15 February 2019

New Zealand Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143

BAY OF PLENTY REGIONAL COUNCIL TOI MOANA

Dear Sir/Madam

Bay of Plenty Regional Council's submission to Local Government funding and financial inquiry

Thank you for the opportunity to make a submission on the Local Government funding and financial enquiry. The Bay of Plenty Regional Council wishes to be heard on this matter.

For matters relating to this submission, please contact Stephen Lamb at stephen.lamb@boprc.govt.nz or 0800 884 881 ext. 9327.

Our Organisation

The Bay of Plenty Regional Council is responsible for the sustainable management of resources within the Bay of Plenty region. Our role is determined by Central Government through statutes such as the Local Government Act and the Resource Management Act, and is different from that of territorial authorities (district and city councils). Some of our key roles are:

- Regional planning for land, water quality and air quality;
- Setting environmental management policies for the region;
- Allocation of natural resources;
- Flood control;
- Natural hazard response;
- Soil conservation;
- Pest control / biosecurity;
- Public transport;
- Strategic transport planning;
- Regional economic development; and
- Strategic integration of land use and infrastructure.

Summary

Please find our detailed comments attached. We trust you find them constructive.

Yours sincerely

pp Stephen Lamb
Natural Resources Policy Manager

On behalf of:
Namouta Poutasi
General Manager Strategy & Science

Objective ID:

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Submission of the Bay of Plenty Regional Council
Local Government Funding and Financing Issues Paper

1 Introduction

The Bay of Plenty Regional Council (Toi Moana) manages natural resources and guides sustainable development in the Bay of Plenty region. Our vision is '**Thriving together – mō te taiao, mō ngā tāngata' and our work is carried out under four community outcomes: a healthy environment, freshwater for life, safe and resilient communities, and a vibrant region.**

You are investigating factors that drive increased local government costs, including Treaty of Waitangi Settlements and Climate Change Adaptation, and identifying and appraising new funding and financing tools. You ask for local government's experience with these issues. In this submission we have focused of **examples of cost pressures** from **Treaty Settlements** and **Climate Change Adaptation**, and provided **comments on managing cost pressures** and **potential new funding models**.

The Bay of Plenty has a Māori population of 28 percent with more than 35 iwi and 260 hapū linked to 224 marae located across the Bay of Plenty. It follows that Bay of Plenty Regional Council ('Toi Moana') are challenged with the dynamics of giving effect to national policy statements, regional policies all while meeting several legislative obligations including statutory acknowledgements arising from Treaty of Waitangi Settlement legislation negotiated between the Crown and Iwi in the Bay of Plenty Region.

Responding to Climate Change is one of Council's strategic challenges. Our infrastructure strategy looks ahead to the next 30 years to plan what flood protection and control structures will need to be in place to adapt to climate change. Over the next 10 years, we plan to spend $1.6 billion on operational and capital expenditure across all our activities, to provide the extensive ranges of services that our community wants us to deliver. We are increasing general rates by 9.1 percent in 2018/19, with any increases forecast not to exceed 3 percent for the following nine years, allowing for inflation and growth.

2 Bay of Plenty Regional Council:

- ***Has significant experience administering co-governance/management arrangements within a range of Crown contributions***
- ***Submit that Treaty settlements impose real new costs and without increased and consistent funding for co-governance implementation, the durability and effectiveness of these settlements will be undermined***
- ***Is having to manage significant cost pressures due to climate change adaptation and our experience is that these impacts fall on areas of our region with a declining ability to pay***

- ***Submit that climate change adaptation is a national and intergenerational issue that cannot be left to local ratepayers without significant equity consequences, and that a national approach to co-investment is needed***
- ***Submit that the funding and financing tools to manage increased cost pressures are limited and that new tools need to be explored***

1. Cost Pressures from Treaty Settlements

Managing the intricacies of Treaty of Waitangi Settlements, in particular co-governance arrangements within the Bay of Plenty Region has **proved to impose real and ongoing costs** for Toi Moana. While the co-governance and co-management arrangements provides invaluable connectivity with Iwi and an opportune platform for council to assist in building Iwi capacity and capability, the costs imposed on councils are well over and above '**business as usual costs'.**

Toi Moana currently has **three co-governance**/co-management arrangements ('entities') within the Bay of Plenty Region: Te Arawa Lakes Strategy Group, The Rangitāiki River Forum, and Te Maru o Kaituna River Authority. We **anticipate more** entities will need to be established in the near future, for example Tauranga Moana. The implementation of the three entities has **often been challenging for Toi Moana due to** minimal resourcing contribution from the crown to assist with the ongoing development and implementation costs. In one example, conservative estimate puts the cost of establishing the Rangitāiki River Document at c. $160,000, with no Crown contribution.

Costs of co-governance arrangements not only include the establishment of entities and the costs associated with their 'day to day' functioning, but the need for specialist and dedicated support staff, for building of iwi capacity, for planning and technical staff time, and further costs associated with bringing co-governance outputs into the statutory environment. The lack of resourcing from central government places significant financial and staff **resource burdens** which **have to be met from ratepayer** and other council funding sources. There are also costs borne by iwi particularly in relation to capacity and capability. While Councils generally have the staff to support the administration of these entities, iwi are not equipped to deal with many of the technical (and potentially highly political) aspects arising from these groups. Iwi participants in most cases have to take time off work, are not supported by staff who are able to respond to complex matters, and have other issues to address that also compete for their time.

Toi Moana agrees with the concerns raised in the Local Government New Zealand (**LGNZ) Treaty Settlements** (Whakataunga Tiriti - March 2018 2nd Edition) **Report** which details the cost pressures and issues. There are 2 key issues: the **limited one-off financial contributions** from central government to implement co-governance put at risk the ability of Councils to implement co-governance arrangements in a robust and enduring way and the **inconsistent financial contributions** from central government risks reinforcing inequality between settlements, iwi, and regions.

Potential solutions are: realistic **financial contributions from the Crown need to cover** assistance not only with the establishment of co-governance entities; but building iwi capacity to enable them to fully participate, and ongoing costs of implementing co-governance; and the **establishment of a transparent process** for financial contributions that ensures: consistency, clarity, and visibility for all settlements and all regions.

2. Cost Pressures from Climate Change and Natural Hazards

Living with and planning for **natural hazards** are part of the landscape in New Zealand and in particular the Bay of Plenty. However the **'amplifier' of climate change** is having real and significant impacts now, on the affordability of the provision of protection for the community.
Our Infrastructure and Financial Strategies focus on providing an appropriate level of flood protection that remains affordable for the community. The two major areas of expenditure over the **next 30 years** are: repairing the damage from the 2017 flood event and the River Scheme Sustainability Project. We have budgeted **$95 million of capital expenditure** on new or replacement structures in our river schemes and **$403 million operational expenditure** on maintenance, repairs, analysis and modelling.

The **April 2017 flood event** was characterised by Rangitāiki River inflows to Lake Matahina, 20% above those recorded in the 2004 flood, in line with **climate change projections**. The damage that resulted from this event solely to the river schemes alone is in excess of $45M, while the Insurance Council estimates wider costs at $109M. While some of the repair costs are covered by insurance, a significant amount of 'betterment' work is needed, along with the strategic work detailed below, to enable flood defences to cope with Climate Change. Subsequent **rates rises** for the Rangitāiki-Tarawera River Scheme catchment are **25%** for the 2018-2019 year, due to increased cost associated with flood repairs.

Our River Scheme Sustainability Project aims to take a **100 year view of catchment flood** management taking into account climate change, community values, and affordability of protection across the region's four river schemes. The example used here is the Rangitāiki catchment. Using MFE's dynamic '**adaptive pathways concept'**, a whole of catchment approach is being used, with the development of solutions that can be adaptively brought in as climate change 'bites'. The **initial interventions** include: widening and bifurcation of the river floodway and a new river spillway (**estimated at $10M**). Future potential interventions include flood plain attenuation and upper catchment storage. This is just the start of a process in this, and **3 other scheme catchments** to adapt to climate change.

By using interventions that provide, not only increased protection to account for climate change adaptation but also for opportunities for wider community values (e.g. fish passage, making room for rivers), the question and issues of '**who pays'** and the attribution of costs is raised. Climate change impacts do not fall evenly, for example increased intensity of storm events in the Eastern Bay of Plenty. This sub region is faced with increased costs to maintain the existing protection, has a **declining ability to pay**, and has made a **negligible contribution** to the concentration of greenhouse gases in the atmosphere.

There is a strong case for a return to **active central government co-investment** in flood risk mitigation. Such co-investment: is more fiscally responsible and fairer than focussing on post event response and recovery, it supports community wellbeing and reflects ability to pay considerations, it supports job creation and lifts the productive potential of the regions, it contributes to the security of access routes for commerce, it contributes to the environmental and water quality expectations of our communities and iwi partners, and above all else, provides resilience and increased levels of safety to existing and future individuals and communities.

3. Managing cost pressures and new funding models

In our Long Term Plan (LTP) 2018-2028 we are putting a stronger focus on the money we collect from fees and charges and from **targeted rates**, where it is easy to identify who is using or benefits from the services we provide. There is a case for **greater use of these tools** however; these are just cost allocation mechanisms i.e. if targeted rates and user charges go up general rates go down.

We are borrowing money to pay for some assets, such as our flood protection structures. This allows us to **spread the cost over time** and **ensure future generations will pay** for the benefit they will receive. General practice is to debt fund and fully fund depreciation to achieve a fair distribution across generations.

The LTP can be a very effective mechanism for addressing cost pressures and public preferences, but its success is largely related to the quality of the internal process and the depth of submissions received. The **development of a Long Term Plan** can be in itself a costly and expensive undertaking that few organisations, including central government organisations, would undertake in the way the legislation requires. The LTP does provide a framework for decision making, however, the quality of the result depends largely on the individual Council's robustness of asset management planning, forecasting assumptions, and the depth and quality of public feedback.

In appraising **new approaches** to funding and financing, the **appropriate principles** would include how well the potential new approaches improve the ability to meet LGA section 101(3) funding requirements, whether they are efficient to administer, and the extent to which they expand and diversify the revenue base. Any changes to funding mechanisms are likely to be unpopular to those that face increased costs, and having too many fees and/or rates increases administrative complexity and effort.

The choice of **land value and capital based** rating systems should largely depend on what drives service delivery. For example, territorial local authorities often serve a population so capital value is appropriate as building value links to accommodation required. In contrast, regional councils providing service like biosecurity have their costs driven by the area of the land which is linked with land value. The main advantage of property rates is that this is only used for council funding so there is transparency of costs and services. The major disadvantage is that property values do not always correspond well with income or affordability measures.

Local income and expenditure taxes would add to the complexity of the tax system, and may not be an efficient way to collect revenue. Local income and expenditure taxes could consist of local, regional and government taxes. Local income and expenditure taxes could correspond better with income and affordability, but there are serious 'transaction cost' and complexity issues to resolve.

Some **fees and charges** have **maximum costs** set by legislation, these should be removed. Additionally, it is unclear what the rationale is for the 30% limit on the Uniform Annual General Charge. There is ongoing debate around the application of development contributions and the types of asset they can be applied to, which creates long term funding uncertainty.

Financing barriers are mainly related to debt limits and the main barrier is the ability to fund large areas of new infrastructure or development. While debt constraints are appropriate for 'business as usual' there is no clear analogy to a new capital/equity raise for a rapidly growing business.

Private investment in council assets is a double edged sword. This can make more capital available, however, the cost of this capital is always greater than the council taking on debt. Private provisions of infrastructure services (like PPPs) would often be more expensive than council funding and procurement, however, an increased onus on developers to provide infrastructure to support their subdivisions would be a benefit to councils, at the risk of increased house prices.

Local property taxes would mean that a set proportion of property values are paid. Council revenue would therefore fluctuate based on property value changes and Council's may need the ability to run unbalanced budgets, which could be a high risk proposition if property values decline and remain depressed. In addition, property values do not reflect the cost of services provided. We do not believe that a property tax is the correct path to take. A **tool similar to tax increment funding** could be put in place through amending rules related to targeted rates. For example, new infrastructure could be debt funded and recovered through targeted rates with an interest premium applied.

We believe the best **transition pathway** is to incorporate changes through a Long Term Plan cycle. To do this effectively and allow for councils to undertake their own analysis, enabling legislation would need to be in place 18 months before a Long Term Plan is due to be adopted.