

# HURUNUI DISTRICT COUNCIL

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## INTRODUCTION

The Hurunui District Council (HDC) is located in North Canterbury in the South Island of New Zealand. The 8,640 square kilometre district has a relatively small geographically dispersed population (12,500 people centred in 14 main towns and settlements). The district comprises significant areas of farmland, conservation estate and is the fourth largest wine growing area in New Zealand. The Council employs approximately 150 full time equivalent staff. Approximately half work at the Hanmer Springs Thermal Pools and Spa complex owned and operated by the Council, and the other half provide a broad range of local government services. There are approximately 8000 rateable properties in the district.

## SUBMISSION

HDC welcomes the opportunity to comment on the Productivity Commission Issues paper on Local government funding and financing. The submission follows the format in the issues paper providing comments on each of the questions.

### **Question 1: What are other differing circumstances across councils that are relevant for understanding local government funding and financing issues?**

The Hurunui is the seventh largest local authority district by geographical area and has the fifteenth smallest population. It has 220m of road per resident and 27 water intakes for 17 water schemes that are funded by rate payers. Each community is different but the provision of rates as the dominant funding tool, limits the services that can be provided to individual communities. Communities want to be able to look after themselves and make decisions locally but are not provided with adequate central government funding. 80% of infrastructure assets are owned by local government but local government only retains 10% of the total tax take. As central government has withdrawn services from the regions, local government has been forced to pick up those services as well as extra regulatory functions without additional funding e.g. Sale and Supply of Alcohol Act. In addition the benefits of providing services do not always accrue to the people who live within the district and pay. An example of this includes providing and maintaining public toilets along major travel routes and maintaining roads to popular tourist spots, and to huge land masses of public estate that is unrateable.

Councils provide passive Parks and Reserves along with a wide range of Recreational and Sports facilities for the local and wider public enjoyment with a low opportunity to recover revenue from them.

**Question 2: What explains the difference between the amount that councils account for depreciation and the amount spent on renewing assets? Are changes needed to the methods councils use to estimate depreciation? If so, what changes are needed?**

Local Government has poor history of funding depreciation. Fully funding depreciation can be unaffordable from a rating perspective when prioritised against other critical and non-discretionary expenditure, as a result, insufficient depreciation is accumulated to fully fund renewals.

The HDC did not rate for depreciation of any of its assets until 2015, when it started phasing it in for potable water and sewer assets. With this change, HDC has moved to a performance based renewal programme rather than an age based renewal programme. Depreciation rates can be different for each Council, and although Councils can be heavily reliant on industry standard depreciation rates, these can be different due to different ground conditions, installation techniques and variable demand. –Often when an asset is replaced it is coupled with increasing the capacity however the depreciation funds available generally do not cover 100% of the renewal cost.

**Question 3: In what ways are population growth and decline affecting funding pressures for local government? How significant are these population trends compared to other funding pressures?**

The Hurunui has a moderate growth trajectory and takes a reasonably balanced approach to growth, but growth is uneven across the district and some of the smaller communities within the district are experiencing a decline in population. When there is a decline in population in districts like the Hurunui Development Contributions can become a key funding source for projects. If Development Contributions are used as a key funding source and the project is carried out and the projected growth does not arrive, then there is pressure on ratepayers to fund these projects or these projects become deferred or even eliminated. The population trend is significant as a project still needs to be funded and paid for across a smaller rating base.

The demand to fund services, maintenance and renewals, and the requirement to meet increasingly stringent and expensive statutory standards does not reduce with declining or static growth.

**Question 4: What are the implications of demographic changes such as population ageing for the costs faced by local government?**

The Hurunui has an aging population and the increase in this demographic group can start to have an impact on costs faced by local government. This includes the funding that is

available for rates relief and fixed incomes becoming more common which then becomes difficult to rate against.

When there is an aging population there is more pressure on local government to provide social housing, health services and other community necessities. These services are often not profitable and it becomes an expectation that Council will provide these services which should be catered for by the private sector or central government.

It has also been found that in a district that is largely rural based there is more variable income as people tend to be asset rich. A variable income can be common particularly when there are seasons that impact a large number of businesses, which cannot be controlled. An example with the Hurunui District is when significant ongoing drought conditions effect farming and associated farming business, with variable incomes and the inability to afford increased rates..-

Hurunui's second largest industry is Tourism which is affected periodically by economic down-turns beyond its control, often caused by international financial crisis and natural disasters.

**Question 5: To what extent is tourism growth resulting in funding pressures for local government? Which councils are experiencing the greatest pressure, and how is this manifesting?**

Tourism growth creates a pressure on local government particularly when there are a large number of tourists and a low number of rate payers. It has been found that there is an issue when making a provision for any specific industry that the benefit is accrued by individuals rather than the whole district when the cost lies with the whole district.

The main tourist town in the Hurunui is Hanmer Springs which has approximately 380,000 guest nights per year and approximately 840 permanent residents. The increasing amount of tourist bed nights starts to have an impact on local infrastructure particularly utilities. Council becomes reliant on external funding in order to ensure that these systems meet the capacity that is created by extra bed nights. These increased pressures do not only impact towns like Hanmer Springs where people are spending the night, these pressures also impact the towns that are driven through in order to reach these destinations. This includes the capital cost of providing carparks, toilets, rubbish bins etc. along with the ongoing costs to maintain and service . The maintenance and servicing of these facilities are a significant cost to Council and local communities but do not create any direct revenue stream.

Another real example of the pressure on local government and a local community in the Hurunui was the town centre upgrade in Hanmer Springs, which was done to make the town look more attractive. This was proposed to be funded substantially by Development Contributions, but as development slowed, so did the funding for the upgrade which left a debt that the local community is still trying to repay while still needing to fund upgrades to other infrastructure by a small number of ratepayers.

**Question 6: Is an expansion of local government responsibilities affecting cost pressures for local government? If so, which additional responsibilities are causing the most significant cost pressures and what is the nature of these increased costs? To what extent do these vary across local authorities?**

The HDC is concerned that central government has an ever increasing appetite for regulation of local government responsibilities, particularly in regard to the Local Government Act. Additions and modifications to the Local Government Act require local government to provide a greater level of information for the Long Term Plan such as Financial Strategies, Infrastructure Strategies, and Benchmarking etc. all which adds to the cost. There are also more expectations of smaller local governments around Annual Plans, Liquor Licensing, IANZ audits of BCA, Health and Safety, Engineering Assessment of earthquake buildings and also the potential addition of the four wellbeings to the LGA which creates more cost and this is just a small portion of what is required.

The recent revision of the Drinking Water Standards for New Zealand 2018 has created a major cost pressure for the Hurunui. This standard creates a compliance cost of approximately \$18m across the approximately 3500 properties connected to Council water schemes in the Hurunui District. Rural water supplies have been constructed to provide stock water alongside domestic water supply. These schemes are vulnerable to rapid escalation in costs to meet drinking water standards, resulting in individual properties exiting the scheme making the remaining customers facing unaffordable costs.

In addition to this the increased level of regulation associated with increasing environmental standards have resulted in an increase in costs relating to Wastewater and Stormwater which communities often do not expect.

Community expectation of services provided has increased. Ratepayers expect that services should be of the same quality as services provided in larger areas such as Christchurch city. Ratepayers expect swimming pools, wheelie bins, social housing from local governments, all of which are a significant cost at a time when central government continues to resile from its provision of services to rural New Zealand.

**Question 7: How is the implementation of Treaty of Waitangi settlements, including the establishment of 'co-governance' and 'co-management' arrangements for natural resources, affecting cost pressures for local government? How widespread is this issue?**

HDC carefully considered and ultimately rejected a proposal for co-governance in 2008 due to a perception that local government would fund rūnanga involvement. Ngāi Tahu has a substantial amount of land in the Hurunui but there are no marae in the district. There is a strong relationship with Te Rūnanga o Kaikōura in the north and Te Ngāi Tūāhuriri Rūnanga in the south. Both rūnanga have established marae in the neighbouring Council districts.

There is a significant requirement for Councils to engage with local iwi representatives as well as the formal consultation requirements under legislation. HDC's recent experience is

that the rūnanga are not resourced to respond to such requests and that there is an expectation of payment which creates delays and more pressures on local government funding.

**Question 8: How are local authorities factoring in response and adaptation to climate change and other natural hazards (such as earthquakes) to their infrastructure and financial strategies? What are the cost and funding implications of these requirements?**

The Hurunui was significantly affected by the Hurunui Kaikoura earthquake in November 2016. From the time the earthquake hit till now there has been ongoing costs. This includes working with the community to establish safe building areas and also the repairing of Council infrastructure such as water, stormwater and wastewater systems, bridges and roads.

An example of natural hazard threat to infrastructure within the Hurunui is a coastal road, Conway Flat Road, which was affected by both the earthquake and also coastal erosion. There has been discussion between Council and affected landowners on whether the road should be kept being repaired as the damage reoccurs or should a new road be built on an upper terrace so that it doesn't have to be rebuilt. The question that was raised was, who is responsible for the cost of this?

**Question 9: Why is the price of goods and services purchased by local government rising faster than the consumer price index? To what extent is this contributing to cost pressures for local government?**

The Local Government Cost Index was developed because the Consumer Price Index was not appropriate, as it did not represent the types of goods and services that local government consumes. The LGCI has always been greater than the CPI due to greater reliance on oil prices, and high energy and labour costs. This difference between CPI and the LGCI is exacerbated in the Hurunui District by the large proportion of the budget spent on core services such as roading and three waters infrastructure which are rising faster than the LGCI. Likewise the increasing regulatory hurdle also drives capital and operating costs.

**Question 10: Do the prices of goods and services purchased by local government vary across councils? If so, what are the reasons for these differences?**

Rural councils like the Hurunui will always spend proportionally more than larger centres due to the distance from the key areas of resources. HDC runs its own utilities department, whereas other Councils contract this service out. The HDC do think that doing this is more cost effective but does have a downside when there is a natural disaster.

**Question 11: Is local government expenditure shifting away from traditional core business into activities such as economic development, sport and recreation and community development?**

Yes because community expectations are increasing. People expect more non-core services to be available as there are no other community or government organisations besides local Councils that are able to provide these services. Expectation of what is believed to be important varies, some of the expectation is for health facilities, residential and social housing, all of which the Council are more likely to move towards as there is a need for these services. However, as population changes with more people moving from larger towns and cities into rural areas, expectation changes. Communities are more likely to expect similar facilities that are provided in larger towns such as squash courts, swimming pools, dedicated cricket and rugby grounds, better quality playgrounds and dog parks all of which are community facilities passed to Councils to maintain. Some consolidation and sharing of facilities is essential to make these opportunities available to scattered rural communities.

**Question 12: Does the scope of activities funded by local government have implications for cost pressures? If so, in what ways?**

The scope of activities funded by local government does have implications for cost pressures. The community expectation means Councils may be asked to invest in areas that they have not in the past, which causes an increase in pressure. In particular in community investments or loans, where the rate of return may not be at a normal commercial rate.

**Question 13: What other factors are currently generating local government cost pressures? What will be the most significant factors into the future?**

All Councils have the same requirements in terms of producing Long Term Plans and audits which has an element of fixed cost associated with running a Council and whatever the size of the Council the cost is the same – a ‘one size fits’ all approach. There is a raising regulatory barrier that Councils have to get over because Central Government keeps increasing regulatory compliance requirements as well as monitoring and auditing requirements. An example of this is the imposition of the New Zealand Drinking Water Standards which have a disproportionate cast on small rural communities with significant network infrastructure.

**Question 14: How will future trends, for example technological advances and changes in the composition of economic activity, affect local government cost pressures?**

Improved technology has added to the growing expectations and demands from residents and ratepayers which means that there are more cost pressures to make systems work

better and faster. However, as technology continues to improve this may result in Council staff and Councillors having less personal connection with the community and ratepayers which could have a negative effect, along with the alarming increase in cost and staffing to provide technology services.

**Question 15: How effective is the Long-term Plan process in addressing cost pressures and keeping council services affordable for residents and businesses?**

For the HDC, the focus of the 2015 Long Term Plan was on affordability and sustainability which the 2018 LTP carried on with as the theme. Council encourages the local community to have a say and submit on the Long Term Plan as it is important for communities to understand what the Long Term Plan means and what is to be achieved. Submitters have the ability to change the direction and the level of submissions on the key issues. Submissions on the most recent LTP was relatively low which could either could be a result of satisfaction with the Council's processes or,, a lack of understanding or complete apathy. In smaller districts, submissions can largely be fixated on one single issue such as upgrades of local pools or large investments in a local business (such as irrigation schemes). These often tend to cloud key messages that may be beneficial.

Overall, the Long Term plan is a good process to address the issues and to have a strategic look at what has happened in the previous three years and the following three years as well as looking forward to the next ten years.

**Question 16: How effective are councils' Long-term Plan consultation processes in aligning decisions about capital investments and service levels with the preferences, and willingness and ability to pay, of residents, businesses and other local organisations?**

The public give very little consideration to the levels of service as detailed in the Asset Management Plans (AMPs), which along with the 30 Year Infrastructure Strategy, form the basis of the LTP. Because there is a large quantity of detail provided in the LTP due to prescription, the key issues surrounding levels of service are not considered by the public. The HDC have never suggested that Levels of Services be reduced in an effect to reduce the costs. Only once was there a proposal to reduce the level of capital expenditure on library books, which fell flat. Because of this, it is assumed that the existing levels of service will be retained or even improved.

Often the community does not get a chance to have a say as sometimes the levels of service and associated capital expenditure is dictated by Central Government such as the New Zealand Drinking Water Standards.

The One Network Road Classification (ONRC) system is another example where the minimum level of service is set centrally without taking account of local preferences.

**Question 17: Is there scope to improve the effectiveness of Long-term Plan processes? If so, what, if any, changes would this require to the current framework for capital expenditure decision making?**

The process of the Long Term Plan and getting the community to become engaged has always been a challenge. The original purpose of the Consultation Document (CD ) was to provide a simplified summary of the key LTP issues in order to provide the community with information on the key issues so they could actively engage in the LTP process. The CD was a step forward in encouraging informed engagement but it does have the effect of trivialising some aspects that are important to some sectors of the community. Engaging with the community is important and in the Hurunui District we have pre engagement sessions with the community ahead of preparing budgets. Whilst this requires a significant increase in preparatory work it results in better engagement through the LTP process.

One of the biggest burdens on small councils is the audit requirement associated with the LTP. Hurunui District Council is of the view that it is appropriate that the financial statements are audited, but much of the other audit work undertaken on the LTP and CD is superfluous and adds little value. The Council considers that the CD should be retained and information should be presented in a way the community can understand, not a one size fits all approach.

The DIA Benchmarks are clumsy, poorly designed and add no value in understanding in public understanding of the business of local government.

**Question 18: How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently?**

There is a scope to manage cost pressures but Hurunui is constrained by legislation and standards, which are dictating the level of cost it needs to incur.

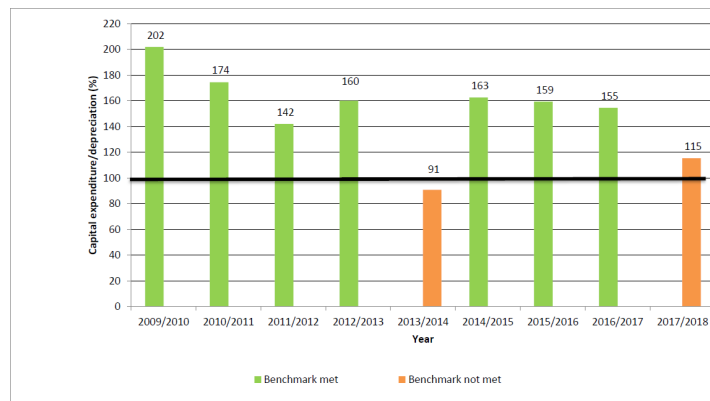
**Question 19: What practices and business models do councils use to improve the way they manage their infrastructure assets and the efficiency of their services over time? How effective are these practices and business models in managing cost pressures? Do councils have adequate capacity and skills to use these practices and business models effectively?**

HDC has moved to using performance as the basis to trigger renewal of assets rather than relying on the age of the asset. This risk based approach, which embraces the probability that the assets may last longer than their theoretical lives. Unfortunately, the focus of the Office of the Auditor General on having local government depreciation on infrastructure equal to capital expenditure does not support this type of risk based approach. This Department of Internal Affairs benchmarking also takes the view that a Council is meeting its objectives if the capital expenditure on infrastructure exceeds the level of depreciation.



#### Essential services benchmark

The following graph displays the council's capital expenditure on network services as a proportion of depreciation on network services. The council meets this benchmark if its capital expenditure on network services equals or is greater than depreciation on network services.



**Question 20: How do councils identify and employ new technologies to manage their infrastructure assets and produce services more efficiently? How effective are councils in using new technologies to manage cost pressures? Please provide specific examples of the use of new technologies to manage cost pressures.**

A good example of deployment of novel technology was the Hurunui District's approach to desludging its wastewater treatment ponds. Instead of traditional dewatering technology the council utilised a process which had been successful in treating effluent in the meat processing industry. This process works by utilising bio-enzymes to assist digestion resulting in a denser and therefore more compact sludge layer. The successful use of this technology has delivered a positive result in that the frequency of pond desludging is reduced and therefore the overall process cost is reduced.

Council first investigated this option because the costs of regular mechanical desludging appeared unaffordable for some of our communities. We approached some consultants known to us seeking a more novel solution. Obviously there was some risk in applying a novel solution, but Council properly considered that risk and determined to move forward with a trial which could be scaled.

**Question 21: What incentives do councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened?**

Adding new layers of regulation requirements to Councils business are a disincentive to innovation because of the prescriptive nature of regulation. There is incentive to make transacting with the Council easier through technology and with all the new technologies, there is never the certainty that they will produce efficiencies. There is often reluctance from Councils to embrace new technologies because we know that the 'tried and true' works, even if it is slower and more labour intensive. New technology should be about working more efficiently and saving money for ratepayers.

There is little tolerance for failure in the local government sector and thus little tolerance for risk. Innovation and novel solutions generally have a risk component associated with them and if successful, a reward. However there is a tendency to avoid risk in the sector. Notwithstanding this the Hurunui District Council has worked to improve productivity through technology. The biggest issue is the capital cost of new technology because every dollar spent (risked) could have been spent on delivering a known, risk free solution.

Central government funding support for innovation in the local government sector would be one way to incentivise productivity improvement. Local government is very good at sharing ideas as we are not competitors and therefore technology transfer is relatively quick in the sector.

**Question 22: What are the most important barriers to local government achieving higher productivity?**

Councils are commonly risk adverse and some are too small to consider new technology because of the cost of implementation. Smaller Council's with a smaller ratepayer base rely on bigger Councils to be innovative and trial new technologies or work practices before there is enough confidence to move forward. There needs to be an increase in productivity and for it to be value for money before change is made. The cost of compliance with various legislative requirements and the tendency toward legal challenges by well-funded activist groups discourages investment in new ventures. Local government is often the administrator and regulator in those processes.

**Question 23: How does local government measure productivity performance? Are these metrics useful? If not, what metrics would be better?**

Local Government is measured by the Department of Internal Affairs performance measures, which then become compliance issues for some Councils and may not be relevant or meaningful to that Council's ratepayers.

The Council considers that metrics may be useful in some areas, others are not. There are mandatory measures nationally which are considered but are not necessarily 'one size fits all'.

The metrics need to be tailored, and possibly be harder metrics like dollars per kilometre or capital per ratepayer or assets per ratepayer so people know what their rates are going towards which can be better understood by a larger number of people.

Hurunui District Council also participates in the PwC Australasian benchmarking programme to look for areas of improvement.

**Question 24: To what extent and how do councils use measures of productivity performance in their decision-making processes?**

Benchmarking exercises are regularly used across New Zealand and in Australia which help management teams look at a range of productivity issues by looking at a range of different measures. The measures are only used if they are used to identify examples of good practice and these measures are again a 'one size fits all' approach without it being considered that all Districts are unique.

**Question 25: Do councils dedicate sufficient resources and effort toward measuring and improving productivity performance? If not, why not, and how could effort toward measuring and improving productivity performance be increased?**

In Hurunui's case this is a no. The reason for this is that there is a cost for the monitoring process and there is a preference to spending money on doing rather than measuring. The measures should be brought back to what is appropriate in terms of the levels of service for the Council. There is a balance between measuring performance and putting money in to service delivery.

**Question 26: What measures do councils use to keep services affordable for specific groups, and how effective are they?**

There are three different uses which have been embraced by the Council and have proven to be effective thus far. This includes the following; the rates rebate process which is widely advertised, there is easy access for local ratepayers from all parts of the district to apply at easy to get to locations i.e do not have to drive to the Council building to get a rebate. It has been found that the applicants, who apply for this, have found it an easy, effective process. The Hurunui also has various rates remission policies including earthquake remissions which includes recognising issues faced by those affected and also remissions for drought and non-contiguous agricultural land which recognises issues faced by the agricultural sector. There is also a rates postponement policy but this is seen as a last resort.

**Question 27: How do councils manage trade-offs between the ability to pay and beneficiary pays principles? What changes might support a better balance?**

An example of this in the Hurunui is the district wide rating of water and sewer services. This has helped recognise that the current services may be ultimately unaffordable for some residents unless a wider rating base was proposed. This has included there being an element of cross-subsidisation in the short term which has allowed for the Council to prioritise works based on need rather than the ability to pay.

Federated Farmers will always advocate for the 30% UAE fixed rate cap be eliminated, but the Council consider that the UAE cap should be increased as this will shift the rates burden away from the higher valued properties.

**Question 28: Do councils currently distribute costs fairly across different groups of ratepayers? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across ratepayers?**

Rating is a blunt tool, so it is impossible to rate everyone only for the services that they consume. Most ratepayers have an opinion on how they should be rated. For example some say they don't use the library, but the Council will rate them for it or some say they may use the toilet less than the large family next door, but the Council charges the same sewer rate. Ratepayers have to understand that there is no 'perfect fairness' policy.

Council is always conscious of the changes of individual rates through the review of the sample property analysis as part of the budget process to ensure that no individual ratepayer is adversely affected in any given year. An example of this is the incremental move to the district water rate for the restricted supplies.

If there is an option to make the distribution of costs across ratepayers fairer then the central government could contribute and take a role in funding some of social services Councils provide.

**Question 29: Do councils currently distribute the costs of long-lived infrastructure investments fairly across present and future generations? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across generations?**

The Hurunui District focuses on a pay back period which is shorter than the life of the installed infrastructure, because as a Council we want to leave a legacy that people can build on in the future. In practice this means that having access to a good sewer system that can be built on allows the future community the opportunity for more investment in halls, pools and community infrastructure.

Back in 1996, Hurunui did not adopt the requirement to fund depreciation as part of the amendment on the basis that the infrastructure was largely paid for, but it missed the concept that depreciation funding is a means of funding future works. The real reason was the fear that there would be a backlash to the increase in rates. However, Hurunui has recently adopted depreciation funding for potable water and sewer in 2015 through a staged approach.

The Council considers that there is inequality in taxation and considers that it doesn't get its fair share of the taxes collected within the District. A lot of social services don't reach as far as some rural communities and there is an expectation that Council will fill the gap.

The Council supports the provision of a zero interest loan scheme.

**Question 30: What principles should be used to appraise current and potential new approaches to local government funding and financing, and how should these be applied? What are appropriate trade-offs across these principles?**

There is legislation that places limits on how Councils can set rates. The Financial Strategy requires Councils (in conjunction with the community) to set limits on rate increases. This should be the guide. There is criticism over increases in Local Government costs which is not helpful to Council as rates are the result of the costs that Councils need to incur, particularly in respect to the level of Capital Expenditure – much of which is the result of other legislation.

**Question 31: How effectively is the existing range of local government funding tools being used?**

There is a wide range of funding tools, however these do come with limits and Councils tend not to deviate from the tools they have used in the past rather than trying new ones.

**Question 32: Is there a case for greater use of certain funding tools such as targeted rates and user charges? If so, what factors are inhibiting the use of these approaches?**

Hurunui will use targeted rates where appropriate but they are still rates and increases to any rates will attract criticism. This issue of increasing the use of user charges falls down when the demand decreases due to the increase in the charge. An example in the Hurunui is the Refuse Collection. Council moved from a \$220 rate for refuse collection down to a \$44 rate. The shortfall was to be made up for in the increase in bag sales however the bag sales were significantly lower than anticipated, cost was still the same and the result was a deficit which is still being dealt with. Other example of this happening are with swimming pools and halls.

**Question 33: What is the rationale underlying councils' approach to levying rates? What are the costs and benefits of shifting from a capital value system to a land value system?**

Rates are all about the demand for services and the Hurunui has set its rates based on the Capital Value for the last 15 years. If there was a change to being rated on Land Value then this would be viewed as unfair by the rural community and then Council would lose the ability to rate utilities, such as Telecom and Transpower.

What also needs to be considered is that the Government does not pay any rates but they utilise the services. For example 32% of the land in the Hurunui District is DOC estate and the majority of people accessing DOC land aren't locals, yet access to this estate is via local roads which are being maintained by ratepayers.

**Question 34: In addition to restrictions on how targeted rates are applied and the types of services where user charges can be levied, do any other restrictions on existing funding tools unduly limit their uptake or usefulness?**

There have been some ratepayers (particularly accommodation providers) who have suggested that paying a pan charge for sewer is inequitable as the hotels may utilise the service less than a residential property. The same issue occurs for holiday home owners. Currently the sewer charge is \$532 per property (SUIP). If there is a shift to metred wastewater then Council would need to be sure that it will continue to receive the level of rates as by far the greatest cost is providing the infrastructure rather than its use. In terms of 'windfalls', there are very few and far between in terms of the creation of new capital value in the district. For example if there were various windfarms that received consent and were constructed then there would be potential for a significant increase in capital value.

The Council is concerned about GST being paid on rates but not passed back to the Councils.

**Question 35: How does the timing and risk associated with future funding streams influence local authority decision making about long-term investments? What changes to the current funding and financing system (if any) are needed to address these factors?**

The timing of when investment in long term assets is critical as it can cause uncertainty. For example there is uncertainty over funding from NZTA with roads, or sewer upgrades that have been deferred because the level of development has not warranted the work or development contributions that were used to do a town centre upgrade but the level of contributions received has not kept up with the holding cost.

**Question 36: What are the pros and cons of a funding system where property rates are the dominant source of funding? Does the local government funding system rely too heavily on rates?**

The pros for a funding system is that property rates can only bring in a certain level of funding, this may force the Council to cut its cloth accordingly. Rates are the predominant funding tool for local government expenditure.

Cons include the changing legislation and standards that may not be affordable without some form of external funding.

The funding system is too heavily reliant on rates as there is little alternative with little central government funding available.

**Question 37: Under what circumstances (if any) could there be a case for greater central government funding transfers to local government? What are the trade-offs involved?**

Central government funding should be available where standards (and the cost of meeting them) are greater than the community wishes. This includes there being benefits for people that live outside of the district and funding for increased costs. An example is protecting biodiversity in rural areas which provides benefits to people that live outside of the District.

**Question 38: Do local authorities have sufficient financial incentives to accommodate economic and population growth? If not, how could the current funding and financing framework be changed to improve incentives?**

The majority of Councils in New Zealand want growth because it provides the ability to broaden the rating base and continue to provide more affordable services. Growth in population also provides a benefit for more people to move into the district as more houses start getting built and jobs are created. The type of people coming can cause different types of pressures. There is a high benchmark to achieve, however funding streams may be available but the criteria to obtain this funding may not necessarily be met.

The way funding and financing incentives could be improved is instead of there being various funding options that are available to those Councils that are resourced sufficiently to take advantage of these options are consequently dominated by those Councils. Instead the structure of funding should be specifically available to different tiers of Councils, so that applications can be made on an even playing surface.

**Question 39: What funding and financing options would help councils to manage cost pressures associated with population decline? What are the pros and cons of these options?**

If there was a grant available to account for spare capacity in infrastructure systems. The pro's for this option would have is that it would assist Council in meeting the costs associated with the provision of capacity.

The cons that this would have is that there is no incentive for Councils to increase population and they can become reliant on subsidies. It also provides unrealistic growth projections in order to create capacity in a new system to receive subsidies.

**Question 40: Are other options available, such as new delivery models that could help councils respond to funding pressures associated with a declining population? What conditions or oversight would be required to make these tools most effective?**

There are other options that could help Councils respond to funding options when there is a declining population such as a point of entry drinking water, rather than providing full

drinking water standards on a supply that has a declining population or sewerage done in pods rather than a full scale reticulation system.

**Question 41: What are the pros and cons of local income and expenditure taxes?**

The pros are that it provides a different source of income rather than purely on rates and it may mean they are able to match the ability to pay to the costs, therefore avoiding the asset rich/cash-poor scenario.

The cons may be that it can be costly to administer which results in ratepayers and other customers feeling a lesser satisfaction with Council. There can also be downturns in particular industries that would have a significant effect on Council revenue.

**Question 42: What are the advantages and disadvantages of a local property tax as an alternative to rates?**

There were no advantages identified, however a disadvantage would be that it will not address the asset-rich/cash-poor issue.

**Question 43: Are there any other changes to the current local government funding and financing framework, such as new funding tools, that would be beneficial?**

What would be beneficial is that rather than a local sales tax, a portion of the GST in each district that is paid is forwarded to the local Council as an additional funding source.

**Question 44: How can the transition to any new funding models be best managed?**

Options for it to be best managed include that the local GST take will need to be administered by the IRD and the GST revenue generated in branches of businesses will need to be returned to the Council in the location of the branch .

**Question 45: To what extent does the need for particular funding tools vary across local authorities?**

Every district is different and each district sets its own rates in accordance with what is deemed appropriate to their circumstances.



**Question 46: To what extent are financing barriers an impediment to the effective delivery of local infrastructure and services? What changes are needed to address any financing barriers?**

Hurunui has not experienced any issues from any specific barriers to financing. Council went into debt first on the back of the major upgrade to the HSTP&S in 2010, so there was acceptance that Council was required to take on debt. Funding from LGFA is readily available and Council has always met its various debt covenants but it is still not cost effective for Council to receive a credit rating.

**Question 47: What role could private investors play in financing local government infrastructure and how could this help address financing barriers faced by local governments? What central government policies are needed to support private investment in infrastructure?**

Currently private developers are required to provide the infrastructure for the developments as well as being required to pay Development Contributions where appropriate.

**Question 48: If New Zealand replaces rates on property with a local property tax, should it also adopt tax increment financing as a way to finance growth-related infrastructure investments? What are the advantages and disadvantages of tax increment financing?**

According to Infrastructure New Zealand, it makes sense and advantages are that it provides another funding option however there are disadvantages. Disadvantages include tax increment financing will require Council to accurately predict future property values as a result of a project. Then if there are bonds that are required it comes with significant administrative costs.

Another con would be that a rate is a payment for services which brings discipline in identifying the cost of that service and collecting the rate revenue accordingly. A tax would remove the discipline and create an opportunity to expend tax funds at whim.

**Question 49: How effective are the current oversight arrangements for local government funding and financing? Are any changes required, and if so, what is needed and why?**

Councils only have the external audit of the Long Term Plan and auditors are not interested in Council Policies. Auditors tend to be more interested in the underlying assumptions for the budgets, whether the assumptions are reasonable, have assumptions been applied consistently and also whether Council undertook the appropriate consultation.