SUBMISSION

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To: **NEW ZEALAND PRODUCTIVITY COMMISSION**

Submission on: **LOCAL GOVERNMENT FUNDING AND FINANCING:**

DRAFT REPORT

From: **FEDERATED FARMERS OF NEW ZEALAND**

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SUBMISSION TO THE NEW ZEALAND PRODUCTIVITY COMMISSION ON LOCAL GOVERNMENT FUNDING AND FINANCING: DRAFT REPORT

1. INTRODUCTION

1.1 Federated Farmers of New Zealand values this opportunity to submit our views to the Productivity Commission on its Local Government Funding and Financing Draft Report.

1.2 Our organisation and its members regularly engage with councils across the country on their annual and long-term plans and associated funding and financial policies.

1.3 We do this work because it is important. Local authority rates are a substantial component of the operating cost of any farm, and our members demand that we engage with councils. As such local government is one of Federated Farmers' top policy priorities.

1.4 The Commission's consultation process on the inquiry has been valued by our membership. We appreciate that there has been broad engagement with a range of stakeholders outside of local government.

1.5 We have mixed feelings about the proposals and findings in this draft report, in that they largely represent a re-working of a current funding model that we believe will continue to fail communities.

1.6 The Commission has offered thorough analysis of the finances of the local government sector and its challenges, but unfortunately has done little to address the question of rates allocation between different types of properties within districts and regions.

1.7 The solutions proposed are in many ways patchwork and incremental. Their implementation would not result in true reform and would do little to increase the low confidence communities have in their councils, or alleviate the systemic problems of underfunding infrastructure and relying on a smaller pool of ratepayers with high value properties for disproportionate general revenue spent on services to the whole community.

1.8 Redevelopment of council rating policies to reflect the benefit principle is strongly supported but would require rigorous and prescriptive legislation to ensure it is implemented properly. It is not realistic to anticipate that simply switching to a targeted rate model would do anything substantial to alter the current distribution and allocation of rates.

1.9 Removal of the powers to set a Uniform Annual General Charge (UAGC) and differentials would be disastrous for the farming community, especially under a preference for land value rating and without any strong direction to councils on how the rating system should reflect the benefit principle.

1.10 Federated Farmers is a member of the Local Government Business Forum and we support the Forum's submission. We agree with its concerns about (1) the limitations of the Inquiry's terms of reference and (2) the draft report's assessment of that the reintroduction of the four well-beings will not have a material impact on council activities or spending.

1.11 This submission is in four parts. In the first part is this introduction. The second part provides an executive summary and key recommendations. The third part provides our views overall according to the structure of the Overview section in the Draft Report. The fourth part provides responds to the series of questions asked of submitters.

1.12 Federated Farmers would welcome the opportunity to meet with the Commission to discuss the points made in this submission.

2. EXECUTIVE SUMMARY

2.1 Federated Farmers does not agree with the key finding of this Draft Report, that the current funding and financing framework for local government "measures up well". It is our view, and the view of many in local government, that the existing framework is not fiscally adequate. Incremental adjustments to the framework may improve areas of financial pressure, but in the long run local government will continue to under-perform while it relies on property value rates as its principal source of taxation revenue.

2.2 Federated Farmers fundamentally agrees that the rating of property owners should be based on the benefit principle. However, as long-standing and regular local submitters on annual and long term plans we cannot see this happening in practice if local authorities retain wide discretion on how to apply the benefit principle.

2.3 We do not agree that property value rates carry the qualities of transparency, accountability and equity claimed in the Draft Report. Our arguments were set out in our submission on the Commission's Issues Paper.

2.4 Federated Farmers agrees on the four major areas of pressure on local government finances that the Commission has identified:

- Supplying enough infrastructure to support rapid urban growth (although possibly even more pressing is the costs to low growth councils of maintaining and renewing/replacing ageing infrastructure)
- Adapting to climate change
- Coping with the growth of tourism, and
- The accumulation of responsibilities placed on local government by central government.

2.5 The restoration of the four well-beings to the Local Government Act (LGA) 2002 should also have been included as an area of pressure. It suggests a wider brief from central government for councils to expand their role. The Localism movement within local government should also not be discounted as a future pressure on local government finances; it will likely raise community expectations as to the role of local government.

2.6 The farming community is paying for tourism through rates, in some instances for the marketing of destinations by councils and also the mixed-use infrastructure used by tourists. We agree with the view that existing funding tools are leaving a gap, and that the existing contestable funds are not sufficient to meet it.

2.7 We agree with the view (R6.8) that revenue from the International Visitor Levy should in part be availed to local government to meet the cost of tourism impacts on mixed use infrastructure.

2.8 We support the recommendation (R6.7) that government should legislate to enable councils to implement accommodation levies to recover tourism-induced costs. This is consistent with the benefit principle.

2.9 Overall we support the recommendations (R5.1 to R5.8) to improve the decision-making quality and transparency of councils, that all councils should be required to have an audit and risk committee, and that the local government financial reporting framework should be subject to a first principles review.

2.10 We contend that the quality and transparency of council consultation processes have deteriorated since the 2014 amendments to the LGA 2002, and more prescription as to content and procedure is needed in the LGA.

2.11 We agree that council rating decisions are often non-transparent, with a confused consideration of benefits, affordability and local politics. Much of this could be rectified with legislative requirements that councils, for example, report the extent of their use of uniform charges as a proportion of total rates, what services are funded by the UAGC and why, and itemising the cost of general rate funded items for individual ratepayers of benchmark example properties.

2.12 We agree that the LGA presently provides only weak support for allocating rates primarily according to who benefits from council services. Local politics dominate such decisions, and this should be a cautionary factor to consider when designing legislation to emphasise the benefit principle.

2.13 Given the Commission's view that consideration of benefits should be the first principle in allocating rates we are puzzled that among the Commission's recommendations is the abolition of differentials and the UAGC.

2.14 While haphazardly applied many differentials are implemented according to a council's perception of the benefit principle; for rural differentials these might be based on the distance from amenities and the less dense population in rural areas. Removal of councils' power to apply differentials to the general rate would have a disastrous effect on rates distribution in rural and provincial areas in some jurisdictions.

2.15 Similar can be said as regards the UAGC. While it might be considered a rather opaque general rating tool its use is often based on a benefit rationale, i.e. that all properties hosting people should make a minimum contribution to council's income to pay for general services.

2.16 In our view the removal of the power to use differentials and the UAGC would weaken councils' ability to reflect benefits in their rating allocation.

2.17 We strongly disagree with the finding that rating of unimproved land value is the most efficient method of funding.

2.18 We do not support the proposition that councils should be provided with a source of revenue from value capture, or a particular tax on vacant land.

2.19 We support the recommendation that the statutory cap of 30% on uniform charges be removed.

2.20 We support in principle the recommendation that central government should provide systemic funding support to assist councils in adaptation to climate change, and that the New Zealand Transport Agency (NZTA) operates a fund for this purpose as it relates to the roading network. This would be preferable to a contestable fund, where councils that have a greater administrative capacity to make applications for funding have an advantage.

3. OVERALL COMMENT ON THE DRAFT REPORT: OVERVIEW

3.1 We wish to compliment the Productivity Commission on a comprehensive report on this complex issue.

3.2 The Commission identifies a number of areas where the system of funding and financing councils is failing communities.

3.3 We are encouraged by some of the proposals suggested to improve the way councils manage cost pressures, make decisions, and deliver and fund their services.

3.4 The Draft Report however proposes no fundamental changes that in our view would improve the overall equity and efficiency of local government. In part this is due to the restrictions placed on the Commission by the Inquiry's terms of reference, including the inability for it to discuss and make recommendations on important issues such as rateable land exemptions and asset sales. The ongoing credibility problems the sector has in terms of its funding in particular will continue.

3.5 Principles for local government funding and financing

3.6 We agree with the principles set out on page 1, that the Commission has used to assess the adequacy of the funding and financing options available to local government and potential new funding tools.

3.7 We do not however view the findings and recommendations in this draft report as likely to improve local government's performance in terms of these principles, particularly on equity and sustainability. Rather, this draft report takes an incremental approach embracing better arrangements with central government and a renewed emphasis on benefits when allocating rates.

3.8 As stated in our previous submission we do not believe property value rates are in any way equitable for the funding of many local government services. This is particularly so when differing land uses, for example residential land and farmland, are combined in the same rating base.

3.9 We are disappointed that that this report has made a case that there is equity within current funding arrangements, but offers no quantified evidence of the contributions made by property groups or sectors nationally to local government rate revenue. We restate our call for analysis on these contributions to be undertaken and published.

3.10 We are also disappointed that there is no analysis or commentary on how different council activities are funded (user charges, general rates, targeted rates, subsidies, investment income, development contributions, etc.) across local government. Through our work on council long-term plans and annual plans we have found wide variation in council practices, which directly reflects how rates burdens can vary so markedly from council to council. Some case studies would have been helpful.

3.11 The role and scope of local government

3.12 Relative to examples overseas local government's scope may be viewed as relatively narrow. It is however the aspiration of local government to expand this scope, as evidenced particularly by the current "Localism" trend and the view that local government should be at the forefront of a variety of issues, including local health and social welfare services. This is identified as a cost pressure in the context of central government withdrawal on pp 69-70 of the Draft Report.

3.13 Central government is also actively encouraging a wider scope for local authorities. The Minister for Local Government, the Hon. Nanaia Mahuta, issued a media statement as recently as 18 August entitled “Powering Up Community Well-being” in which she called for a local government focussed on well-being, and announced a “far-reaching” programme involving local councils in realising community ambitions and potential. Among other things in the programme it is envisaged that councils would be involved in the design and targeting of public services provided by central government.

3.14 This does not suggest a static, narrow scope for local government as suggested in the Draft Report, rather an evolving and expanding role is envisaged by leaders in both central and local government. We urge the Commission to take another look at the future impact of localism and the four well-beings on council activities and spending. Also crucial is whether property value based rates are an appropriate way to fund ‘wellbeing’ related activities.

3.15 The current funding and financing options

3.16 It is true that local government has a wide range of funding tools to choose from. However, other than fees and charges, subsidies, and investment returns, all of the mechanisms relate to property owners and developers. The inherent qualities of these mechanisms must therefore be based on the assumption that local government will continue to primarily be an infrastructure network and service provider – which seems at odds with the ambitions of local government itself, the power of general competence in the Local Government Act 2002, and the recent restoration of the four well-beings to that Act.

3.17 Current funding and financing options are indeed varied, but in our experience councils have shown a low propensity to take these up. The variety of options for basing targeted rates in Schedule 3 of the Local Government (Rating) Act 2002 for example are heavily under-utilised, and the greatest use of targeted rates is for the three waters (although stormwater is funded by general rates in some jurisdictions, and water supply is subsidised by general rates in others).

3.18 The analysis supporting increased use of targeted rates in recent years notes that they are mainly related to the three waters. In our experience for areas of council activity that are not connected network utilities it becomes very difficult to convince a council to introduce them. We have for example over many years sought targeted rates to fund the promotion of tourism-related business with limited success, and find our members therefore paying for tourism promotion on the value of their farms via the general rate. We have had the experience also of targeted uniform charges – differentiated according to area of direct benefit – for pools and libraries being removed on the grounds of affordability.

3.19 A diversity of circumstances

3.20 The Commission has adequately covered the diversity of circumstances within local government in the draft report; it presents a huge challenge in terms of reforming the current system of local government funding and financing.

3.21 The Commission’s response tends to emphasise the needs of “growth” councils with deficits on new, required infrastructure. We see little in this draft report that would offer hope to councils with low population growth and density facing challenges associated with ageing infrastructure.

3.22 The importance of good quality decision making

3.23 The importance of good quality decision making cannot be understated. The farming community, given their high proportion of rates, have a big stake in the financial health of their councils and in commitments councils make that affect general rates levels.

3.24 In our view the institutional and legislative frameworks related to the LGA 2002 are generally weak. While there are of course exceptions, the transparency of financial decision-making has declined since the enactment of the LGA 2002, which removed the three-step decision-making requirement for funding activities with rates and replaced it with the broad principles now at section 101 of the LGA 2002.

3.25 Meanwhile, the 2014 reforms to the LGA's consultation requirements, which downgraded requirements around consultation on annual and long term plans, have taken further rigour out of the process.

3.26 For example, it is optional whether councils report the percentage of rate revenue that is derived by uniform charges, or what services are funded by the uniform annual general charge. This is a vital piece of information for farm ratepayers in terms of consultation on who pays for what, but is reported only in a few districts and regions, for example Thames Coromandel and Whakatane district councils.

3.27 Only a few councils provide genuinely itemised rates assessments that break down spending from what is funded from the general rate. Ratepayers have little idea of what is bundled into their rates bill, and have little chance of making a realistic assessment of the value of what council does. To address this the Shand panel recommended "*That councils improve the information in the rates assessment notice, in particular by including detail on allocation of each assessment for particular activities*" (recommendation 82), but little interest in advancing transparency in this way has been shown by local government.

3.28 As an interested participant in annual and long term plan consultation processes we are more and more resorting to the Local Government Official Information and Meetings Act to obtain basic information on rates allocation and service delivery. In our view far too much discretion is afforded local authorities in terms of the manner, content and quality of their consultation processes and documents.

3.29 Consultation on vital issues such as rate increases are now largely confined to the Long Term Plan (LTP). Everything relies upon what a council determines itself as 'significant', and their interpretation of transparency.

3.30 Any attempt/ambition to introduce rigour into decision making as it relates to rates setting will require a stronger institutional/legislative framework. As well as reintroducing into the LGA the three step decision-making requirement for funding activities, we suggest that regulations on how to decide are needed, similar to the financial prudence benchmarks.

3.31 Indeed, it is these days an open question as to whether such policies as the revenue and financing policy are required to be reviewed in a three year cycle. The LTP itself is not subject to the Special Consultative Procedure.

3.32 Clearly the present legislative and institutional framework for local government decision making offers ratepayers and citizens few guarantees of rigorous transparency, and little if no recourse on questions of process and natural justice other than judicial review.

3.33 For these reasons among others the Shand Inquiry recommended "*that consideration be given to establishing an independent unit with power to review financial decisions*" (Recommendation 94).

3.34 The current funding and financing framework

3.35 We do not agree with the proposition that "the current funding and financing framework measures up well" for the many reasons stated in our submission on the Issues Paper.

3.36 The existing framework is resulting in general rates costs in multiple thousands for our farmer members (as illustrated in the results from our 2019 Rates Survey included in our submission on the Inquiry Issues Paper), while the services upon which they principally rely – the roading network and flood protection and drainage in particular – are in static or deteriorating condition.

3.37 Principally our concern is at that the qualities of property value rates and charges, as the principal source of local authority revenue, are not closely examined in terms of their appropriateness to the services they fund or can be used to fund, or their equity in terms of who pays and why.

3.38 The Commission has drawn this conclusion without analysis of the contributions different sectors of the community are making to the array of modern local government activities. Our members, for example, would be most interested in knowing the aggregate contribution of farmland to rate revenue nationally, and more particularly the revenue of provincial and rural councils.

3.39 In the absence of analysis of who is paying for what it is difficult to understand how the Commission has arrived at the broad conclusion that the current framework measures up well. Property value rates and charges indeed have attractions to the collectors of the tax, but afford few of the qualities required for individual ratepayers to maintain confidence in their councils.

3.40 The Draft Report references the "relatively narrow scope of local government in New Zealand as a factor supporting the benefits of a property-based tax system", however local government itself and central government clearly have ambitions for a broader scope. There is particular interest in the sector in involvement in social services such as health, and as indicated in the Draft Report councils are finding they are seen as a provider of last resort where social deprivation is high and central government support is not available (Opotiki, Wellington pp. 69/70).

3.41 We do not agree with the finding that rating of unimproved land value is the most efficient method of funding. There is perhaps an argument for this in a jurisdiction where property use is homogenous (e.g., a fully urban area), but if urban and farm land are combined in the same rating base rate allocation would shift heavily onto farms (unless moderated by the use of differentials). In high growth districts undifferentiated land value can be a driver to convert productive farmland to residential and lifestyle uses. Capital value rating, for all its many flaws, at least gives council access to the value of buildings where the people who benefit from council services reside.

3.42 Scope for councils to make better use of funding tools

3.43 Significant opportunities for councils to make better use of funding tools have always existed; even in the days of the (repealed) Rating Powers Act 1988 there was scope to apply separate rates, uniform charges, and value in use postponements in addition to general rates.

3.44 Section 101 of the LGA 2002, which sets out the considerations for funding activities, is relatively open-ended and offers councils full discretion to utilize the range of methods availed in the Local Government (Rating) Act 2002.

3.45 Except however for the funding of three waters infrastructure, we have found targeted rates very difficult to attain and have experienced their removal in some jurisdictions in favour of "district-wide" rating philosophies.

3.46 Whakatane District Council for example in 2012 removed targeted rates for its aquatic centre and library facilities, that were uniform charges differentiated according to the distance from the facility (an urban/ rural differentiation). Funding was moved to the capital value general rate, and the rationale for this was that this would make the services more "affordable" to residents of lower value properties. The incidence of home ownership among low income households, or the workings of the Rates Rebate Scheme did not feature among the considerations for this decision.

3.47 In recent years we have also experienced reductions in the UAGC in favour of general rates on property value, the case for which has been made again on the basis of affordability (South Waikato, Hauraki, Opotiki).

3.48 The result of such decisions is generally a sizable increase in rates on farmland relative to urban property, and in no way reflect any willingness to embrace benefit or user pays principles over political considerations.

3.49 The analysis of rating tools and their use (Insight Economics) focuses principally on the incidence of the use of the various tools, general rates, targeted rates, uniform charges etc, but does not examine the underlying merits of their allocative impacts.

3.50 We agree that there are certainly councils doing better than others. Some simply kick for touch and operate with very "simple" systems consisting of targeted rates for water and wastewater, and a general rate and uniform annual general charge. Others may have much more targeting in their rating systems. The incidence of this is haphazard however, and is unlikely to change unless there is a legislative requirement for a more consistent approach.

3.51 The best way to use the current funding tools

3.52 We agree wholeheartedly with the Commission's favour of the "benefit principle" as the primary basis for deciding who should pay for local government services. The real challenge to this proposition however is it how it might be achieved within a system of property value rates, and what hope there would be of local authorities applying it where they have discretion.

3.53 We support the "beneficiary pays" approach particularly because property value rates are a very poor indicator of ability to pay, representing as they do the value of an asset against which debt may be held and is but one component of wealth. We agree though that property value rates can to some extent be targeted and differentiated to achieve an approximation of direct and indirect benefits.

3.54 Caution is urged however on the basis of the way the benefit principle is presently applied in local authority revenue and financing policies. The benefit principle exists in the LGA at s.101[1] and is part of the funding principles of a number of local authorities. Its interpretation and implementation is however at best haphazard and does not portend well for a regime over which local authorities have discretion.

3.55 In our experience the “benefit principle” can be interpreted in a number of different ways. It may for example be assessed on the basis of public vs private good elements in the provision of a service. That part assessed as a public good is simply allocated to general rates.

3.56 As noted above councils may choose the “ability to pay” principle, in order to use general rates, or the benefit principle cast as “public good” to achieve the same end. Either can be adapted to suit the electability of councils. To anticipate any rigour on the part of councils in the application of funding principles over pragmatism is a charitable and perhaps somewhat naive expectation.

3.57 We find this pragmatism certainly extends to the application of fees and charges along user pays lines. In our experience councils will endeavour to fund the “private good” element of services by way of fees and charges, however if public use of a facility declines they will reduce fees and increase the rates element of funding to achieve higher public satisfaction levels.

3.58 Federated Farmers supports the use of the benefit principle as a primary emphasis in the allocation of rates, but for the reasons above we contend this would require prescriptive regulation to achieve compliance, as opposed to the present framework-with-discretion basis of the funding provisions existing in the LGA2002.

3.59 We agree with the argument that costs should be shared with central government where services with local benefits have national spill overs, and that central government should fund services with national benefits. A revenue share from central government would also help with funding to meet costs of legislation and regulation imposed on councils.

3.60 As reflected in this draft report there has over time been a shifting of costs from taxpayer to ratepayer at a number of levels. The existing framework of local government funding and financing is failing in part because of this pressure, particularly on smaller councils with already stressed rating bases.

3.61 New funding tools are needed to address key pressures

3.62 Federated Farmers overall supports the view that new funding tools are required to address financial pressure points.

3.63 For farmers this is the default position if the existing framework of funding and financing is to be retained. As outlined in our submission on the Issues Paper rates on individual farms and their households are at alarming levels on account of the knock on effects of the pressures on local government, and given that a sizable portion of rates revenue can be obtained from a numerically small group using property value rates.

3.64 Given the Commission’s view that the fundamental framework of local government funding and financing measures up well, yet has also accurately identified a number of problem areas, then new funding streams will be needed to address those problem areas.

[1] S.101(3)(a)(ii) the distribution of benefits between the community as a whole, any identifiable part of the community, and individuals;

3.65 New funding tools for growth supporting infrastructure

3.66 The farming community is experiencing, either directly or indirectly, impacts from the four key areas listed as being pressure areas in need of new funding tools;

- Supplying enough infrastructure to support rapid urban growth (although possibly even more pressing is the costs to low growth councils of maintaining and renewing/replacing ageing infrastructure)
- Adapting to climate change
- Coping with the growth of tourism, and
- The accumulation of responsibilities placed on local government by central government.

3.67 Value capture

3.68 Rapid urban growth in districts that include farmland can result in costly spill-overs into general rates, where debt and development contributions have been insufficient to match the costs.

3.69 Proximity to urban growth areas can also inflate farm rateable values, even though they are located in rural zones, so the impact can have a double-whammy effect on rates.

3.70 Costly urban infrastructure such as footpaths and streetlights may also be funded through roading rates – whether general or targeted – resulting in this cost finding its way to farms, including those that are geographically remote from the nearest footpaths and streetlights.

3.71 We are not supportive of a value capture methodology to support the cost of new infrastructure. This would be extremely difficult to implement as property value increases can only be theoretical unless the property is sold, and a ratepayer should not be obligated to share such a value with councils without necessarily an opportunity to benefit from the resulting expenditure.

3.72 Equally, the property subject to value capture may be a farm or lifestyle block upon which the owner wishes to continue their existing property use. In fact among the recommendations of the Shand panel was that councils "*be encouraged to make more use of their powers for flexibility in rating so that the rating burden better reflects value in use.*" This is a significant matter of equity and natural justice for ratepayers in peri-urban situations, with properties in proximity to development and growth.

3.73 Value capture methodology is not consistent with the benefit principle, would be costly to administer, difficult to define, and would be at best an unpredictable source of revenue for councils in growth situations. It may artificially stimulate growth in unwanted areas, where land is developed as it is too expensive to retain low intensity land uses.

3.74 Volumetric water and wastewater charges

3.75 This charging methodology has an inherent user pays logic to it. We strongly support it and consider it could be made mandatory.

3.76 The experience of districts with water metering and volumetric charging is that the water resource is used much more efficiently than is the case where payment is by uniform charge or rates (e.g., Kapiti Coast).

3.77 Special Purpose Vehicles

3.78 This is an interesting proposition that might be of a value to the very small number of high growth councils struggling to match development contributions to debt, and should be considered in those instances.

3.79 However, an SPV is not likely to be of assistance to smaller and low growth councils that are also reaching their debt limits, and have no prospect of development contributions or sources other than ratepayers or central government to manage the problem.

3.80 Opotiki District Council indicated for example in its 2018 LTP that its debt limits would be breached within that Plan's cycle, and Whakatane this year replaced their debt cap with a debt-to-revenue ratio as a way around their previously self-imposed limit.

3.81 Central government payment based on new building work put in place

3.82 Again this suggestion has potential for high growth councils and would certainly challenge central government in terms of its policy objectives for housing to make a partnership style commitment to meeting demand. We support it being further considered.

3.83 Tax on vacant land

3.84 We have a number of reservations about the merits of a tax on vacant land.

3.85 Firstly the question is definitional. What would be considered vacant land; would it be land within urban zones that is greenfield or brownfield, or in any zone that a council considers suitable for housing? Would land that is grazed by livestock or grown in crops be considered 'vacant'? We would contend that land in economic use should not be considered vacant.

3.86 Not all growth is necessarily good, particularly if it is unplanned and unmanaged. A tax on vacant land might encourage intensification of property use which is not desired by a council in that particular area.

3.87 A tax on vacant land would not be consistent with the benefit principle, given that vacant land places little if any demand on council services.

3.88 We understand it has been utilised in the past by some local authorities which have applied rating differentials to vacant property in excess of 1.00 against residential property, without noticeable impact.

3.89 Funding support for tourism hotspots

3.90 Federated Farmers has for some time expressed concern at the level of support the tourism industry receives from ratepayers through the provision and maintenance of necessary infrastructure, and the active promotion of tourism through destination marketing by both district councils and central government.

3.91 We have worked hard in a number of jurisdictions to get the cost of tourism marketing funded by a targeted rate on the businesses that directly benefit, with varying degrees of success. In Rotorua Lakes District for example sheep and dairy farms have paid a great deal over the years through general rates toward the marketing of Rotorua as a key tourism destination. In Ruapehu District we have had recent success with council enhancing the targeted contribution paid to the RTO, and there are other examples such as Hurunui and Thames-Coromandel districts.

3.92 It seems distinctly unjust that central government reaps the majority of tax revenue from tourism businesses but only offers modest contestable funds requiring prior commitment from ratepayers for projects to be eligible.

3.93 Farmers in some jurisdictions also face the costs and risks of impacts on low volume roads during the peak tourism season of January-February.

3.94 We support the proposal that government should legislate such that councils in tourism centres can apply an accommodation levy without fear of legal challenge. We would however suggest that the tourism industry should have a say in how much is levied and how the funds raised are to be spent, just as we expect farmers to have a say on flood protection/land drainage rates and pest management rates.

3.95 An accommodation levy would, if the money raised is spent on tourism promotion and tourism related activity desired by the industry, fit with the benefit principle and would constitute a long overdue addition to the funding tools of councils and take pressure off the general rate.

3.96 It is anticipated that the International Visitor Levy will also raise funds that can be put toward local government's costs of tourism. This is likely though to be in the form of contestable funds, such as the Tourism Infrastructure Fund (TIF), with all the associated costs of application and the uncertainty of receiving funding. We support the TIF but it needs to be expanded to include mixed use infrastructure.

3.97 Adapting to climate change

3.98 As indicated in our submission on the Issues Paper Federated Farmers believes this issue is in need of leadership from central government in the areas of science and overall direction as well as assistance with the costs of adaptation.

3.99 The farming community makes a considerable investment in climate change adaptation, and bear the majority of costs for vital engineered components such as flood protection works and land drainage schemes.

3.100 Clearly leadership is required from central government on this challenge, which is a national priority but with the most significant impacts being the risk to local infrastructure.

3.101 Where such risks are identified the cost should not fall entirely on ratepayers; it should not only be the owners of property directly paying for adaptation. It would seem that this is an area for which the existing system of local government funding and financing is unsuited to an equitable and cohesive response (local authorities with large ratepayer bases will have an advantage over those that don't, regardless of the fact that the overall problem of climate change is an international one).

3.102 We support the potential use of the National Land Transport Fund, through the Funding Assistance Rate (FAR) system, as a means of funding councils with roading networks that might be at future risk. This would be preferable to another contestable fund, although the criteria and adjustments would need to clear and concise to avoid routine maintenance being re-worked by councils to qualify for additional funding.

3.103 With a potential increase in plantation forestry as part of the forecast response to climate change councils will face the challenge of ensuring local roads can handle the impacts. Some councils have introduced rating differentials to capture the cost of this impact (Gisborne, Far North) and we support these forms of differentials.

3.104 We would support the establishment of a resilience fund for the three waters, to avoid in particular councils resorting to the use of general rates to support infrastructure that is at risk or unsustainable as it is presently designed.

3.105 Need to reset the relationship with central government

3.106 This issue has been well traversed in previous reviews of local government funding and financing and reviews of regulation (local and central government).

3.107 Clearly in the years since the 1989 restructuring of local government and the termination of statutory bodies such as catchment boards, there has been a considerable transferal of regulatory costs from taxpayer to ratepayer. A significant part of environmental management and biosecurity in terms of pest management have been left to ratepayers, along with the litany of examples shown in this Draft Report.

3.108 If central government is at all concerned about the capacity of local government to meet national policy objectives this issue must be addressed.

3.109 At the 2019 Local Government New Zealand conference central government strongly emphasised a partnership approach to regulatory challenges, with references to shared 'food baskets' and the like. These are easy words frequently spoken in conference settings, but without some form of binding commitment to funding, central government really has no incentive to develop effective regulation if its costs and externalities are not on the government's books.

3.110 The knock-on effects of the "unfunded mandate" can be lower service levels in other areas of a local authority's work. Implementing the Resource Management Act plan changes needed to give effect to a National Policy Statement for example not only carries the normal costs of such processes, but may result in Environment Court appeals as to interpretation, adding considerably to a council's overheads.

3.111 Councils with small, static or falling populations must adapt and will need support.

3.112 We gave this issue considerable attention in our submission on the Issues Paper, particularly as regards the failings of property value rates in jurisdictions with low population density and/or a high incidence of small townships.

3.113 We emphasised how councils in these situations are dealing with funding pressures, which is in our experience to wind down the UAGC (increasing the contribution from the small number of higher value properties, particularly farmland), removing targeted rates for services other than network utilities, and providing subsidies from general rates to the funding of those utilities.

3.114 In the Overview of this Draft Report the Commission makes the valuable observation that "A common strategy to address falling populations and associated funding pressures has been to develop plans and strategies to revitalise the local economy and stimulate population growth." Farmers have directly experienced the cost of such programmes through general rates, which is frustrating particularly in that the emphasis is almost exclusively on tourism and visitor growth.

3.115 Armed mainly with property value rates, and sometimes the promise of central government money through funds such as the Provincial Growth Fund, councils in static and declining situations are not in a position to stimulate economic transformation. There is however an unwillingness to withdraw from services or consider lowering rates on farm businesses as a means to stimulate local GDP.

3.116 In terms of local government funding and financing we contend that the maintenance of basic infrastructure and services in static and declining districts is as much a priority as addressing the challenges of growth. Funding options for councils in these situations are minimal, with little access to development contributions, debt reaching its limits, and property value rates and charges also at their limits. In these circumstances the existing system of local government funding and financing is clearly fiscally inadequate.

3.117 These councils will need support from central government if they are to successfully maintain the basic needs of their communities. The suggestion of a policy model similar to the FAR for local roads is supported.

3.118 Equity and affordability

3.119 We concur with the Commission's finding that councils address equity and affordability in different ways. This is as much about political pragmatism as it is about differing interpretations of funding principles.

3.120 A council may for example take the view that their district's libraries provide public benefit and therefore fund that activity on the capital or land value general rate. As result a farm household, even with a differential of less than 1.00, will pay many times more for libraries than urban households - a politically attractive proposition for elected councillors.

3.121 The same outcome can be achieved using an argument for ability to pay, i.e. that higher value properties should make a greater contribution.

3.122 We agree with the proposition that decision making on the funding of activities should be based on transparent steps, and should in the first instance be based on the distribution of benefits for that part that cannot be funded by fees and charges. If left entirely to local authority discretion, however, we would have little confidence that such a process would result in farm households making a more reasonable contribution to services and amenities based on their access to and benefit from them.

3.123 We sympathise with the concerns of the business community saddled with punitive and unjustifiable rates differentials but we disagree with Recommendation 7.1 that the Local Government (Rating) Act 2002 should be amended to remove rates differentials and uniform annual general charges. Removing rural differentials would be potentially disastrous for the farming community.

3.124 Concerns at the transparency of the setting and use of the UAGC can be dealt with by legislative requirement that councils show its composition, rationale (e.g. that it is used to fund or part fund services from which people, as opposed to property, benefit) and the proportion of total rates that it represents. The setting of targeted rates can easily be as opaque as the UAGC if there are no rules governing the reporting of their use to the community.

3.125 Differentials are themselves a valuable tool for reflecting the distribution of benefits, particularly between urban and rural sectors of the community. Their removal would considerably reduce the flexibility councils have to allocate rates on the basis of funding principles.

3.126 In an ideal world a system of targeted rates reflecting benefit distribution and ability to pay principles could be more transparent and equitable than many council rating systems extant. This however simply will not occur in practice; smaller councils will likely find targeted rates costly to administer and resist their use, or simply establish district wide targeted rates on property value that, while a little more transparent, have the same allocative effects as general rates.

3.127 In addition, if there is no ability to differentiate targeted rates the capacity of councils to reflect benefit in their allocation is very limited indeed.

3.128 Rates Rebate Scheme

3.129 The Rates Rebate Scheme (RRS) excludes agricultural land and is therefore of no value to the farming community.

3.130 Councils do not take the RRS into account when setting rating policy to reflect “ability to pay” considerations, despite the fact that the RRS targets low income households that directly pay rates, as opposed to those that are rented.

4. ANSWERS TO QUESTIONS POSED IN DRAFT REPORT

Q3.1 Is the current methodology for preparing the Local Government Cost Index sufficient for forecasting the prices that local authorities are likely to face? If not, should the methodology be improved, such as by one or more of:

- carrying out more frequent reweighting;
- including output indices; and
- disaggregating by council type?

The local government sector has long asserted that its cost pressures are different to those of consumers, as measured by the Consumer Price Index (CPI). The sector has long pushed back against ratepayers comparing their rates increases with movements in the CPI and points out that BERL’s Local Government Cost Index (LGCI) usually increases by more than the CPI (but they seldom acknowledge that the LGCI increases significantly less than increases in rates as measured by the local government rates and charges sub-index of the CPI).

Federated Farmers appreciates the Commission’s work assessing BERL’s Local Government Cost Index (LGCI), including commissioning Sapere to construct an alternative index. The draft report notes that “between 2007 and 2017, Sapere’s index was lower than the LGCI in all but one quarter, though total growth over the period was not materially different (32% compared to 31%)”.

Although the differences between the two indexes are not significant we agree that the LGCI methodology should be improved along the lines suggested in the draft report.

Regardless though, Federated Farmers will continue to reference rates increases against increases for both the LGCI and the CPI. Ratepayers are most interested in *assessing rates increases against the CPI, which is what is relevant to them as consumers.*

Q4.1 To what extent are the Treaty-related costs associated with fulfilling the obligations and requirements under local government statutes “business as usual” for councils? And to what extent should they be considered costs incurred to fulfil obligations on behalf of the Crown under the Treaty of Waitangi?

Federated Farmers does not believe that costs incurred by councils to fulfil obligations on behalf of the Crown under the Treaty of Waitangi (e.g., co-management arrangements) should be considered ‘business as usual’.

We believe central government has a responsibility to assist local government meet the costs imposed on councils by the Crown’s obligations under the Treaty of Waitangi. This is especially the case for co-management arrangements where there can be significant costs imposes on affected councils (and on Iwi).

That said, we believe that councils which themselves choose to develop stronger relationships with Maori, including building in formal processes for engagement, need to meet the associated costs from existing revenue.

Q5.1 The Commission is seeking more information on the advantages and disadvantages of reducing the frequency of LTP reviews, while retaining the requirement for annual plans. What would be the benefits, costs and risks of reducing the frequency of LTPs, from every three years to every five? What if five years were a minimum, and local authorities were free to prepare LTPs more frequently if they wished?

As stated in our submission on the Inquiry’s Issues Paper, Federated Farmers is most dissatisfied with 2014’s changes to the Local Government Act that were designed to ‘simplify’ consultative processes. We stand by our concerns that the coverage of rating impacts, rating policy and sources of funding has declined in quality in recent years. The attempt to simplify consultation has left too much discretion in the hands of councils as to what information and detail to present to the community and this results too often in non-existent or only superficial consultation, especially on draft annual plans.

Based on our experience with the 2014 changes to the Act, Federated Farmers would be very skeptical about reducing the frequency of LTPs and would most likely oppose changes in that direction.

Q5.2 Is it appropriate for local authorities to include an adjustment for anticipated price inflation when they set rates each year? If not, what disciplines could be applied to the rate-setting process, to encourage local authorities to seek to manage cost and price pressures through productivity improvements? What would be the benefits and drawbacks of such an approach?

Federated Farmers does not consider it appropriate for councils to include anticipated price inflation in their budgeting processes. As noted in the Draft Report, central government does not include provision for inflation in its budgeting. As is the case with central government, councils’ annual budget allocation for new spending should be tightly focused on the council’s key priorities and councils should be expected to manage within their baselines through reprioritisation and productivity improvements.

A strong commitment to value for money is very important to taxpayers and ratepayers alike.

Q5.3 Would establishing a capital charge for local authorities be an effective way of incentivising good asset management? What would be the advantages and disadvantages? Are there other, more effective ways of encouraging better asset management practices in local government?

Federated Farmers agrees with the Commission that effective asset management is "critical to ensuring efficient use of funds, making good decisions about how services are delivered and any trade-offs to be made, and achieving good quality outcomes."

No argument there but the challenge is how to encourage better asset management. This is a technical and somewhat arcane issue. That said, while we agree that ideas such as a capital charge have their merits and should be considered, we would be concerned if there was to be impacts on rates. Councils' approaches to charging for depreciation (and how revenue raised has been used by some councils) make us somewhat cautious about moves in this direction.

Q6.1 How desirable and useful would a tax on vacant residential land be as a mechanism to improve the supply of housing for New Zealanders? How would such a tax measure up against the principles of a good system of local government funding and financing?

As mentioned in our submission, we see some problems with this idea, especially how 'vacant land' could be defined in a way that does not include land being put to economic use, including grazing livestock and growing crops.

We are also dubious about whether there would be any link between the tax levied and the benefit received by the landowner.

Q6.2 What would be the advantages and disadvantages of a system of payments to territorial authorities based on new building work put in place in each territorial local authority? What would be the best design for such a mechanism? Would it be effective in incentivising councils to keep the supply of consented land (greenfield and brownfield) and local infrastructure responsive to growth pressures?

As mentioned in our submission, we see this as a potentially useful mechanism, especially for high growth councils and it could (by providing a financial incentive) make councils more amenable to development and growth.

Q8.1 What legal options exist for placing a condition on land-use consents that would make a voluntary assumption of risk by a current owner (and any person or entity who later becomes the owner) enforceable in all future circumstances?

Regarding land use consents, any conditions attached apply to that land use, so remain in force until expiry for that use (irrespective of owner) – so if it is a consent condition for a 25 year consent, that attaches to the resource use for 25 years, it is not attached to the owner – so those same consent conditions apply to the new owner/s.

*A **resource consent** lapses on the date specified in the **consent** or, if no date is specified, five years after the commencement of the **consent.** It doesn't expire when land sold, etc.*

<u>Can the conditions of a resource consent ever change?</u>
A council has the right to review the conditions in a resource consent, but only under certain circumstances. In some cases, a council might also place a specific condition on the consent that will allow it to review the conditions at set times. A consent holder can also apply to the council to change or cancel any condition (except the duration of the consent) at any time. They need to outline their reasons and the changes proposed. The council will be concerned about any additional effects and the effect on affected persons, including whether anyone new is affected (compared with when the consent was initially granted).

<u>Can someone transfer the resource consent?</u>
*This depends on the type of consent. **Any consent to do something on the land (called a land-use consent) is attached to the land and transfers to any new owner when the land is sold.***

Other types of consent (e.g., a consent to take water) might be able to be transferred with the land to a new owner. Whether this applies depends on what the consent, and sometimes what the plan, says. It's not automatic. If unsure about whether a consent can be transferred, ask council staff.

A consent holder can also give up (surrender) their resource consent. This means they no longer have the right to do the activity, or the obligation to comply with conditions – and they no longer have to pay any monitoring or supervision charges to the council.

5. ABOUT FEDERATED FARMERS

5.1 Federated Farmers is a member based organisation that represents farmers and other rural businesses. Federated Farmers has a long and proud history of representing the needs and interests of New Zealand's farmers.

5.2 The Federation aims to add value to its members' business. Our key strategic outcomes include the need for New Zealand to provide an economic and social environment within which:

- Our members may operate their business in a fair and flexible commercial environment;
- Our members' families and their staff have access to services essential to the needs of the rural community; and
- Our members adopt responsible management and environmental practices.

ENDS