



Steven Bailey
Inquiry Director
Productivity Commission

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Dear Steven

LOCAL GOVERNMENT FUNDING AND FINANCING INQUIRY - DRAFT REPORT

Thank you for the opportunity to make a submission, and my apology for MSD's submission being slightly late.

MSD recognises the extensive work to date to produce the draft report. The report laid a very good platform for people to consider the issues and challenges in this important area.

As your draft report makes clear, local government funding and financing is a broad topic. Our focus has been on the most significant implications of the draft report for both MSD and the people who need MSD's support. In that context, the key issues we would like the Commission to consider are (PC= Commission; LG= local government):

- The desirability of the PC taking a wider perspective on LG's role in promoting social wellbeing.
- The importance of further considering government (across levels) as an inter-connected system.
- The range of opportunities that exist for LG to work closely with MSD and other parties (examples are given below).
- The desirability of the PC adding a 5th priority to bring social wellbeing into greater focus in its work.
- The importance of a broad perspective on matters of equity and fairness. (The PC view is, in our view, narrow.)
- 'Ability to pay' is more important than the PC suggests. (The PC strongly favours 'the benefit principle'.)
- More focus may be needed on funding services in communities with lower financial resources.
- Community involvement is essential and likely to require extra effort for people receiving government support.
- The proposed Rates Postponement Scheme needs careful thought and design.

Further explanation of these issues is attached to this letter. I hope MSD's submission is a useful contribution to your ongoing work to complete the inquiry.

Kind regards

Peter Alsop
Director Strategic Issues & Investment

FURTHER EXPLANATION OF KEY ISSUES RAISED BY MSD

Desirability of a wider perspective

MSD sees potential for the Commission to take a wider perspective on the role of local government in supporting and promoting social development and social inclusion. These aims are currently not visible in the report. Our suggested focus would be consistent with the legal requirement that local government pursue 'the four wellbeings' (including social wellbeing). More practically, local government has a critical and wide-ranging role to play in building inclusive communities.

Importance of considering the wider system of government (across all levels)

The Commission has taken a view that, fundamentally, it is the role of central government to provide income support (and other forms of social support). Understanding the respective roles of government is important. All levels of government however, need to work together to pursue wellbeing, including to consider service affordability for different groups of people.

In MSD's view, the Commission's inquiry is an opportunity to consider a framework whereby funding considerations that relate to pursuing social wellbeing- part of local government's own purpose - are further examined. This could cover looking at collaboration and cooperation, including devolved roles and funding. This includes potential for councils to be funded (or further funded) for new or different services that benefit communities, where councils are best placed to deliver or manage funding.

Opportunities to better promote social wellbeing

From MSD's perspective, there are several touch points with local government - examples below - that give rise to funding considerations, and for which funding considerations may need to be further developed over time.

- Councils have a key role in contributing to the effectiveness of government support services, because support needs to be considered in a context of individuals, families and communities (with councils being instrumental in many aspects or dimensions of community support).
- Councils can play an important leadership role on important social issues, such as through the Mayor's Taskforce for Jobs. There are likely to be other such leadership opportunities.
- Councils fund community projects and groups, providing an ongoing opportunity for MSD to join up with councils on priority investments. This opportunity includes scope for joint funding, potentially across multiple parties with aligned or complementary community goals.
- Councils are significant land owners, providing potential opportunities for MSD to work with councils on creating work readiness programmes on council and public good projects.
- Councils conduct significant amounts of procurement and could potentially build in 'broader outcomes' (including social wellbeing considerations), such as capability development and employment outcomes (there are examples of this occurring, but potential for much more).

In MSD's view, it is not possible to robustly consider funding arrangements without consideration of *What needs to be funded? Why?* and *How should it best be paid for?* Initiatives like those above - consistent with local government's mandate to pursue social wellbeing - always need funding and therefore deserve greater consideration in this work.

Desirability of an additional priority related to social wellbeing

The Commission has proposed that the most important changes to the funding and financing system relate to (i) climate change; (ii) growth-supporting infrastructure; (iii) tourism hot-spots; and (iv) interface of central and local government regulatory regimes. These are important issues but - given the broad role of local government with respect to wellbeing - MSD considers a further priority may be useful. A priority related to (something like) 'building understanding of funding services and initiatives to enhance social inclusion' would keep the interests of all community members in mind (regardless of 'benefits' and 'ability to pay').

Importance of a broad perspective to considering 'equitable and fair'

The Commission has outlined quite a narrow view of these important concepts. In its assessment principles, for example, the Commission defines 'equitable and fair' as 'taking account of who benefits from local government services, including current and future generations'. In MSD's view, considerations of equity and fairness are much broader, and need to be considered broadly for any meaningful assessment of wellbeing and what should be funded, why and how.

'Ability to pay' is probably more relevant than the Commission proposes

The Commission has a strong view that 'the benefit principle' should be the primary basis for deciding who should pay for services (i.e. those that benefit should pay and pay in shares reflecting benefit levels). The Commission acknowledges 'ability to pay' should also be considered, but only as a distinct and subsequent step - and used in a transparent way. Underpinning the Commission's position is a view that 'central government [has the] primary role in income distribution'.

A potential problem with the Commission's framing is that, for many decisions made by local government, the attribution of benefits is very difficult. To use an example of a community facility (say a library or sports facility), are the beneficiaries those that use the facility? Have the option to use it? Those who place value on other people using it? Or those that don't explicitly think about the facility at all but nonetheless value living in an inclusive community? And should today's direct users - the people that turn up - pay a bigger share, or is the more significant and enduring benefit an inclusive community that is a good place to live? Local government is constantly making these sorts of judgements, such that a very broad perspective of the value of investments, and how they are funded, is required.

The Commission has suggested that 'statute should provide unambiguous support for applying the benefit principle in the first stage of setting rates'. In MSD's view, this amendment may increase the risk of local government deprioritising investments that, at their core, aim to build more inclusive communities (investments that often have longer payback timeframes and very diffuse beneficiaries).

More focus is needed on funding services in communities with lower financial resources

This is an important funding issue that may need further consideration by the Commission. The Commission notes that 'some communities have higher proportions of households on low incomes ... [and] find it challenging to raise sufficient rates to match the infrastructure and service provision standards that are common in better off communities'. This raises obvious equity considerations, and several other factors such as the attractiveness of towns and smaller cities to attract people (including to manage population growth and density in other locations); and New Zealand's overall ability to meet wellbeing-related goals given the criticality of community amenities, services and infrastructure to peoples' quality of life.

Having positively raised the issue, the Commission's consideration of this matter is quite limited. The Provincial Growth Fund is noted, though briefly and only in the context of tourism infrastructure. It is also noted that 'central government recognises this [issue] by providing more generous subsidies for road, through the New Zealand Transport Agency. Policies to support local communities in adapting to climate change and in the provision of the three waters may need

a similar approach.' The wider policy issue is how to ensure inclusive social wellbeing and, in the context of this inquiry, the role of local government and how that role is funded.

Community involvement is essential & likely to require extra effort for people on government support

The Commission notes the importance of local authorities delivering quality services and amenities 'reflecting the preferences and aspirations of their communities'. This raises the important issue of how people are involved in service identification, design and commissioning.

The Commission notes 'the effectiveness of decision making by local government ... largely depends on the public understanding, and taking part in, local democratic processes - both of which are notoriously low'. This comment relates to the overall population, and the participation rates of people who are not paying rates (or for other council services directly) is likely to be even lower. The Commission may need to consider this issue more fully.

The proposed Rates Postponement Scheme needs careful design

The Commission has proposed that 'the Government should work with local government and suitable financial providers to develop and implement a national rates postponement scheme'. This is a matter MSD would have a particular interest in, both in terms of who the responsibility is vested with and how it is designed (including the interface with retirement support and the Accommodation Supplement).

Councils currently operate a 'Rates Rebate Scheme', centrally administered by DIA, which the Commission suggests should be replaced. The Commission is quite critical of the current scheme: 'RRS is targeted to low-income homeownership households. The RRS is inequitable (because renting households in otherwise similar circumstances do not qualify), administratively cumbersome and modest (the maximum payment amounts to a little over \$12 a week, or \$630 a year).' The Commission has positively shown here that it is mindful of affordability and fairness (in this instance between renters and owners). However, in discussing the matter, the Commission is also perhaps unrealistic when it says: 'Low-income homeowners can, as an alternative, access equity in their properties to help meet living costs including rates.'

As earlier noted, the Commission's discussion of affordability seems hampered by the assumption that 'redistribution of income is primarily a role for central government, given the better information it holds (e.g. about household income and composition) and its large-scale and efficient tax and benefit systems'. MSD agrees that the interface issues are very real, but that is cause to better understand them, and the complementarities and potential comparative advantages of central and local government (and not to conclude that affordability is tangential business for local government).