

Submission

Local government funding and finance – Issues paper

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SUBMITTED TO: NZ Productivity Commission
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Introduction

1. Ashburton District Council (“Council”) welcomes the opportunity to submit on the NZ Productivity Commission *Local Government Funding and Financing – Issues Paper*. This submission is being made on behalf of the Council.
2. Located between Selwyn and Timaru Districts respectively, more than 34,100¹ residents live in the District, with the main town of Ashburton accounting for 19,280 or 56% of residents. The rest of residents live rurally or in smaller towns or villages.
3. Ashburton District is one of New Zealand’s fastest growing districts in New Zealand following the 2013 Census². Since 1996 the district has grown by 23% and this period of rapid but consistent growth follows an earlier period of little to moderate growth. Recent growth has occurred in both urban and rural parts of the district and is considered to have been driven primarily by strong growth in the local rural economy.

General discussion

4. Council supports the intent of the Productivity Commission’s *Inquiry into Local Government Funding and Financing*.
5. Council would like to refer the Commission to the submissions prepared by Local Government New Zealand (LGNZ) and the Society of Local Government Managers (SOLGM). In general, Council supports both organisations’ submissions, however, this submission highlights where the Council holds a differing view or opinion to that of SOLGM or LGNZ.
6. Council believes the current funding and financing tools provided to local government are insufficient to meet the needs of Ashburton District’s growing population. Property value rating, in particular, is a reasonably clumsy and indirect way of charging for local government services, and there needs to be other tools available.

Submission topics

Funding pressures

7. Ashburton District has come through a rapid growth period, particularly with changing land use in the agricultural sector. Council has seen many benefits for the district in response to this change, as well as less favourable effects such as the impact of heavy traffic on the roads in the District.

¹ Source: Statistics New Zealand Population Estimates 30 June 2017

² Source: Statistics New Zealand 2013 Census

8. The funding pressures experienced by Council reflect the growth the district is experiencing. Council has identified the main funding pressures as:
 - a) Population growth
 - b) Tourism growth
 - c) Increasing demand for new infrastructure
 - d) Preserving biodiversity
 - e) An expansion of local government responsibilities – expanding the scope of regulations and processes councils are required to provide (such as in the activities of building regulation, district planning and the provision of drinking water)
 - f) Biosecurity (such as the potential for future Mycoplasma bovis outbreaks. Council suggests there is a need for better border controls)
 - g) Farming practice limits (such as nutrient limits)
 - h) Climate change response and mitigation.
9. The changing needs of the Ashburton District place additional pressure on activities and infrastructure provided by local government. Council believes that if funding pressures are not addressed, levels of service may inevitably decline.
10. Incentivising behaviour change in central government policy is one mechanism to relieve funding pressures for local government. An example relative to Ashburton District is that of local rail. If central government were to incentivise use of local rail there would be less demand on the District's roading network (a community wide benefit).

Rating powers and issues

11. Council is in agreement with LGNZ and SOLGM that change is required to the legislatively prescribed uniform annual general charge (UAGC) limit of 30%.
12. Council's UAGC is currently set very close to the 30% cap. Council believes the 30% limit does not go far enough to balance the ability of residents to pay and access services with property value as a rating tool. Council acknowledges solely using property value is a blunt measure for assessing ability to pay. However, Council contends there should be no limit on the UAGC. Electoral pressure will always ensure property value is part of the rating mix.
13. Council also agrees with LGNZ's contention that Crown-owned land should be rateable.
14. Council submits that rates should be GST exclusive.

Environmental taxes

15. Council does not agree with SOLGM's support for the Tax Review Group's consideration of a tax on water. The current consenting process for access preserves a sensitive balance in the area of water, and consideration of taxation, levies and ownership are extremely challenging and politically unproductive. Council is strongly opposed to the use of environmental taxes as a funding source.

Road tolling

16. Council agrees with SOLGM's recommendation that local authorities should be permitted to toll any road – new or existing. Council suggests the Land Transport Act 1998 is amended to this effect.

Tourism

17. While difficult to measure accurately, there is no doubt tourism growth contributes to the funding pressure experienced by Council due to pressure on infrastructure.
18. Council supports a 'bed tax' to help alleviate pressure caused by increased visitor numbers. It is one potential tool to fund operational expenditure on infrastructure such as toilets, carparks and roading.
19. As pointed out by LGNZ, the Tourism Infrastructure Fund and the Tourism Levy are useful for funding capital expenditure but do not contribute to funding operating expenditure.

Local general sales tax

20. Council philosophically supports a local general sales tax (GST) and suggests further investigation is required. GST returned to the area in which it was collected, for example, would help to relieve local level funding pressures, such as increased visitor numbers.

View on the LTP process

21. Council questions the value of preparing formal Long-term Plans (LTPs) every three years compared to the effort required to produce them. Council acknowledges the importance of future planning but contends that other than significant or planned projects, the LTP adds little benefit than the Annual Plan.
22. The process for predicting the activities in future years inevitably needs to be revisited by councils, and therefore this type of planning creates significant duplication of effort for minimal gain (particularly beyond year three of the LTP). Councils can also find they are restricted or constrained by such documents if circumstances change and projects are no longer able to be pursued.

Funding for wellbeing initiatives

23. Council supports SOLGM's recommendation that central and local government agree on a joint wellbeing strategy. Establishing a partnership between central and local government will help determine how best to manage the effects of central government's proposed wellbeing reforms.
24. Council agrees with SOLGM that it is important to consider the national good element of wellbeing in relation to criteria which is jointly agreed between central and local government.

Development contributions

25. Council utilises the power to charge development contributions as a funding source for catering to growth in the District, and supports the principle of development contributions in that the beneficiary pays.
26. Council has concerns with SOLGM's recommendation that regional councils be permitted access to development contributions. If the regional council is to share the development contribution available to the local (district or unitary) authority, then this recommendation is not supported. However, if the intention of this recommendation is that regional councils may access separate and new development contributions as a funding source, Council is relatively neutral to this suggestion.
27. Council agrees with SOLGM that the Crown exemption from paying development contributions be removed.

Special purpose vehicles

28. Council does not agree with SOLGM's recommendation that a minimum project size of \$30 million be required for a special purpose vehicle (SPV). The cost of projects will vary depending on the region and size of the council. Imposing a limit could restrict local government from carrying out projects.
29. Council suggests no minimum project cost is imposed for the use of SPVs to finance larger projects, and that the discretion for their use sits appropriately with each council.

Inter-generational equity

30. The inter-generational equity principle has been utilised in Ashburton District for the funding of major capital projects in recent years. Most new capital expenditure is loan funded to ensure the cost burden is shared between current and future beneficiaries.
31. However, Council acknowledges the major risk of applying the inter-generational equity principle is that future generations could be unreasonably burdened with debt. Council therefore suggests that it may be valuable to commission some guidance around balancing the concept of intergenerational capacity to pay.

Transportation

32. Council requests investigation into the setting of the New Zealand Transport Agency's (NZTA) funding assistance rate (FAR). The setting of the FAR could consider the GDP of the territorial authority.
33. Council believes the current road user charges system is inequitable to the extent that road user charges are returned to a specific region. The system favours the area where the vehicle is registered. For example, road user charges are purchased by many national level businesses (such as transport or agricultural companies) through their head offices but use these all over New Zealand. As a District which experiences high traffic flow through the roading network, this is seen as inequitable to manage the costs of high usage of the roading network.

Wastewater charging

34. Council agrees with SOLGM's recommendation that local authorities be permitted to charge on a volumetric basis, noting that the 'efficiency gains' recommendation addresses some of the concerns about increasing costs and additional charging.

Public education

35. Council agrees with the intent of SOLGM's recommendation that a joint government and SOLGM approach to enhancing public resources on local government will improve understanding. Council also supports the proposal to look at improving elected members' financial skills as part of induction process.

Other matters

36. Council requests investigation into returning the GST collected on property rates to the relevant local authority. This would help relieve funding pressures on council services and infrastructure.
37. Council wishes to advise the Commission that there are opportunities at the central government level to improve the provision of a number of services that are integral for local government planning and funding decisions. For example, Census data is heavily relied on by Councils to understand changing demography within our communities and

yet the data is released out of sync with LTP development due to the five year collection cycle. Council requests the future release of data is aligned with meeting LTP timeframes.

38. Council suggests affordability should be considered for inclusion as a principle set out in the Local Government Act 2002. This may help councils to balance the ability to pay and benefit principle when developing funding policies as part of the LTP process.

39. Council wishes to advise the Commission that an additional cost driver experienced by the Council is the cost of compliance with Audit NZ. The Audit process incurs significant financial cost, particularly during the LTP process.

Ashburton District Council thanks the NZ Productivity Commission for the opportunity to submit on the Local Government Funding and Financing – Issues Paper. Council is happy to provide further information if required.

A handwritten signature in black ink that reads "Donna Favel". The signature is written in a cursive style with a large initial 'D' and 'F'.

DONNA FAVEL
Mayor