



New Zealand Productivity Commission

Local government funding and financing

Issues Paper

November 2018

Response from Wairarapa Voice Inc.



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## Wairarapa Voice

Wairarapa Voice Inc is an NGO that was formed in February 2017 with the aim to encourage an informed citizen response to the Local Government Commission (LGC) Proposal to amalgamate the three Wairarapa District Councils.

Wairarapa Voice aimed to provide a balanced viewpoint to encourage all citizens to engage with the LGC proposal. Our analysis of the proposal compelled us to stand in opposition to the proposal.

The LGC organised a poll in December 2017 at which the amalgamation proposal was defeated.

The public were clear that this defeat did not represent a vote of confidence in the status quo. Wairarapa Voice has gone on to support ratepayers and voters across the Wairarapa by monitoring the local government sector and engaging with them on issue of relevance to Wairarapa.

Our role is now to provide analysis and direction to ensure an informed citizen response to local government issues in general and with respect to Localism in particular.

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SPEAKING TO THE SUBMISSION

A Wairarapa Voice Inc representative would like to speak to this submission if the Productivity Commission move to take direct submissions.

In any event, our representative will be in contact to arrange a meeting with inquiry staff.



## Introduction

Each district/city is different:

- Relative size particularly with respect to the size of the roading network,
- Size of rating base,
- Age and state of infrastructure,
- Geography,
- Environmental conditions and extent of regulation,
- Presence of Government investment (e.g. in public housing),
- Presence of charitable trusts that fund public good activities, and
- Nature of businesses and other economic activity.

This response doesn't focus on most of the general questions in the Issues Document. They have been well canvassed in the past and have, no doubt, been canvassed yet again in most District/City/Regional Council responses.

Instead this response restricts itself to the areas where innovative responses that transcend the status quo will make the most difference.

In the absence of any acceptance by the coalition government of the ideas contained in Palmer and Butler's, *Towards Democratic Renewal*<sup>1</sup>, it is hard to see that anything will come from the Productivity Commission's report. The current Minister has made her rejection of any devolution of real power to local authorities crystal clear in the 2018 Cabinet Paper "Local governance for community wellbeing".

The submission is laid out in the alphabetical order of the main headings.

## Cost Effective Core Business

The current coalition government attempted to continue the previous administrations attempt to remove the council obligations to focus on the cost effective delivery of core infrastructure from the Local Government Act 2002 in favour of the so-called 'four wellbeings'. This Bill failed to get a strong select committee endorsement and the Minister is still deciding how to move this forward.

The removal of the 'cost effective' test and the rejection of the focus on core infrastructure will ensure that core business will be neglected in favour of electric car chargers, parklets and rainbow coloured pedestrian crossings.

We strongly support the retention of the focus on the cost effective delivery of core infrastructure in the Local Government Act 2002. (LGA2002) Any local government powers granted with respect to wellbeing should be additional to rather than replacing the obligations for cost effective delivery and must be fully funded.

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<sup>1</sup> *Towards Democratic Renewal: Ideas for constitutional change in New Zealand*, Palmer G. and Butler, A., Victoria University Press, Wellington, 2018.



## Cost Pressures

Cost pressures facing local authorities are only partially unique to the sector. These unique features include regulatory standards and compliance, community engagement and communication, management of earthquake prone buildings and the impact on the character of the town.

Cost pressures faced by any organisation include increased audit requirements, meeting international standards for financial reporting, meeting demands from the governance layer for better financial stewardship and management reporting including a focus on productivity reporting, meeting the customers' demands for more digital services, and the ever expanding health and safety requirements. Societal demands for consideration include environmental and social sustainability but, again, these demands are not unique to the sector.

What is apparent is a form of fatalistic 'learned helplessness' in the sector that suggests that cost pressures are unique to the sector, completely intractable and unable to be managed or mitigated. Leadership for innovation is the key requirement to break the sector from this mindset.

We recommend that any structural changes proposed by the Productivity Commission should enhance the attraction of innovators to the sector including improved remuneration for Mayors and Councillors, the creation of the means to co-opt specific expertise on to local authorities, and support of training initiatives for the bureaucrats such as the Massey University Master of Public Administration. Consideration should be given to requiring CEOs to have a background as professional engineers.

## Differential Rating

Many, if not all, councils use some form of differential rating. The differentials do not necessarily represent anything other than "this is the way we've always done it". For example large metro councils tend to 'soak' businesses, particularly in the CBD and can do this safely because there is no one speaking for business on most councils. On the other hand, rural councils, facing large rural roading costs do not charge farmers full costs of service delivery due to political considerations.

Airbnb and other 'sharing economy' accommodation applications are turning many residential rateable properties into small businesses. These present an opportunity for targeted rates that many councils are forgoing.

We support increased use of differential rating as long as it based on demonstrable economic grounds and subject to auditable financial analysis.

## Financing and Balance Sheet Management

Many, but not all councils use the Local Government Funding Agency (LGFA) as the central part of their debt management. This delivers some marginal benefits with lower interest rates but we feel that the contingent liability of the cross guarantees that LGFA requires is not publicised or accounted for adequately.



This is part of a wider issue of poor balance sheet management by local authorities. For example, Greater Wellington Regional Council own the Port of Wellington. This is a poor investment that loads unnecessary risk on to regional ratepayers. Yet when challenged, GWRC say that the port is a strategic asset (whatever that means) and is consequently sacrosanct.

Most councils have a form of Infrastructure/Asset Strategy and Management Plan but they are devoid of innovative strategy, particularly with respect to the funding impacts of earthquake prone buildings, and generally deficient in up-to-date operational ideas such as reliability centred maintenance. This is not a technology fix involving new software but a thinking fix involving new, hands on, approaches to effectively managing infrastructure assets. This may require some requirement that senior management positions must be filled with professional engineers rather than administrators.

We recommend that any structural changes proposed by the Productivity Commission should enhance the attraction of innovators to the sector including enabling and mandating public private partnerships and shared services initiatives outside the straightjacket of the CCO model.

## Localism

Local Government New Zealand, at the urging of The New Zealand Initiative have taken a bold stance on Localism.

Localism in practice means:

- devolving tangible power, resources and control to local governments including the ability to levy income and consumption taxes at the local level;
- unlocking the power of community and strengthening our local institutions;
- incentivising councils and communities to make investment decisions from which they will receive the benefit;
- strengthening opportunities for citizens to participate in making the decisions that affect their lives and communities; and
- delivering the culture change necessary for local innovation to thrive.

This form of distributed democracy is being further developed in a Localism Symposium in late February. The LGNZ position statement can be found [here](#). The position paper can be found [here](#).

We support the development of Localism in a New Zealand context.

## Long Term Plan

Long term planning in the sector represents another area where “this is the way we’ve always done it” seems to govern the approach.

There is no systematic analysis and reporting on council costs with management accounting seemingly ignored. Any consideration of affordability, particularly rates affordability, shows no real innovation. Capital management over the long term seems to default to a projection of the status quo, again showing a lack of innovation.



This seems to be abetted by Audit New Zealand who appear to focus on short term financial rather than longer term capital and operational issues.

Ratepayers who bother to submit to the long term plan often provide substantial input that, if paid for, would cost local authorities a fortune. Many local authorities fail to leverage the 'free' consulting that comes with the LTP submission process and treat ratepayer submissions with disdain.

We recommend that any structural changes proposed by the Productivity Commission should enhance the attraction of innovators to the sector including improved training for the staff and the sourcing of engineering trained staff and management.

## Non-Core Business

There should be no extension of any non-core businesses permitted including:

- 'Well Being' initiatives
- Sport and recreation initiatives
- Community development initiatives, or
- Economic development services

without a concurrent extension of full central government funding or the extension of taxing powers under a Localism style initiative.

## Political Action

Councils should monitor government work programmes and should make direct submissions where central government programmes will directly impact on council operations. Where the impact is generalized, the councils' lobby group Local Government New Zealand (LGNZ) should collate and deliver strong submissions to the select committee/lobbying process.

Where there are adverse impacts from government inaction councils must vigorously hold central government to account, not just moan about requirements being imposed for policy reasons without any Government financial assistance.

We suggest that an obligation to submit could be added to the LGA2002.

## Productivity

Most local government entities fail to understand productivity and what drives it. They also fail to realise any gains from productivity improvements because of a reluctance or inability to manage any structural idle time out of the day-to day operations.

This is clearly a training and capability issue. Our suggested approach is included above under Cost Pressures.

## Public Private Partnerships

Public Private Partnerships (PPP) are rarely if ever pursued in the sector. This is usually justified by the access of the sector to a lower cost of capital than the private sector. What is deliberately missed in any PPP debate is that a well-structured commercially sound PPP will usually introduce superior management skills and access to more up to date management techniques such as reliability centred maintenance.

As has been shown in the USA, particularly in the area north of Atlanta, Georgia, PPP has been very cost effective and significantly more responsive to the ratepayers needs. See <https://youtu.be/f8qFvo2qJOU>.

We recommend that PPPs should be mandated and enabled in the LGA2002.

## Rates vs Land/Property Taxes

We feel that the discussion in the Issues Paper is sterile, given our support for Localism.

## Shared Services

Shared services improve productivity. Delivering services successfully in this way requires high quality leadership and management which tends to be lacking in the risk averse public sector environment of local authorities.

A lack of political leadership for innovation is also commonplace and often gets in the way of shared services initiatives. The obvious areas for shared services development are information and communications, back office accounting and administration, consenting, and roading.

We recommend that shared service should be mandated and enabled in the LGA2002.

## Technological Changes

Local authorities must keep abreast of the impact of new technologies including the universal 'device' – smart phone, smart water meters, on-line services, cloud based technologies etc. Adoption of new technology, particularly in the cities, is becoming a non-negotiable expectation and more heed needs to be paid to this.

Local authorities struggle to get value out of new technologies as they do not apply commercial disciplines to maximise returns from new technology. Improved productivity, in the absence of commercial discipline, leads to increases in structural idle time rather than cost savings. Again this requires improved management standards.

Local authorities must resist pressure to install electric car chargers because of a desire to support the use of electric vehicles. This is not core business, the costs are prohibitive and should be met by the users of electric vehicles, not as part of some vague social mandate that local authorities must resist.



## User Charges

Some councils forgo large revenue opportunities because of an aversion to user charges. For example, Carterton District Council complain that the unfunded requirement from central government for swimming pool inspections have driven up their costs. Yet, the idea of user pays through a targeted inspection charge is resisted because of fear of upsetting the small group who would have to pay the charge. The wider ratepayer community, who pay for this choice, don't have a focused voice at the council table.

Councils that have introduced water meters and charging for excess use have noted a marked decrease in water use. This tends to delay need for a further water supply to meet growth demand. This effect, unremarkable to an economist, seems to surprise councils who have trouble generalizing its impact to other user charges.

We support increased use of user charges based on sound economic and financial analysis.