the Treaty by the Crown. Council has been assigned functions and responsibilities as a result of these agreements, transferring a substantial part of the Crown responsibility. However, the costs to implement far exceed Crown contributions to Council. This is despite assurances by the government that the implementation of treaty settlements would be at no cost to ratepayers.

Council is actively considering the extent to which it continues to deliver on treaty settlement obligations, when the issue of central government funding for WRC to undertake these functions remains unresolved.

In the Waikato, there are several statutes and settlements in place:

- Waikato-Tainui Raupatu Claims (Waikato River) Settlement Act 2010
- Ngati Tuwharetoa, Raukawa and Te Arawa River Iwi Waikato River Act 2010
- Nga Wai o Maniapoto (Waipa River) Act 2012
- Ngāti Tūwharetoa Claims Settlement Act 2018
- Pare Hauraki Collective Redress Deed of Settlement.

Each of these require specific obligations to be performed by WRC, specifically co-governance and co-management arrangements such as the establishment and maintenance of joint committees, the development and implementation of Joint Management Agreements, the assistance with the development of multiple planning documents and other functions provided to the joint committees to undertake.

The Crown's policy is to provide local councils with one-off payments to assist with the implementation of Treaty settlement outcomes. While this financial assistance provides some contribution to the establishment of frameworks to implement settlement agreements, there is a large and ongoing cost associated with implementing and maintaining each arrangement.

Types of costs and challenges

There are two types of costs incurred when implementing Treaty settlement arrangements:

1. **Additional costs**, which are imposed on councils due to settlement legislation. For example:
 - a. Administrative support, democratic services and other council staff services required for the provision of the exercise of powers and functions for the co-governance entities, boards or committees
 - b. RMA policy development activities that are not planned or anticipated but are required by a Treaty settlement within a specified timeframe
 - c. Specialist technical staff time on the development and implementation of co-governance entity plans, documents and joint management agreements or other such agreements as required.
2. **Business as usual costs**, which occur as a result of engaging with iwi irrespective of settlement legislation. For example, administering iwi arrangements under the RMA and relationship management with iwi.

There are a number of challenges in implementing treaty settlements:

- Treaty settlements vary in terms of the governance structure and plan options provided. This makes it difficult to streamline processes and procedures.
- Each iwi group/authority has unique needs which adds further complexities to internal processes. Councils have to engage with iwi authorities, hapū and other related entities that may not have settlements with the Crown. Council may need to engage with various entities from the same iwi/hapū.
- The Resource Legislation Amendment Act 2017 provides for iwi authorities to initiate Mana Whakahono a Rohe (MWHAR) Agreements to come together with local authorities to agree on ways tangata whenua may participate in RMA decision-making, and to assist councils with their statutory obligations to tangata whenua under the RMA. There are approximately 40-50 iwi authorities in this region that may initiate a request for a MWHAR agreement at any time, which council will have to respond to and complete within the 18 month statutory timeframe.
- The impetus for local government to do more – in terms of engagement, education, collaboration – is growing, including increasing expectations from iwi to respond and deliver on their environmental, social and economic priorities and aspirations for mana motuhake.¹ For example the Council has recently undertaken joint strategic planning with Waikato Tainui to deliver a programme of work aligned with the strategic vision and aspirations of Waikato Tainui. Another example is the recent request to consider transfer of specific responsibilities under section 33 of the RMA to one of our iwi partners. While strictly not a treaty legislation implementation issue, iwi desire to do more in this space stemmed through a joint management agreement discussion. The Council is currently in the process of considering if this is appropriate. This is not something that the Council has needed to do before.
- Treaty settlements are becoming less descriptive in the roles that local government is required to play. This leads to less clarity regarding the obligations which can result in insufficient resource planning and capacity. Iwi have clarified what is important to them which can result in higher expectations from local government. The Council wishes to work with its iwi partners in partnership, but notes that the costs to do so are significant to its ratepayers.

Waikato Regional Council (WRC) costs

WRC has significant costs relating to treaty settlements, due in part to the one co-management agreement and five joint management agreements agreed between WRC and iwi partners. Staff have estimated Treaty settlement costs at over \$13.18 million (without including Nga Wai o Maniapoto Act, and the updated cost for Pare Hauraki), with many ongoing costs unknown. Conversely, Crown one-off contributions to WRC are approximately \$1.3M. For more detail on treaty costs, please refer to Attachment A.

Current Crown policy is to provide one-off payments to local government for the implementation of Treaty settlement outcomes. While this financial assistance provides some contribution to the establishment of frameworks to implement settlement agreements, the current Crown contributions are inadequate, and greater contributions are required. The Crown's approach to funding has also been inconsistent, with different amounts provided to councils for similar arrangements.

¹ A separate identity, autonomy, self-government, self-determination, independence, sovereignty, authority - *mana* through self-determination and control over one's own destiny.

For a proposed costs framework, please refer to LGNZ [report](#) 'Treaty Settlements: Whakataunga Tiriti – The case for increased financial contribution to local government for implementing Treaty settlement arrangements' (updated March 2018). This framework records costs associated with the functions and activities of co-governance entities. It allows a greater level of accuracy in tracking the cost of establishing, implementing and maintaining Treaty settlement arrangements. The calculator also makes provision for reduction over time in the Crown financial contributions to enable incorporation of new requirements and activities into council business as usual processes.

Request to set up an inquiry

These challenges are widespread across New Zealand, and so the Council requests the Government to consider setting up a Commission of Inquiry to look into this specific area.

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 Council is preparing two strategies to help factor in the response and adaptation to climate change and natural hazards in our infrastructure and financial strategies. The first is an integrated climate change response roadmap. This will cover all facets of Council activity, including regional economic development, corporate investments and using up to date understanding of climate impacts in decisions relating to the provision of services and the allocation of natural resource. The second is scoping work on the sustainability of current flood protection and land drainage infrastructure services, part of which will look at climate change projections.

This work is being currently being undertaken and as such the costs and implications of climate change in our infrastructure and financial strategies is to be determined. However, more generally, the implications of climate change to the Council include:

- Increased pressure of flood management and drainage infrastructure from sea level rise
- Increased frequency and severity of storm events
- Increased pest plant and animal management costs, because of an increase in some species
- Increased data acquisition, analysis and policy development costs to better understand and manage these issues
- Increased demand for services from our emergency and flood response staff members.

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?

The price of goods and services purchased by local government is rising faster than the consumer price index due to the type of costs local government has. Infrastructure, building and construction services make up a large share of council costs, and the demand for these services is high – both from councils and others (e.g. residential or commercial developers). By comparison, the consumer price index reflects general household costs.

Another reason for the relatively fast increase relates to the quantity of work (as opposed to prices) undertaken by local government. Pressure on local government to minimise rates increases has typically meant that infrastructure maintenance and renewals have not been funded. Over the last 20 years (since new requirements for financial reporting in the late

1990s) this has become more transparent, and councils are now undertaking a significant quantity of work. The extent to which this is contributing to cost pressures to Council would depend on the level and amount of infrastructure being built.

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

The price of goods and services purchased by local government does vary across councils. This is expected due to the big differences between regional and territorial authorities, and the different circumstances facing councils (e.g. growing population vs a declining population, level of demand for infrastructure and difference in roles). It would be surprising if this was not reflected in their respective costs.

The Council is a part owner of the Waikato Local Authority Shared Services (WLASS), along with the 11 other Waikato local authorities. WLASS is a legal entity, representative of all the shareholding council, which can enter into contracts and agreements with external suppliers. This helps to reduce costs and ensure that the price of goods and services is kept to a minimum.

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?

There are a range of matters for which regional councils are responsible for which should not be managed in isolation. For example, regional transport planning, the strategic integration of land use and infrastructure and regulation of access to natural resources such as water. How these things are managed has a significant bearing on other matters such as population health and regional economic development - matters which are not generally considered regional council core business.

To ensure integrated management and avoid cost-shifting between different sectors charged with promoting different outcomes, we work collaboratively with other agencies who have overlapping interests to collectively determine and advance initiatives that advance our collective interests and mandates while avoiding duplication and overlap.

This way of working does mean that we do have areas of work that are outside of what may be considered 'core business'. However, it is our view that the benefit of taking an integrated approach to performing the functions of regional council outweigh the small additional costs that this may incur.

There is also increasing expectation from central government to engage in community orientated activities generally not considered local government core services. The building of the Avantidrome (a sport and leisure facility located in the Waikato) was part funded by Council and central government. When choosing where to build the facility, there was an expectation from central government that Council would contribute.

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

The scope of activities undertaken by local government does have implications for cost pressures. There is also a growing need for science input, with Council having to increase capability to underpin decision making while Crown Research Institutes have taken a more commercial approach to their activities. However, the cost pressures for the Council are

mainly for infrastructure, core services and the costs of change that come as a result of national policy direction.

Managing cost pressures

Long term plan

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 effectively allows for the prioritisation of projects and programmes. The Council considers the impact of the overall long term plan on the ability of residents to pay, with the consultation process providing residents with the opportunity to provide feedback to council if proposed rates are unaffordable.

Waikato Regional Council councillors are aware of the pressures faced by some areas of the community and therefore regularly discuss the affordability of proposed changes to service levels and capital projects for the community. However, the engagement process for the Long-term Plan presents challenges. In increasing efficiencies some correction to effective community engagement can be lost.

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?

The Council's Long-term plan process provides opportunity to align Council decisions with the willingness and ability to pay of residents, businesses and other local organisations.

Firstly, when starting out on the Long term plan (LTP) process, Waikato Regional Councillors are provided with information on best practice for planning an LTP. There is a focus on the need to present the 'right debate' to the community. This means the debate is focused on the balance between the community's needs and aspirations, service realities and the community's willingness to pay.

Consultation documents outline the impact on rates, debt and levels of service that any proposal would have. This allows the community to see cost implications of the Council's proposal and make decisions in relation to willingness and ability to pay.

However, engagement in long term plan processes (and local government in general) is often unrepresentative, with low levels of response from the community. This issue is common in local government. To address this, Council is trying new ways to improve engagement in the formal process. Council also looks at areas of the community where proposed rates increases are high and actively tries to engage with these areas to increase their participation and therefore gather their views.

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?

There is scope to improve the long term plan process by better aligning it with other legislation, such as the Land Transport Management Act 2003 and Resource Management Act 1991 (RMA). Key plans under these Acts, such as Regional Land Transport Plans and Long Term Plan, are scheduled for different times in legislation. This leads to misalignment of processes and investment.

There is also poor integration between the Long Term Plan and RMA. Regional councils can make commitments to undertake certain projects or processes under the RMA, but there is no requirement to follow on these commitments through in the Long-Term Plan.

Asset management

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

There is scope to deliver services and manage assets more efficiently to help manage cost pressures. The Council is currently undergoing a shift in how we manage our flood protection and land drainage assets, from a reactive model that relies on experiential and operational knowledge, to a more data driven predictive maintenance approach. This is estimated to make the Council approximately three times more efficient, both in terms of people efficiency and financial prioritisation. This shift begun mid-2018 and efficiencies, as described above, are already evident.

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?

Over the last three years the Council has been investing in Project Management training for those who deliver major capital projects to renew our flood protection and land drainage assets. This follows the processes developed by the Project Management Institute (PMI) to reduce both the risk of budget over-runs from capital works and reduce the consequence of any project issues through better more timely decision making. This practice has been effective and resulted in improvements to the delivery of projects within scope and budget. Council also has a Business Excellence team responsible for driving continuous improvement through the organisation.

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.

The Council has recently hired people from various private industries, who have had involvement in asset management. This is to help change the expectations of how assets can be and should be managed, bring in the knowledge of technologies to enhance decision making and improve business processes

As part of the 2018-2028 LTP, the Council signed off on a new engineering role – a reliability engineer. The role provides the Council with increased expertise in mechanical and electrical condition based monitoring, including the identification and implementation of new technologies to support better condition based decision making.

One example of a new technology has been the use of vibration analysis and thermography. This helped to identify that three pump stations that were planned to be overhauled did not need to be. Instead, these could be managed through the use of alternative operation and maintenance strategies. This has allowed the Council to instead discuss spending the allocated overhaul budget on other critical but non-urgent maintenance work.

Increased productivity

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

The Council develops performance measures for major aspects of each group of activity. This information enables the public to assess the intended level of service to be provided by the Council. The performance measures are tracked quarterly and formally reported annually and provide management and the Council the opportunity to track the organisation's progress towards delivering intended levels of service. The results are also reported in the Annual Report at the end of the financial year providing for public accountability.

Waikato Regional Council also takes part in the LGNZ CouncilMark programme which provides an assessment of how council is performing in the areas of governance, leadership, strategy, financial decision making, transparency, service delivery, asset management and engagement with the general public and business.

In 2017/18 the Council participated in the SOLGM Australasian Local Government Excellence Programme with reporting of performance in corporate leadership, operations management, workforce management, finance management, risk management, asset management and service delivery.

The Council also undertakes benchmarking with Environment Canterbury and Bay of Plenty Regional Council looking at trends in human resource and financial metrics alongside the size of the Council. The Council is a member of the Regional HR Special Interest Group which also gathers human resource metrics across regional and unitary authorities.

The different activities across local and regional government, differing priorities based on local or regional specific pressures, and differing structures within each organisation used to deliver services, makes benchmarking performance and productivity difficult.

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

Performance measures are tracked and reported quarterly to management and the Council for consideration, as described in question 23.

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?

As part of the LTP process, the Council considers a number of priorities and determines the appropriate amount of resource to allocate to this area. The Council uses an organisational performance management framework to guide setting, monitoring and reporting of performance against outcomes across council activities. This framework encompasses the setting, monitoring and reporting of performance at various levels including but limited to Strategic Direction outcomes, Long Term Plan measures, CEO and Director KPIs, and Corporate Plan measures.

Continuous performance improvement is a focus for the Council, characterised by the establishment of a small team, Business Excellence and Project Management Office, within the Community and Services directorate to establish frameworks, processes and tools, build capability and provide coaching and support, across the organisation in the mapping and optimisation of processes, and initiation and management of projects. The Council makes use of process mapping tools, *Lean* tools to support continuous improvement thinking focusing

on customer, customer value and waste elimination, and is beginning to use design thinking as a means to transform/innovate the way we design processes and services. While all areas of the Council are focused on improving and transforming the way they deliver their services, the Information Services and Communications and Engagement sections of Community and Services through the Information Services Strategy and Customer Engagement Strategy are focused on how we organisationally innovate and transform delivery of our services through the use of technology and prepare for a digital future.

Other

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

Regional councils' rates are much less compared to territorial authorities, so these measures are not as necessary for regional councils. The measures discussed in the issues paper (Rates rebate scheme, rates remission and rates postponement) are discussed below.

- The Rate Rebate Scheme is administered by territorial authorities only, taking into account the rates assessed by regional councils.
- Rates remission policies are used to incentivise ratepayers to undertake actions/provide services that are of benefit to the community, but are not used especially to keep services affordable.
- Rates postponement has had minimal uptake, and as a result, the Council has considered withdrawing this option. Staff have found there is a generational mind-set which opposes delaying payment of rates until the sale of the property (leaving a debt for the next generation), and therefore this option has not provided much value.

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

The Council has a comparatively high use of targeted rates, which aims to identify beneficiary users and balance the ability to pay. The rates from flood protection and catchment rates are significant. Targeted rates are very challenging to administer and there is an increasing trend towards trying to simplify these funding arrangements.

Council regularly reviews its financial framework, and has historically determined there is no simple solution to achieve the trade-offs between the ability to pay and beneficiary pays principles. The current scenario is considered the best solution and therefore no substantial changes are required.

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?

The fair distribution of costs for the Council is achieved through the significant use of targeted rates, as explained [here](#). It is difficult to identify what exactly is 'fair' due to the widespread benefit of having a healthy environment, pest management, flood protection etc. The impact of an activity is much wider than the community or area directly receiving a service. The Council regularly reviews its financial framework and has determined no substantial changes are required.

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?

In order to achieve the distribution of costs fairly across present and future generations, the Council has recently switched from internal borrowing to an external borrowing programme in relation to funding for its infrastructure assets. External borrowing enables Council to account for asset depreciation and borrow for longer time periods, which helps to ensure fairer distribution of costs.

Borrowing is very achievable for the Council as current debt levels are low and future borrowing projections are well within the financial covenants set by the Local Government Funding Agency. This is not the case for many councils, particularly territorial authorities in high growth areas. The Local Government Funding Agency has also enabled councils to borrow easily and cost effectively.

Future funding and financing

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?

The principles of efficiency, equity and fairness, revenue integrity, compliance and administrative costs, fiscal adequacy and coherence with the broader (national-level) tax system sound sensible.

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

Council routinely reviews our local government funding tools used and has determined no substantial changes are required at this time.

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 Council uses a number of targeted rates and user charges. There is not a case for a greater use of funding tools for Council as we have maximised its use of these approaches. Council is now likely to look at ways to simplify these funding arrangements.

The main factor inhibiting the use of this approach is the complexity in administering. Another factor is the difficulty in identifying who is directly benefiting from a service or activity, as the benefits from regional councils' activities are so widespread.

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?

The pros and cons of capital value systems versus land value systems have been explored extensively in previous inquiries. As noted in the paper, capital value systems better target beneficiaries of council services and is generally considered more reflective of the ability to pay. Land value systems discourage holding onto land but it is perceived as unfair as land owners may be paying for services they're not receiving, if land is vacant.

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 Council has no views on this matter.

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?

Two thirds of the Council's costs are funded by rates. Rates provide certainty to local government but they are blunt instruments and inequities occur as a capital value system

targets the asset rich but cash poor, and it is difficult to target exactly who benefits from services.

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?

Some cases where there is a greater case for central government funding transfer include:

- Flood protection and land drainage infrastructure services – the Council’s flood protection and land drainage infrastructure services is an example of a circumstance where there is a case for greater central government involvement. These were built with heavy subsidies from central government and now require expensive maintenance and are one of council’s biggest affordability challenges. Central government receives benefit and protection, but does not contribute in any way to these schemes.
- Treaty settlements – As noted in question 7, the breach of the Treaty of Waitangi was made by the Crown, not local government. This provides justification for a funding transfer to local government.
- Where councils are undertaking delegated responsibilities on behalf of government departments.

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?

The Council does not have a view.

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?

The Council does not have a view.

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 Council does not have a view.

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

Property-based rates have generally been considered to be the most appropriate source of local government funding because the services provided by councils is considered to be most closely related to the property. Past reviews have generally found that this still remains true. However, there are several reasons why it may be worth reconsidering.

First, one of the foundations of New Zealand’s local government model is the link between the fund-raising powers and accountability. That is, councils should be accountable to those from whom they can require funds. However, councillors are accountable, via the democratic process, to local electors, which is a different set of people to property-owners (albeit often with a large overlap).

Second, the role of local government has changed since the Local Government Act 2002, with the scope of its activities arguably becoming more generally applicable to communities rather than properties. To the extent that this is so, income or expenditure may be becoming more appropriate revenue-raising bases.

Third, one of the key concerns about property-based rates is that the requirement to provide funds is not always closely related to the ability of an individual to pay. In particular groups who are asset-rich but have low incomes (for example, many elderly or those on fixed incomes) may face high rates, with consequent affordability problems. Funding based on income and/or expenditure may avoid such issues. The effects of the tax will depend on the emphasis between income (relatively progressive) and expenditure (more regressive) and detailed design. However, it is considered that wealth redistribution through the tax system is a role for central government, and local government should focus on delivering the services that its communities want, and are prepared to pay for.

As noted in the Issues paper, local income and expenditure taxes would be costly for local government to implement, likely resulting in significant deadweight losses. This could potentially be mitigated for local government if the IRD collected these taxes on behalf of local government, but setting these rates separately and integrating them with national tax administration would still likely be costly to general taxpayers. The concerns about revenue volatility expressed in the Issues report are also considered to be valid.

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

A disadvantage of this approach is that Council's revenue is dependent on the property values of its area. In a growing area, the tax revenue would likely grow with expenditure. However, in a declining area, if property values are falling this could create serious difficulties for councils as their revenues fall too. Similarly, if property values are over-valued for a sustained period, a bursting of the bubble may create a cash-flow crisis for a council.

The thinking behind the rating system is that revenue can only be raised for the things that the community wants and has collectively agreed to pay for. This acts as a kind of discipline on local government. This would not be the case for a local property tax which is a disadvantage.

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

Cost recovery for permitted activities

Firstly, a new tool that would be beneficial is charging for non-consented activities under the Resource Management Act 1991. The Council has no ability to charge for non-consented activities under the RMA (for example, farming services team and monitoring). It would be preferable to be able to charge for non-consented activities, to allow for charging those who are undertaking the activity, than charging everyone through general rates. However, there is an anomaly within the planning framework in that Councils can charge for permitted activities through the National Environmental Standards for Plantation Forestry.

Regional development contributions

Secondly, it would be beneficial for regional councils to be able to levy development contributions, in a similar manner to territorial authorities. For territorial authorities, development contributions are used to help fund new or expanded growth related infrastructure. Territorial authorities use these to pay for new water, wastewater, stormwater, reserve and roading infrastructure. Currently, regional councils do not have an ability to levy for additional regional council infrastructure required to support growth (such as that required for public transport services, environmental monitoring, flood control or land drainage).

GST exemption on rates

Thirdly, Council contends that local government rates should be exempt from goods and services tax (GST). Rates are essentially a tax levied on property (alongside central government taxes on income and expenditure). In this sense, it is considered inappropriate that GST is levied on rates, but not on other main forms of tax in New Zealand. Essentially, charging GST on local government rates represents an inappropriate 'tax on tax'.

It is understood rates have historically been considered as payments for services, and this is the justification for charging GST on rates. However, the council considers that the same argument applies to tax revenue used to fund services such as health and education. While local government activities funded by targeted rates are closer to 'service' provision than general rates, the Council argues that because they are compulsorily levied, the 'tax on tax' argument remains.

The exemption of rates from GST would remove the inequitable treatment of taxes and help to relieve of the problem of affordability of local government rates.

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

The Council has no views on this matter.

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

Refer to comments from Local Government New Zealand.

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?

Financial barriers are not an impediment for the Council as current and projected borrowing is nowhere near limits, and borrowing is very affordable. This is typical of regional councils.

48. What role could private investors play in financing local government infrastructure?

Private investors could play a significant role in financing local government infrastructure. This could be through angel investor groups or BOOT (build, own, operate and transfer) arrangements. More and more organisations are wanting to work with local government.

49. How effective are the current oversight arrangement for local government funding and financing? Are any changes required, and if so, what is needed and why?

The auditing process for the long term plan can get in the way of the process. Auditors are removed from the community and their needs. It becomes a compliance based activity rather than one that is meaningful.

Attachment A: Treaty settlement costs for Waikato Regional Council (Treaty Settlements: Whakataunga Tiriti report, 2018)

Please note, that where updated figures are available, these have been incorporated into the table below.

Settlement	Crown contribution	Actual or estimated costs to Councils
Waikato-Tainui Raupatu Claims (Waikato River) Settlement Act 2010 and Ngati Tuwharetoa, Raukawa and Te Arawa River Iwi Waikato River Act 2010	Nil	<ul style="list-style-type: none"> RMA planning document changes (Healthy Rivers): Treaty legislation related plan change process cost \$5,860,000
Waikato-Tainui Raupatu Claims (Waikato River) Settlement Act 2010	\$41,104.59 For development of the Joint Management Agreement with Waikato Raupatu Settlement Trust	<ul style="list-style-type: none"> Joint Management Agreement (and committee costs) Development costs for the Joint Management Agreement were \$664,754. Ongoing costs are unknown.
Ngāti Tūwharetoa Claims Settlement Act 2018	\$400,000 For administrative support to Te Kopua Kānapanapa	<p>Approximate costs calculated as at March 2018.</p> <p>Total: \$942,500</p> <ul style="list-style-type: none"> Committee Establishing the committee has been estimated at \$360,000.44 Ongoing administration costs have been estimated at \$170,000 per annum. Plan Development costs for the plan have been estimated at \$350,000.46 Ongoing implementation costs have been estimated at \$62,500 per annum. <p>Note: the above figures were calculated with the best available knowledge at that time. The following figures have been calculated with the updated treaty cost calculator and reflective of the true cost and is in line with the total cost of the Pare Hauraki establishment of the Waihou, Piako Coromandel Catchment Authority and its activities.</p> <p>Updated figures since the 2018 report. The figures below are based on costs calculated using the updated Treaty costs calculator.</p> <p>Total cost: \$2,719,131</p> <ul style="list-style-type: none"> Committee establishment (one off cost) - \$84,662 Committee ongoing administration - \$115,132 Plan development one off cost - \$2,242,001

		<ul style="list-style-type: none"> Plan implementation \$277,336 per annum - this figure is indicative of the initial cost of implementation with a phasing out into BAU. Some of the implementation would be part of our BAU, however there will be new components that we can't anticipate until the plan is written. Ongoing estimated implementation costs could be in the order of \$50-\$100k or more per annum, depending on a number of unknown factors such as the Kaitiaki plan content and recommendations or any treaty legislation or national direction.
Pare Hauraki Collective Redress Deed of Settlement	\$500,000 For establishing the Waihou, Piako, Coromandel Catchment Authority and its activities	<p><u>Total cost: \$5,320,000</u></p> <ul style="list-style-type: none"> Committee Establishing the committee has been estimated at \$1,000,000.50 Ongoing implementation/administration costs have been estimated at \$500,000 per annum. Waihou, Piako Coromandel Catchment Plan Development costs for the plan have been estimated at \$3,500,000. Ongoing costs have been estimated at \$320,000 per annum.
Pare Hauraki Collective Redress Deed of Settlement – Mangatangi Stream, Mangatawhiri River and Whangamarino wetlands	\$300,000 – for establishment cost of activities of the Upper Mangatangi and Mangatawhiri Catchment Authority.	<ul style="list-style-type: none"> Cost of establishing the Upper Mangatangi Stream and Mangatawhiri Catchments Authority: These are still being assessed. Cost of the development of the Upper Mangatangi and Mangatawhiri Catchments Plan: These are still being assessed. Joint Management Agreement Development of the Joint Management Agreement has been estimated at \$395,000. Ongoing costs of Joint Management Agreement are unknown