



12 February 2019

New Zealand Productivity Commission

Via Email: info@productivity.govt.nz

Re: Local Government Funding and Financing – Issues Paper

The Whanganui District Council (Council) supports the local government funding and financing inquiry, and notes that as local government is key in supporting the wellbeing of local communities and not just a simple provider of services. Council seeks to reinforce the importance of local government's role in the well-being of our community, how we fund services and set fees and specific issues which affect our community like climate change and the effect of forestry impact on our district's roads.

The Council has contributed to and supports the SOLGM submission to the inquiry.

Wellbeing Strategy

Both central and local government provide a number of services which contribute to the well-being of our community. At a central government level these include healthcare, education, policing and managing the wider public estate. At a local level these include local infrastructure, parks, libraries, community facilities, regulatory services and co-ordination for local strategies and plans. Whilst the services provided at each level of government are important they are not provided as an end in themselves but rather as a way to promote the wellbeing of local communities and at the national level.

Council recommends that:

- **central and local government agree on a joint wellbeing strategy that assigns responsibilities to central and local government and that this strategy be used for determining the funding for local government.**

GST and exemptions on rates

Local authority property rates are defined as a land tax, and largely operate as such, although some may operate as a fee for service. Local authority property rates are not a fee for service, because there is not a direct link between the level of rates and benefits accrued to the owner. In 1996 the Court of Appeal considered that the then rating system was "primarily a taxation system and not a system inherently based on a principle of user-pays"¹. The Local Government (Rating) Act 2002 largely maintained the existing principles of rating found in earlier legislation. For this reason the Council considers that GST should be removed from all property rates as it is a tax on a tax.

¹ pg 12, Woolworths New Zealand Ltd (No 2) [1996] 2 NZLR 537 (CA)

It is noted that the rating of Crown land is outside the scope of the inquiry, however the Council considers that the exemption should be considered alongside the inquiry. While the principle of a subsidiary body not being able to tax a higher body is long-standing and accepted, this can and does create anomalies for territorial authorities with a significant percentage of Crown land holdings within their boundaries. The Council suggests this could be addressed by employing a “PILOT” scheme (Payment In Lieu of Taxes) which operates in some provinces of Canada and some states within the United States. Under these PILOT schemes the federal government makes payments in lieu of taxes to local governmental entities where the federal government owns land or buildings and this reflects the overlying federal-state-municipal stratifications of government. It is Council’s understanding that within New Zealand a version of a PILOT scheme operated until as late as the 1960s.

Council recommends that:

- **consideration given to removing GST from all rates; and**
- **rates exemptions, including those on Crown and non-Crown land be removed; and**
- **a PILOT scheme be implemented for Crown land**

Forestry impacts on Roothing

Within the Whanganui District, the transportation of timber has, and will continue to have, a significant impact on our roads. Over the next thirty years, renewing sealed roads directly resulting from forestry traffic is estimated to cost around \$67M² with a peak between 2024 and 2029. While the Council’s modelling predicts that the major costs would impact Council after 2024, as roads are repaired following peak harvest, Council is already experiencing significant damage on our roading network. These impacts are influenced by forest location, harvest tonnage and vehicle loadings, vehicular movements and distance travelled, as well as other factors such as local geology and susceptibility to storm events. Many of the forests egress onto rural roads in our hinterland which are not designed to accommodate the heavy vehicle traffic involved in harvesting operations.

The Council has considered a range of options to fund the forestry roading impacts including:

- Utilising the Resource Management Act 1991.
- Implementing a bylaw under the Land Transport Act 1998.
- Negotiating agreements with forestry owners.
- Introducing a fee per tonne transported and distance travelled.
- Implementing targeted rates.
- Following the Road Controlling Authorities Forum proposed approach based on BERL’s report *“Guidelines for Equitable Funding of Pavement Maintenance for Low Volume Roads”*.

Having considered legal ramifications and worked through practicalities for each of these options, the Council’s only viable funding option was considered to be the introduction of a new targeted rate applicable to forestry exotic properties. The rate was set at a level that achieved approximately 60% recovery of forestry related roading costs from forestry property owners with the remainder funded by general ratepayers.

² This figure is considered to be conservative and does not include the impact of forestry vehicle movements on unsealed road.

The Council received significant opposition from the forestry sector to the proposed introduction of the new targeted rate in its Long-Term Plan 2018-28. There was general acceptance that forestry impacted on Council roads but the sector considered that these costs should be levied at the time of harvest when the impact occurs and forest owners have an income stream to support the additional costs. There is also concern at the lack of precision that a rate has as a mechanism for passing on these costs to property owners.

The Council notes that Whanganui is not the only local authority facing these issues. The Government's One Billion Trees Programme will put further pressure on roading networks in the years ahead, and many of the districts earmarked for additional planting will not have the financial capability to maintain their roading networks at a satisfactory level, while providing affordable rates for their residents. A national approach to finding a solution that is fair to the forestry owners and other ratepayers is essential. Methods of achieving this could include more accurate road pricing, particularly heavy vehicles, with local authorities receiving greater funding based on the usage of local roads.

Council recommends that:

- **central government provides a national funding solution for this national problem**

Climate Adaption Strategy and Fund

The adaption to climate change has largely been left to local government through land-use planning regulations and the increased cost of providing infrastructure. Council is concerned that there is neither an appropriate national strategy nor mechanisms to share the costs of climate change adaption equitably. A climate adaption strategy and fund are necessary for ensuring a co-ordinated approach to climate change and incentivise good decision making.

Council recommends that:

- **priority be given developing a national Climate Change Strategy and establishing a Climate Change Adaptation Fund.**

Unfunded mandates reform and fee setting by statute

Setting fees and charges is a way for the user of a service to fund the service when it would otherwise need to be funded out of general rates. These fees and charges are set under statute can become outdated over time and not relate to the actual cost of providing the activity. A second issue with the setting of fees and charges is that local authorities are often only enabled to recover the actual and reasonable cost of processing an application and not the cost of developing of the policy around managing those application. An example of this is the development of the Class 4 gambling policies under the Gambling Act. Under the act the problem gambling levies are made on the sector for the minimisation of the harm of gambling. While the levy is used to fund the development of the Strategy to Prevent and Minimise Gambling Harm and the initiatives at a central government, levy funding is not provided to local authorities for the development of the Class 4 gambling policies which are important for minimising gambling harm to local communities.

Council recommends that:

- **all remaining instances of statute setting maximum fees be replaced with powers to charge actual and reasonable cost.**
- **central government considers an unfunded mandates as detailed in the SOLGM submission.**

Wastewater charging

Currently within the rating system there is an inconsistency between how the Local Government Ratings Act manages potable water and wastewater. Under s19 of the Local Government (Rating) Act 2002 a local authority may set targeted rates based on volume of potable water consumed however there is no comparable provision for either wastewater or trade waste.

Council recommends that:

- **local authorities be permitted to charge wastewater disposal and trade waste targeted rates on a unit pricing basis incorporating quantity and/or quality of discharge.**

Rates rebate scheme

The affordability of rates is not just a question of the quantum of rates and charges but also the ratio of rates and charges relative to income. The rates rebate scheme was introduced in 1974 and was designed to provide assistance to low income residential ratepayers. Over the longer term the quantum of the rates rebate has generally matched the consumer price index however this ignores the fact local authority core inputs are rising above those of core inflation. Furthermore, overtime the act has not kept pace with the changing nature of tenure or technology.

Council recommends that:

- **the Rates Rebate Scheme receive a first principles review including purpose, level of assistance and delivery**

Yours sincerely,



Hamish McDouall
Mayor
Whanganui District



Kym Fell
Chief Executive
Whanganui District Council