

Submission by

Hamilton City Council

NEW ZEALAND PRODUCTIVITY COMMISSION'S LOCAL GOVERNMENT FUNDING AND FINANCING INQUIRY

15 March 2019

1.0 INTRODUCTION

- 1.1 Hamilton City Council (HCC) welcomes the opportunity to make a submission to the New Zealand Productivity Commission's Local Government Funding and Financing Inquiry (the Inquiry).
- 1.2 We would like to thank the Commission for making a presentation/Q&A session on its Inquiry (attended by Elected Members and staff from HCC and surrounding councils) that was held in HCC's Reception Lounge on 11 February 2019.
- 1.3 HCC takes a great deal of interest in the work undertaken by the Commission, as evidenced by the following three submissions:
 - HCC's 23 January 2015 submission to the Commission's November 2014 Issues Paper 'Using land for Housing' - refer [here](#)
 - HCC's 4 August 2015 submission to the Commission's 17 June 2015 draft Report 'Using Land for Housing' - refer [here](#)
 - HCC's 1 March 2016 submission to the Commission's December 2015 Issues Paper 'Better Urban Planning' - refer [here](#)
- 1.4 HCC also made a comprehensive submission to LGNZ's February 2015 Local Government Funding Review Discussion Paper - refer [here](#) for the discussion paper and [here](#) for HCC's submission.
- 1.5 We encourage the Commission to analyse the content of our submission to LGNZ, alongside our submission to the Commission's Funding and Financing Inquiry. For example, our submission to LGNZ outlined HCC's concern around the imposition of new policies on local authorities by central government with the aim of creating national benefit.
- 1.6 The requirement for all councils to develop, implement and monitor a Local Alcohol Policy (LAP) is a case in point. In the case of Christchurch City Council, development of its LAP cost the council over \$1 million.
- 1.7 HCC is therefore of the view that Government needs to give much greater consideration to the 'cost-benefit' analysis when introducing new policies or standards, particularly where the implementation of such policies/standards falls directly on local authorities, with no commensurate funding from Government.
- 1.8 Rates, as the primary funding tool of councils (making up 48% of total revenue of local authorities in 2017) are struggling to cope with the changes being experienced in the local government arena - particularly for fast growing and declining councils, and those experiencing high levels of tourism.
- 1.9 HCC recognises that the rating issue is one of the fundamental drivers of the Funding and Financing

Inquiry. As noted in SOLGM’s submission to the Inquiry *“There can be no doubt that changes in rates have decoupled from changes in incomes, and it is this decoupling that has given rise to the Inquiry into funding and financing”*.

- 1.10 In regard to the affordability of rates and the ability of the community to pay, HCC is not aware of any guidance on how to measure and assess this matter.
- 1.11 We therefore encourage the Commission to strongly recommend in its November 2019 report to Government that the current rating mechanisms used in New Zealand (as prescribed under the Local Government Rating Act) need a radical review. We also recommend that the Commission advocate development of a method that measures rates affordability.
- 1.12 Our submission to the Commission’s Inquiry is focused on eight theme areas:

- 1. Support Interest-Free Government Loan Arrangements for Core Infrastructure**
- 2. Supportive of New Off-Balance Sheet Financing Tools**
- 3. Efficiency Gains – Support Alignment of Local Government and Government Spending/Programmes**
- 4. Open-Minded on Aggregation for Delivery of 3 Waters and Other Core Services**
- 5. Development of National Guidelines that Support Implementation of a Community Facilities Funding Framework**
- 6. Support Standardisation and Increased Efficiencies of Systems in Local Government Facilities and Services**
- 7. Supportive of Regional Fuel Tax; Variable Road Pricing/Tolling; ‘Roading Border Levy’; Increase in the Funding Assistance Rate (FAR) for Public Transport; New Targeted Enhanced Funding Assistance Rate (TEFAR)**
- 8. Supportive of Economic Benefit Revenue Linked to Growth and Development in a Council’s Administrative Area**

- 1.13 Detail on these eight theme areas is outlined below.

2.0 EIGHT THEME AREAS FOR THE COMMISSION TO CONSIDER

THEME AREA 1: SUPPORT INTEREST-FREE GOVERNMENT LOAN ARRANGEMENTS FOR CORE INFRASTRUCTURE

2.1 KEY POINTS/RECOMMENDATIONS

- a) HCC supports further rounds of interest-free Government loan arrangements for core infrastructure for high growth councils, as well as councils facing significant infrastructure challenges.

2.2 COMMENTARY

- 2.3 Despite interest rates for borrowing being extremely competitive at the moment, clearly interest-free Government loan arrangements offer substantial benefits for councils.
- 2.4 Like the Government’s \$1 Billion Housing Infrastructure Fund (HIF), each application would still be subject to provision of a clear, comprehensive and compelling business case.
- 2.5 Applications should only be available for:
 - Transport
 - 3 Waters
 - Land for Parks and Reserves

THEME AREA 2: SUPPORTIVE OF NEW OFF-BALANCE SHEET FINANCING TOOLS

2.6 KEY POINTS/RECOMMENDATIONS

- a) HCC is supportive of new financing tools (such as Special Purpose Vehicles) being explored and ultimately available for use by local government.
- b) Such tools are being specifically designed to finance infrastructure off a council's balance sheet.
- c) These mechanisms will assist in monetising 'value uplift/value capture' from properties that benefit from lead growth infrastructure, but don't actively develop (1st wave beneficiaries).

2.7 COMMENTARY

- 2.8 New financing tools, such as Special Purpose Vehicles (SPVs) that are being explored as part of the Government's Infrastructure Funding and Financing workstream (to strengthen the infrastructure strategy, planning, investment and delivery) will add to the 'toolbox' available to councils.
- 2.9 Such tools will provide ability to finance infrastructure off a council's balance sheet and to have a mechanism that can monetise 'value uplift/value capture' from properties that benefit from lead growth infrastructure, but don't actively develop (1st wave beneficiaries).

THEME AREA 3: EFFICIENCY GAINS – SUPPORT ALIGNMENT OF LOCAL GOVERNMENT AND GOVERNMENT SPENDING/PROGRAMMES

2.10 KEY POINTS/RECOMMENDATIONS

- a) HCC advocates that greater alignment of spending and programmes between local and central government is beneficial and indeed critical for investment and operational alignment opportunities. e.g. the Hamilton-Auckland Corridor Plan.
- b) The scale of a council's operation is also important to achieving efficiencies.
- c) Greater alignment with Government programmes will ensure councils have a more stable and meaningful planning horizon and at the same time will enable them to leverage greater investment opportunities.

2.11 COMMENTARY

- 2.12 HCC advocates that greater alignment of spending and programmes between local and central government is beneficial and indeed critical.
- 2.13 For example, the Hamilton-Auckland Corridor Plan offers significant investment and operational alignment opportunities. HCC is working with Government, iwi and local authorities on the Auckland to Hamilton Corridor Plan and Hamilton-Waikato Metro Spatial Plan to progress the Government's Urban Growth Agenda spatial planning actions/objectives i.e. to achieve competitive urban land-markets, where supply meets demand and prices cover the cost of growth.
- 2.14 Scale is important to achieving efficiencies – particularly, for example, regarding Hamilton's position in the metropolitan area and attaining further scale and a commensurate rating base to reflect services it provides to a wider area.
- 2.15 Alignment with Government programmes will ensure councils have a more stable and meaningful planning horizon and at the same time enable them to leverage greater investment opportunities.

THEME AREA 4: OPEN-MINDED ON AGGREGATION FOR DELIVERY OF 3 WATERS AND OTHER CORE SERVICES

2.16 KEY POINTS/RECOMMENDATIONS

- a) Government should provide financial support towards investigative work that councils may need to undertake when looking at more cost-effective and efficient 3 waters models.
- b) Government assistance for addressing funding gaps in resilience, asset management and service delivery deficiencies for 3 Waters should only be available to councils who are part of an aggregated service delivery model i.e. a CCO.
- c) Government should investigate introducing a 3 Waters subsidy to fund provision of core infrastructure - similar in nature to the NZ Transport Agency's funding/subsidy model for transport.
- d) Government intervention may also be an appropriate mechanism to use when looking at/reviewing models, structure and management of other council core services.

2.17 COMMENTARY

2.18 HCC made a comprehensive submission to the Minister of Local Government on Government's 3 Waters Review on 23 October 2018 (refer [here](#)). The submission noted that:

- HCC invested a significant amount of staff/Elected Member time and resource into the 3 waters project with Waikato District Council and Waipa District Council between 2012 and 2017, all without achieving the desired result. HCC's share of the consultancy costs was around \$600,000.
- HCC is therefore of the view that Government intervention is necessary to achieve aggregation of water service delivery and that the decision for the aggregation of water services must be led by the Government, as local government is not always able to make the decision to aggregate on its own.
- HCC is therefore open-minded on the various models being considered by Government over potential management and structure of a 3 Waters model for the Greater Hamilton/Waikato area.
- Government should provide financial support towards investigative work that councils may need to undertake when looking at more cost-effective and efficient 3 waters models.
- Government assistance for addressing funding gaps in resilience, asset management and service delivery deficiencies (which nationally are estimated to be significant for water and wastewater), including meeting environmental and waters standards for 3 Waters, should only be available to councils who are part of an aggregated service delivery model i.e. a CCO.

2.19 HCC is also of the view that Government investigate introducing a subsidy to fund provision of 3 waters core infrastructure - similar in nature to the NZ Transport Agency funding/subsidy model for transport (noting that detailed business cases are required for transport projects as part of the subsidy process).

2.20 Government intervention may also be an appropriate mechanism to use when looking at/reviewing models, structure and management of other council core services.

THEME AREA 5: DEVELOPMENT OF NATIONAL GUIDELINES THAT SUPPORT IMPLEMENTATION OF A COMMUNITY FACILITIES FUNDING FRAMEWORK

2.21 KEY POINTS/RECOMMENDATIONS

- a) National Guidelines that support development and implementation of a Community Facilities Funding Framework should be available to assist in a council's decision-making on financing new facilities that provide clear benefit beyond a council's administrative area.

2.22 COMMENTARY

2.23 New community facilities delivering regional benefit are potentially being 'duplicated' (and therefore

can result in over-capitalisation and poor utilisation of such assets relative to the operating costs) throughout the country by councils e.g. stadiums, theatres, libraries. Greater collaboration between councils is essential to develop and fund such facilities. As a metropolitan city providing significant community facilities that benefit a wider sub-region, it is crucial for Hamilton that there is agreement between surrounding councils on how we fund sub-regional facilities.

- 2.24 A Community Facilities Funding Framework for the Waikato was originally developed and endorsed by the Waikato Mayoral Forum on 11 September 2017 (refer [here](#)). Although the Framework has never been officially formalised by the region's constituent councils, it is envisaged that a further report on the Framework will be considered by the Waikato Regional Council following the October 2019 local authority elections.
- 2.25 HCC would like to have discussions with the Commission with a view to incorporating the underpinning principles of the Waikato Community Facilities Funding Framework into a National set of Guidelines.

THEME AREA 6: SUPPORT STANDARDISATION AND INCREASED EFFICIENCIES OF SYSTEMS IN LOCAL GOVERNMENT FACILITIES AND SERVICES

2.26 KEY POINTS/RECOMMENDATIONS

- a) Greater standardisation of the current multitude of local government systems (e.g. payroll, procurement and information services) is required for the various facilities and services provided by New Zealand's 78 councils to ensure increased efficiencies and cost-savings.
- b) Scale of service delivery will also bring efficiencies – development of an effective Shared Services model is a key means of achieving this.
- c) While the focus still has to be on 'keeping local government local', there are further opportunities that will enable greater standardisation and consolidation of service delivery solutions for the local community.
- d) Government regulation may be required for such standardisation and consolidation to occur.

2.27 COMMENTARY

- 2.28 HCC supports standardisation and increased efficiencies in the multitude of corporate systems used throughout local government's various facilities and services. Currently, a number of differing systems are used throughout the country's 78 councils e.g. payroll, procurement, information services.
- 2.29 Waikato Local Authority Shared Services (WLASS – refer [here](#)), which comprises 12 councils, goes some way to addressing the issue of increased standardisation and efficiencies e.g. Shared Valuation Data Service; numerous joint procurement contracts; Waikato Building Consent Group.
- 2.30 The leveraging ability for obtaining various services/products under WLASS is still constrained to 12 councils.
- 2.31 However, greater collaboration amongst the councils in WLASS provides a key opportunity to deliver other key services and products more efficiently and effectively, both regionally and nationally - not just 'back office' corporate activities.
- 2.32 The focus still has to be on 'keeping local government local' i.e. while HCC is fully supportive of local representation in local government, there are further opportunities that could be used to enable greater standardisation and consolidation of service delivery solutions for the local community.
- 2.33 All councils operate under the same legislation and scale will bring efficiencies. Many large corporates are already doing this, as are other parts of Government - so the question is why not councils? The bottom line is that Government may need to regulate to achieve this.

THEME AREA 7: SUPPORTIVE OF REGIONAL FUEL TAX; VARIABLE ROAD PRICING/TOLLING; 'ROADING BORDER LEVY'; INCREASE IN THE FUNDING ASSISTANCE RATE (FAR) FOR PUBLIC TRANSPORT; NEW TARGETED ENHANCED FUNDING ASSISTANCE RATE (TEFAR)

2.34 KEY POINTS/RECOMMENDATIONS

- a) Support introduction of Regional Fuel Tax from 1 January 2021 via the Land Transport Management (Regional Fuel Tax) Amendment Act.
- b) Support variable road pricing and tolls for road users.
- c) Investigate introduction of a 'Roading Border Levy' for non-ratepayers/non-residents that enter a city/district and then use its roads.
- d) Support an increase to the Funding Assistance Rate (FAR) for Public Transport.
- e) Support an extension of the current 3-year timeframe of the NZ Transport Agency's new Targeted Enhanced Funding Assistance Rate (TEFAR) to 10-years.

2.35 COMMENTARY

- 2.36 HCC made a submission on 20 April 2018 to the Land Transport Management (Regional Fuel Tax) Amendment Bill (refer [here](#)). Our submission and hearing appearance was supportive of the Bill. Subsequently, the Land Transport Management (Regional Fuel Tax) Amendment Act received Royal Assent on 26 June 2018 and will enable regions, or part of a region, to apply for a fuel tax to fund transport infrastructure programmes from 1 January 2021.
- 2.37 HCC is also supportive of variable road pricing and tolls for road users - funding and financing tools that are used extensively and operate successfully overseas.
- 2.38 As an additional means of financing transport infrastructure, the Commission could investigate introduction of a 'Roading Border Levy' for non-ratepayers/non-residents that enter a city/district and then use its roads. The 'wear and tear' impact on a city's/district's transport infrastructure from vehicles normally domiciled outside of a city/district can be significant.
- 2.39 In order to be economic, a 'Roading Border Levy' scheme would also need to be able to be applied in other Road Controlling Authorities. A central system like the tolling that the NZ Transport Agency currently provides for various locations around New Zealand would be a logical way forward.
- 2.40 The Funding Assistance Rate (FAR) for Public Transport should be increased, which will mean fares can be reduced, resulting in increased patronage. This will mean decreased congestion, less spending on new transport infrastructure, decreased crashes, and increased personal health - a 'win-win' result for the NZ Transport Agency and councils. The FAR for public transport should be calculated on the full cost rather than the balance after fare revenue.
- 2.41 The NZ Transport Agency's new targeted enhanced funding assistance rate (TEFAR) to assist councils in bringing forward new high and very high priority locally-led improvement activities for the 2018–21 National Land Transport Programme (NLTP) needs to be extended for a much longer timeframe.
- 2.42 HCC has a number of high priority public transport projects that would benefit significantly from TEFAR, but these will be ongoing and require greater funding certainty over a longer timeframe than the current three-year timeframe. A 10-year timeframe should be considered.

THEME AREA 8: SUPPORTIVE OF ECONOMIC BENEFIT REVENUE LINKED TO GROWTH AND DEVELOPMENT IN A COUNCIL'S ADMINISTRATIVE AREA

2.43 KEY POINTS/RECOMMENDATIONS

- a) Investigate use of various financing tools that are linked to the growth and development in a council's administrative area.
- b) This could involve councils receiving a set portion of the Government's GST 'take' from their administrative area, or alternatively, a set amount of the total 'spend' in a council's administrative area that is captured as an additional levy to the current GST component, potentially in the form of an increase to the GST rate.
- c) Such funding streams should be dedicated to core infrastructure maintenance and enhancement.
- d) HCC would also support introduction of a 'bed tax' as part of the financial toolbox available to councils to capture the cost impact of local and international visitors on core services, particularly those provided in a local authority's administrative area that are free for public use. Such a tax needs to be levied on local commercial accommodation, private accommodation platforms, and self-contained motorhome hires.

2.44 COMMENTARY

- 2.45 A form of economic benefit revenue accruable to a council that is linked to growth and development in its administrative area could provide a funding stream that is dedicated to maintenance and enhancement of core infrastructure.
- 2.46 This could involve councils receiving a set portion of the Government's GST 'take' from their administrative area, or alternatively, a set amount of the total 'spend' in a council's administrative area that is captured as an additional levy to the current GST component, potentially in the form of an increase to the GST rate. Such a mechanism would effectively be similar in nature to a local area sales tax.
- 2.47 Currently, the majority of 'spend' benefit in a council's administrative area accrues directly to central government via GST - councils receive no benefit from the area that they invest a significant amount of money and resource on maintaining, enhancing and promoting economic activity and development.
- 2.48 HCC would also support introduction of a 'bed tax' as part of the financial toolbox available to councils to capture the cost impact of local and international visitors on core services, particularly those provided in a local authority's administrative area that are free for public use e.g. roads/footpaths, carparking, parks, walkways, playgrounds, rubbish bins and public toilets. Such a tax needs to be levied on local commercial accommodation, private accommodation platforms, and self-contained motorhome hires.
- 2.49 We note that Auckland Council has already introduced a new targeted rate for online accommodation providers.
- 2.50 Other councils from high tourism regions, such as Queenstown Lakes District Council, also have comprehensive views on this topic, and we support their efforts to introduce such a funding mechanism for local authorities to implement.

3.0 FURTHER INFORMATION AND OPPORTUNITY TO MEET

- 3.1 Should the New Zealand Productivity Commission require clarification of the above points, or additional information, please contact David Bryant (General Manager Corporate) on 07 959 9019, email david.bryant@hcc.govt.nz or Blair Bowcott (Executive Director – Special Projects) on 07 838 6742, email blair.bowcott@hcc.govt.nz in the first instance.
- 3.2 Hamilton City Council representatives would be happy to meet with staff from the New Zealand Productivity Commission to discuss in more detail how the points outlined in this submission could be applied in a Hamilton and national context.

Yours faithfully



Richard Briggs
CHIEF EXECUTIVE