Submission by

The Employers and Manufacturers Association (EMA)

to the

Productivity Commission

on the

Local Government funding and financing issues Paper

February 2019

About the EMA

The EMA has a membership of more than 8500 businesses, from Taupo north to Kaitaia, employing around 350,000 New Zealanders.

The EMA provides its members with employment relations advice from industry specialists, a training centre with more than 600 courses and a wide variety of conferences and events to help businesses grow.

The EMA also advocates on behalf of its members to bring change in areas which can make a difference to the day-to-day operation of our members, such as RMA reform, infrastructure development, employment law, skills and education and export growth.

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Background

The Employers and Manufacturers Association (EMA) has long advocated for a greater variety of funding tools to be made available to Local Government to enable councils to maintain and build the critical new infrastructure required to support the success of both business and residential communities.

Our focus is on business but it is our view that business success goes hand in hand with community well-being and infrastructure underpins the success and well-being of both business and residents.

It has been apparent for some time that the current combination of relying on rates and the performance of various council assets to cover costs is simply not enough to match the needs of both growth areas of New Zealand and those with a declining ratepayer base.

In some jurisdictions we are seeing additional rates applied under the guise of "Targeted Rates" that are in fact just a general rate increase dressed up as something else so the rating organisation can keep its general rate increase below some self-imposed publicised target.

The lack of transparency and performance measures in local government means the EMA has little faith that all of the funds raised under the guise of targeted rates will be applied to those specific areas.

It's also hard to accept that once the projects these targeted rates are meant to fund are completed, that the rating agency will then give up on that revenue stream.

A long-term bugbear of the EMA has been business differentials, another targeted rate. The arguments supporting these differentials have been debunked several times but at the moment our members face a 237% differential in Auckland, a new differential just introduced in Tauranga and an existing differential continuing to be applied in Hamilton.

On the one hand you have a rates-based system funding incremental, short-term spending that simply cannot cope or keep up with growth and the other you have jurisdictions with declining ratepayer bases that can barely cover the cost of maintaining existing, ageing assets, let alone pay for replacement infrastructure.

The pressure on ratepayer bases has seen rate increases run well ahead of inflation – almost three times inflation last year alone and the single biggest contributor to inflation in the December 2018 quarter – for no appreciable gain in services to ratepayers.

Rather than monitor costs or look at core service provision over nice-to-haves, the first instinct of many rating agencies is simply to ask ratepayers for more please.

Parochialism, patch protection and ideology plagues the local government sector with many councils also suffering, through no fault of their own, a lack of resources and capability.

There are a range of funding and financing options that are in common use in overseas jurisdictions that could be used to supplement rates but ideology blinds many councils to their use, while in some cases it is legislatively not possible to use those tools.

If the Productivity Commission's issues paper can help remove those ideological scales from the eyes then we may be able to progress the infrastructure deficit currently acting as a handbrake in so many areas seeking economic growth and development.

Intervention by Central Government, such as the joint financing package recently negotiated through Crown Infrastructure Holdings to expedite 9,000 new home at Milldale, north of Auckland, may also be required to unlock the existing mindsets of some local government jurisdictions.

Even existing tools are not used well with few councils taking up the option of applying a full 30% - the maximum allowable – Uniform Annual General charge (UAG). The UAG is a user pays-based mechanism that could raise considerably more revenue if applied better – for example when the Auckland Councils were merged from seven to one, instead of taking the opportunity to maximise the UAG it was reset at just 18%.

Perceptions of local government efficiency and performance are poor, indeed in the EMA's region of business, Auckland City's trust levels with residents and business could only be characterised as pitiful. And that's from the Council's own surveys.

While many of the issues are of councils own making it also clear that central Government has also had a role with a tendency to divest more responsibility on councils without necessarily considering or contributing to the costs that extra responsibility will place on councils and therefore ratepayers.

It's clear the current and recent past Governments are running out of patience with some councils and recognise that others need assistance.

But alongside consideration of funding and finance issues, the ongoing role of councils, their core roles and responsibilities and Government contributions to central government devolved responsibilities, should also be considered.

Greater use of PPPs, more debt financing, asset recycling, Tax Incremental Financing (TIFs), City Loans, Municipal Urban Districts (MUDs), Infrastructure Bonds, congestion charging, tolls, water metering and other revenue streams, and value capture are all tools widely used elsewhere around the world that could have some application to New Zealand's local government funding and financing – with suitable adaptation to New Zealand's circumstances.

But, without properly defining the role of local government how can you also ensure it has the tools and capability to properly finance the infrastructure needs of its ratepayers?

Responses to Questions

There are many questions in the issues paper that the EMA cannot or does not have the expertise or interest that area and so do not require a response. However, there is a selection of responses to follow.

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?

That issue is covered in the paper but it is the pace of growth causing issues in fast growing centres while the loss of ratepayer base causes similar issues in other regions.

Current funding tools are not set up to sufficiently fund and finance infrastructure and services in either rapid growth or declining ratepayer base councils.

Question 4

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

The biggest impact will come as that bulge in ageing population switches to either fixed or more limited income from superannuation etc and becomes less inclined or able to fund ongoing rate increases.

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?

Clearly smaller councils with small rate bases but very large numbers of visitors Coromandel, Rotorua, Queenstown/Central Otago etc are struggling to cope.

This may be an area where central Government takes more action as part of a New Zealand-wide tourism infrastructure plan. While unpopular with the industry, this can be funded from a border tax which is less clumsy than bed taxes.

Bed taxes capture domestic tourism and business travellers as well as overseas visitors and would also need to be applied nationally.

Auckland's attempt to introduce a form of bed tax through taxing the rateable owner has proved difficult to administer – it's estimated less than a third of AirBNB owners are paying the tax – is widely unpopular and for all the difficulties and opprobrium raises a paltry $13 million.

New technologies may also provide a better answer to a user-pays for tourists regime.

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?

There is no doubt central government decision-making has imposed added costs on local government while the nature of local government legislation, now that the four 'well-beings' are being reintroduced into the Local Government Act, may add further pressure.

A more defined role for Local Government and acknowledgement by central Government that it may have to help fund some responsibilities rather than dumping them on Councils may solve some of these issues.

The tourism example above is one issue while a whole industry has been created around RMA consenting and enforcement while many councils lack the resources or capability to deal with those issues in a timely or cost efficient manner.

The EMA supports BusinessNZ's stance on expanding the role of Local Government.

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 EMA's view is that a lack of competition and a lack of transparency contributes to this problem.

Rather than a tightly monitor and control costs there is a tendency to simply go back to the ratepayer to garnish more guaranteed funding rather than look closely at the value being provided from existing services.

Ratepayers are continually subject to rate increases well above inflation with no appreciable or visible improvement in services or efficiency.

Local Government procurement may also be a contributing factor as more councils head towards single or few providers cutting out competitive bids from smaller, or more nimble service providers prepared to gear up or provide more efficient services. If these suppliers don't make preferred supplier lists, they are shut out of the equation.

Too many council fear aggregation of projects across council boundaries leading to inefficient procurement of larger scale roading and water reticulation projects.

The EMA believes the proposed new National Infrastructure Commission could have a critical role in providing expertise in procurement, funding and finance that could help councils across the country reduce their procurement and project costs.

Question 11

Is local government expenditure shifting away from traditional core business into activities such as economic development, sport and recreation and community development? If so, what is the rationale for this shift, and could these activities be better provided by other parties?

The answer is clearly yes and the shift to reintroduce the "Four Well-Beings" could further exacerbate this issue.

This catch-all phrase could allow councils to justifiably spend on just about anything.

Council core services need to be better defined and other services left to the private sector. This response also answers Question 12.

Question 15

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

The Long-Term plan process is virtually useless as a tool to manage cost pressures.

The surveys and consultation processes are set-up in such a way as to provide a pre-determined outcome.

If a private company put a survey into the market as clearly stilted towards a pre-arranged outcome as Councils regularly do, the results would be ignored, yet councils use these to justify the spending they want as approved by the public.

The LTP process is a rubber stamp.

Question 18

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

Cross-boundary aggregation of projects or needs, particularly in water reticulation and roading could readily help reduce costs while greater use of user-pays systems would also be helpful, particularly as technology improves.

Asset recycling, while anathema politically to many councils, has been used with great success to provide new infrastructure, most notably in New South Wales.

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?

Water metering is the most common technology alongside smart meters for electricity.

This has a significant environmental impact in reducing the need for water storage and take off from water sources and by delaying infrastructure upgrades and the need for new expanded infrastructure.

Council application of technology upgrades is variable and generally slow.

Question 21

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

As local government, like central government, has the power to tax, incentives for improving productivity appear limited. Local government is not subject to scrutiny, say by Treasury, and few councils appear to have productivity measures in place – in fact Auckland Council recently removed some of its productivity measures.

Better definition of core activity with appropriate monitoring measures is a possibility along with benchmarking – common in the UK water market for example.

Question 22

What are the most important barriers to local government achieving higher productivity?

Any organisation acting under a three-year electoral cycle will make politically-driven decisions that are less than optimal for productivity.

Question 26

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

Some councils operate rates delay schemes to assist those on limited means and its likely there will be much greater take-up of those as the population ages.

Auckland Council is currently adding targeted rates on fuel and accommodation to its mix with limited results. The Bed Tax is difficult to administer, relatively easy to evade and raises just $13 million.

The Regional Fuel Tax has already sparked a range of applications for exemptions as constructions firms using machinery off road, boaties, and airlines try to opt out of the scheme reducing its tax take considerably.

The fuel tax arguably it's the disadvantaged hardest and does nothing to address Auckland's growing congestion problems.

Differential rating and targeted rating unfairly penalise business owners.

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?

There is clearly a case for greater use of debt funding, which remains relatively low, while there are also many arguments in support of asset recycling, greater will to introduce and use PPPs and tools such as infrastructure bonds as a mechanism for spreading the costs of major infrastructure over time.

The Milldale project in Auckland is a successful example of using private funding to pay for infrastructure sooner that will support construction of 9,000 new homes. New owners opt into paying for the new infrastructure over a period time, thereby repaying the private funding.

This kind of TIF financing lends itself to greenfields projects.

Value capture can be used in inner city or brownfields development but is difficult as it needs to be carefully controlled so as not to displace or disadvantage existing businesses and residents who may not be well-placed to pay higher rates.

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?

At moment local government bears the cost of accommodating growth and economic development but little of the benefit.

The rating systems averages any benefits from growth across the entire rating base, thereby minimising the economic uplift impact, while central government reaps most of the benefits from the increased tax take.

Land availability and consenting issues are major impediments to growth with the resource management system as a whole requiring either a major overhaul or complete rethink, rather than the current piecemeal approach to reform.

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?

The financial barriers to support growth and economic development are well-known and well canvassed in the issues paper but just as important is the need for regulatory reform.

A system that enables an almost unlimited ability for individuals, households and businesses to object to almost any new development crushes development and new improve infrastructure.

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?

Greater use of the PPP model is an obvious tool to meet pressing infrastructure needs while other options could include greater use of council balance sheets to fund new expenditure. It appears councils are currently constrained from debt financing where a local authority owns the infrastructure.

Special Purpose Vehicles to take debt off council balance sheets are another option and asset transfers between council and or government entities may help overcome the politically-fuelled antipathy to asset recycling.

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?

The EMA would support the use of TIFs particularly in greenfields development where residents and businesses are willingly opting into the benefits provided by new infrastructure.

There are issues of displacement caused by brownfields development but these can be managed as long as the TIF remains tightly controlled and monitored.

Brett

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