

## **Submission to the Productivity Commission's inquiry into Local Government Funding and Financing.**

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**Statement:** I make this submission on my own behalf and do not represent any organisation, party, institution or any other interest group.  
My submission mainly covers the Commission's paper in general terms, rather than focusing on discrete sections.

### **Submission**

**1.)** The apparent assumption in the paper that the purpose of local and central government rates and taxes is primarily to raise finance needs to be revisited.

I suggest that they have a dual purpose, with neither purpose achieving primacy over the other, and that those purposes are, and need to be acknowledged as:

- a.) To impose a degree of economic equality on a society in order to maintain social cohesion, by avoiding the concentration of wealth and money and associated political power in the hands of a small minority of citizens.
- b.) To raise some of the revenue required for the funding of public works including new or upgraded infrastructure, government operating costs, debt servicing and other government functions.

**2.)** The Local Government Funding Agency (LGFA) should be the primary source of finance for local government bodies, with alternative options to be adopted solely in extreme circumstances, with borrowing from overseas specifically prohibited.

The primary, if not the sole source, of funds for the LGFA to disburse to councils should, I maintain, be the Reserve Bank of New Zealand (RBNZ), which retains the power to create credit, along with the private banking sector.

Funds so disbursed should be as low or no interest loans, or in the form of grants, and made subject to the due diligence requirements attached to normal lending criteria, to ensure financial prudence benchmarks are adhered to, and the viability of the purposes for which the funds are disbursed is well established.

This approach has the potential to eliminate or greatly reduce the local government debt-servicing obligations, thus freeing up more funding for the benefit of the communities within the council's jurisdiction.

It also frees local government from the constraints which may be imposed by private financial institutions, potentially enabling local governments to focus on serving their communities and not on the exigencies of their creditors, while reducing the rates burden for those on low or fixed incomes.

This approach to raising finance could help address funding shortfalls in high growth areas as well as covering infrastructure maintenance, operation and replacement/upgrade costs in declining and static population areas.

**3.)** The use of local currencies to fund local government activities needs to be investigated. The use of local currencies could enable councils to support local economies while also avoiding accumulation of debt, and may not be subject to restrictions on government procurement imposed on New Zealand by international trade and investment agreements. Here are some links on the subject:

[http://www.citego.org/bdf\\_fiche-document-886\\_en.html](http://www.citego.org/bdf_fiche-document-886_en.html)

[https://en.wikipedia.org/wiki/Local\\_currency](https://en.wikipedia.org/wiki/Local_currency)

**4.)** Older populations are likely to require an emphasis on affordable, convenient, safe and clean public transport, even in provincial centres and their surroundings, because many elderly people either can no longer drive, or feel unsafe doing so, or can no longer afford to run a private vehicle.

The cost of providing public transport, which will need to be subsidised, should be factored into council budgets in the coming years.

Innovative public transport solutions, possibly using digital technology, should be trialled and adopted wherever possible, to minimise costs and maximise efficient use of buses and vans etc.

**5.)** The provision of affordable housing for the elderly is becoming a significant social issue which must be addressed.

Local authorities have a part to play in providing such accommodation, and this again should be factored into council budgets, and covered by grants from the LGFA.

**6.)** Regarding tourism, annual international tourism visits should, I believe, be capped at 33% of any country's resident population in order to avoid undue pressure on infrastructure, while maintaining the enjoyable features and nature of a country for residents and visitors alike.

Reducing pressure on infrastructure would have the benefit of reducing pressures on small councils in popular tourist areas such as the West Coast from having to fund urgent infrastructure upgrades such as carparks and toilets, from a small rating base.

However, the future of international tourism in New Zealand may be bleak because of our geographic isolation, and the potential for greenhouse gas emissions from long distance international and domestic air travel to be included in our national emissions budget.

The possibility of fuel price shocks and consequent substantial price increases for air travel must not be discounted.

Therefore, the degree of spending needed for tourism-related infrastructure upgrades is difficult to ascertain.

In New Zealand's case, with a rapidly growing, but current population of about 4.5 million, the 33% cap would amount to a cap of 1.5 million international tourists per year.

To achieve this may require the issuing of tourist visas, a device applied in some other countries which are popular tourist destinations.

Places imposing caps on annual tourist numbers include the Galapagos Islands, the Seychelles, Antarctica and Bhutan.

**7.) Targeted rates:** when setting rates for accommodation providers, local government should be sure to include airbnb and similar providers in the interests of fairness and impartiality.

**8.)** The Treaty of Waitangi settlements and co-governance costs should be entirely funded by the LGFA using interest-free loans or grants from the RBNZ, because these are fundamental to the practical application of the terms of the Treaty, and no local government can be or should be expected to meet those costs from its rating base.

**9.)** With regard to climate change, I agree entirely that the focus has to be on prevention and anticipation, and not the disaster relief option.

In the long-term, prevention is surely the most cost-efficient way forward, as well as being one which minimises human and environmental distress.

Local government will do well to educate local communities on the value of this approach. Funds for prevention and future-proofing must come in the form of interest-free loans or grants from the LGFA with finance raised from the RBNZ.

**10.)** Following from item 8 above, a National Policy Statement (NPS) on managing climate change is urgently needed to assist councils with developing the relevant objectives, policies, methods and rules in their plans. Failure to do this is very likely to spawn inconsistencies around the country, and councils with small rating bases, such as those on the West Coast, may well be unable or unwilling to do anything.

**11.)** As far as the rise in LGCI exceeding the CPI rise, there are probably multiple reasons as set out below, but above all, councillors should undergo certified governance training before taking and during office, to learn how to manage finances prudently and understand how councils are financed.

a.) Local governments may be bound to certain suppliers by contracts.

b.) There may be an inherent failure to 'shop around' for goods and services because public not personal money is involved and its generally easier to spend someone else's money than one's own.

c.) There may be a laudable unwritten policy to support local industries and businesses, thus stimulating local economies, rather than national or overseas ones.

d.) Enterprises may take advantage of local government and charge higher prices because its 'public money'.

e.) Failure of private enterprises to deliver quality goods and services efficiently and economically is more likely to be shrugged off by local government than by the private sector because of fear of the costs to ratepayers of taking a matter through the courts.

f.) The above may be a good case to manage more in-house, instead of contracting out, so as to keep quality and costs under control.

g.) High interest debt servicing may push up the LGCI to levels above the CPI.

This could be addressed by relying exclusively on LGFA finance for infrastructure projects and other costly proposals.

h.) The cost of having to prepare a Long Term Plan (LTP) every 3 years is exorbitant, and I question whether such frequency is needed. I believe one every 5 years could be ample.

**12.)** Q16: I believe that the LTP consultation process has limited effectiveness. There is a need to engage with poorly represented demographics in order to learn what changes are required to raise their participation in the consultation process.

It may also be necessary to support local enterprises in the procurement process, which may not be the cheapest, but provides flow-on effects such as employment and stimulus to local economies.

**13.)** The race to increase productivity and efficiency may plateau at some point because of physical and psychological limits to human endurance and ability. This should be recognised. Adopting robotics and artificial intelligence may have a place in increasing local government efficiency, but these technologies face major and possibly insurmountable security and privacy issues.

A significant barrier to improved productivity is poorly informed and trained councillors and staff, though all of the barriers identified by the Commission apply.

Ongoing training and education of council staff and councillors is critically important to achieving high quality and inclusive community outcomes.

**14.)** Q27: Rates could be tied to environmental footprints and surface areas of properties. This could encourage better environmental outcomes in rural and urban communities while providing revenue from properties with large footprints such as intensive dairy farms and industrial areas.

I consider this to be preferable to 'user pays' charges for essential services which penalise those on low or fixed incomes.

Graded environmental footprint taxes and rebates should be part of the rate striking process.

**15.)** I oppose user pays charges for essential services such as the three waters unless there is a fair and reasonable free allocation per household. Failure to do this penalises those on fixed and low incomes.

The same principle should apply to local roads.

**16.)** Q39: Adaptation to declining or stable populations, rather than obsession with growth, is the wisest option, and councils should engage with local populations to develop those strategies as required.

Encouraging people to move to declining population areas by emphasising inexpensive property and safe, healthy lifestyles, together with opportunities to make a living could slow or reverse declines, but such efforts have not proved successful in the past.

**17.)** The suggestion that central government take on the debt for local government infrastructure investments, in turn funding this by issuing 50-year infrastructure bonds to private investors with the bonds backed by an income stream from targeted rates and, in

effect, guaranteed by central government (Twyford, 2017) has great merit in capitalist terms, and should be further pursued.

**End of submission.**

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*G. Pellwell-Sutton*