

## **Environment Canterbury submission on Productivity Commission's Local Government funding and financing issues paper**

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

The issues paper identifies size, population growth and decline, age structure, physical resources and industry structure as differing circumstances. Most of these examples focus on territorial and unitary authorities. To further understand and consider local government funding and financing issues and tools it would help to be more explicit about differing circumstances between regional councils, unitary and territorial authorities and include more regional council perspectives.

To set the scene from a Canterbury perspective, New Zealand's largest region is diverse and covers over 45,000km<sup>2</sup> of varied landscapes, major river and lakes systems and productive farmlands. We have a large agricultural economy with 70-80% of irrigated land in New Zealand in Canterbury. The population of the Canterbury region is estimated to be 612,000 with the population of territorial authorities distributed unevenly across the ten territorial authorities and most of the population (82%) living in Greater Christchurch. Three territorial authorities have a population less than 10,000 (including New Zealand's smallest authority, Kaikōura District Council). With geographical diversity and population distribution variation comes a wide range of community needs and expectations.

As a regional council, our responsibilities largely lie in resource management with a significant focus on the delivery of regulatory services. Our scope of activities ranges from providing public transport services mostly in the urban areas to providing regulatory services in resource management within the context of our large agricultural economy. Our main community infrastructure assets are river management and flood protection assets. In comparison to regional councils, territorial authorities have many community infrastructure assets and provide a number of services directly related to property. Achieving many of the desired outcomes for the sustainability of natural resources is linked to the services delivered by district and city councils.

To further understand funding and financing issues from a regional council perspective, consider the open-ended nature of demand for the kind of regulatory services we provide, compared with providing physical infrastructure and services to property. Using improving water quality as an example, there is no limit to the amount we could spend, or lengths that we or others could go to improve water quality. Requirements are often limited by a sense of what activity is reasonable, reasonably affordable for landowners and what ratepayers are willing to pay. Our regulatory services are also not directly related to property, for example in the case of water quality, water can be valued by individuals or groups, outside the area, region or indeed the country.

The issues paper touches on the potential impacts of climate change and other environmental issues. As climate change effects are felt in the future, regional councils can be expected to face significantly different circumstances, including in the management of resources and infrastructure (flood protection) assets. Much of Canterbury's population lives on or near the Canterbury coast, a long and diverse coastline stretching from north of Kaikōura to the Waitaki River. In Canterbury, vulnerable populations are at risk of relocation due to sea level rise and coastal erosion. Activity to support the transition to a low-emissions economy is also uncertain but likely to increase. Within regional council's resource management remit, increasing concern, expectations and interest in environmental issues will continue to be felt in the future.

On page 12 of the issues paper, the five largest sources of operating expenditure are listed. Of these council support services and transportation (public) are relevant for this regional council. It would be useful to have further breakdown of main sources of capital and operating expenditure by type of council (regional, territorial and unitary) to understand local government funding and financing issues.

**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?**

Individual councils could be using tax rates to estimate depreciation rates and therefore possibly depreciating their assets too quickly. A survey of the differing depreciation rates across asset classes that councils use would be useful along with guidance as to what the estimated useful life of various assets could realistically be. Our biggest assets are stopbanks and we don't depreciate these.

**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?**

Broadly local government requires better fiscal incentives to provide for the needs (both from an infrastructure and science/natural hazards data perspective) of future population growth. Without significant fiscal incentives councils face difficult trade-offs between maintaining or enhancing existing service levels, or investing to provide for future needs, with poor outcomes often resulting. New financial tools will inevitably need to be a part of these incentives (e.g. councils need to benefit financially from development).

Population growth impacts funding of flood protection assets, and impact of size of title/ownership on whether those receiving the benefit have desire/funds to support renewal/upgrade. It's not simply population growth but land use change that is important.

Population declines are often reflected in declining property values resulting in a greater burden on fewer ratepayers if the same level of services is maintained. Declining populations can also include a higher percentage of ratepayers on fixed incomes.

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

For local government, an ageing population on a fixed income has implications for rates affordability as outlined in this Stats NZ release 'Superannuitants faced the highest inflation in the September 2018 quarter (up 1.2%), largely driven by a 5.6 % rise in local authority rates' (<https://www.stats.govt.nz/news/superannuitants-feel-effects-of-rates-rises.>)

In Canterbury, on the medium population projection series, 24.4% of the population will be aged 65 or over by 2043, up from 15.2% in 2013. Christchurch City and the Selwyn and Ashburton districts will have smaller percentages of people aged 65+ than in the region as a whole. The highest percentages of over 65s will be in Kaikōura district (34%) and Timaru district (33%). Assuming that older populations are more likely to be dependent on fixed incomes, rates affordability is likely to be an increasing issue.

Access to social and economic opportunities is an issue for an aging population as an increasing number of people may rely on public transport and make increasing use of footpaths for non-foot traffic such as mobility scooters. There is also the consideration of social isolation and the access that public transport provides for those who cannot drive. Looking to technological solutions to assist with the transport needs of an ageing population could well have a significant impact on the transport networks and costs, i.e. finding new ways to provide mobility to those who cannot drive a car. (Ride share is an example – but transport technology may also make it easier for elderly to drive for an increased number of years).

#### **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?**

We are aware of the significant pressure that tourism growth has on local government's ability to fund infrastructure and regulatory services. Many areas facing increasing influxes of visitor numbers have small resident populations and the number of visitors to rate payer ratio can be significant, for example in the Mackenzie and Kaikōura districts. From a resource management point of view, the impacts of increasing visitor numbers include pressures on infrastructure networks (including wastewater, drinking water), waste management and threats to biodiversity values. This creates cost pressures for our compliance and monitoring functions. As an example, in the Upper Waitaki region visitor numbers are rising rapidly, putting a strain on current wastewater infrastructure (toilets and treatment facilities). Waste (litter) management and the risk of introduction and spread of invasive freshwater species is also a concern.

**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?**

Whilst theoretically changing regulation can lead to either higher or lower costs on councils, regulatory change by its standard historical nature (incremental and broadening) seems inevitably to lead to higher costs on councils. Regulatory changes that expand responsibilities create cost pressures for regional council and local government, largely from the costs to implement. Recent and upcoming examples include:

- changes to the National Policy Statement for Freshwater Management (NPS-FM), and the cost of implementing them through increased monitoring and reporting, mātauranga māori requirements as well as changes needed to regional and sub-regional plans to give effect to the NPS. The regular churn of changes is also significant e.g. the NPS-FM was issued in 2011 and amended in 2014 and 2017 with further changes mooted in 2020.
- implications of the proposed National Policy Statement for Indigenous Biodiversity. It is not known what the exact cost pressures may be but implications from identifying and mapping significant natural areas could be significant
- proposed Resource Management Act reform and the implementation of the National Planning Standards
- currently there is no national application of managed retreat (as a result of climate change). Current indications from central government are that ad hoc managed retreat could be partly funded from local government. This could be a massive cost pressure depending on the area.
- a step change in transport signalled in the Government Policy Statement (GPS) on Land Transport 2018. Funding mechanisms have been announced to assist local government to improve transport outcomes. Implementation of the GPS is in the initial stages and additional funding for Canterbury has not yet been confirmed. Change will require evidence-based planning and investment decisions, which will in turn require appropriate resourcing.
- activity to support the transition to a low-emissions economy is uncertain but likely to increase, especially if regional councils have a role in implementing any emissions policies.

**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?**

For Environment Canterbury, implementation of the Ngāi Tahu Settlement Act has not had significant funding/cost implications. There were no provisions related specifically to Environment Canterbury in the Ngāi Tahu Settlement Act. Environment Canterbury is also

very conscious that it is in partnership with just one iwi (as Ngāi Tahu is recognised as mana whenua over all of Canterbury), in contrast to the situation faced by other councils.

In our experience, the relationship with Ngāi Tahu's ten Canterbury papatipu rūnanga and Te Rūnanga o Ngāi Tahu (known as our Tuia relationship) has enabled us to work more effectively and efficiently in the delivery of services. This has therefore been of benefit to our ratepayers. For example, by working more effectively and efficiently through our Tuia relationship we were able to deliver the Land and Water Regional Plan (LWRP) in half the time and saved millions in ratepayer dollars compared to previous ways of working with tangata whenua. We have also prioritised where we target our co-governance efforts in our ten water management zone committees and our focus on Te Waihora (Lake Ellesmere) which has helped manage potential cost pressures.

### **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?**

This is a significant concern from a flood protection management point of view. We have recognised a big future cost due to climate change and anticipate funding this from 2028/29. We do not have the ability to fund this within the current Long-Term Plan (LTP) without incurring significant rate increases. Consideration is currently being given to whether programmed work from 2028 should be brought forward.

The issues paper makes comment on the inconsistent/ ad hoc nature nationwide of government providing financial assistance to communities affected by natural disasters, managed retreat and the lack of mechanisms to ensure climate change adaptation costs are shared equitably. The concerns of regional councils in adapting to climate change and other natural hazards in the future have been recognised by the National Rivers Special Interest Group. They are developing a case to Government to encourage a return to Central Government funding as part of future capital and maintenance costs.

We do not carry any insurance for our flood protection assets. Security is provided through a significant financial reserve to carry out immediate work after a natural disaster (flood / earthquake / drought / fire). We also have access to loans for larger or more long-term recovery costs. With climate change there is likely to be increasing frequency of extreme, damage-causing weather events.

Another consideration for responding and adapting to climate change is the appropriate development and use of irrigation infrastructure in Canterbury to meet the community's needs. Irrigation infrastructure (such as storage) builds resilience into the local economy from climate change, providing ecosystem support, and community water supplies. Climate change predictions indicate higher evaporation across the Canterbury Plains, leading to increasing irrigation demand (a 20-30% increase in irrigation demand by 2090). Higher irrigation demand does not automatically lead to greater water abstraction. Irrigation efficiency within schemes and on-farm storage can meet most of this demand.

Local councils also need to take the resilience of the transport network into account when developing resilience strategies but they are not resourced to do so. The New Zealand Transport Agency and Environment Canterbury have undertaken a joint exercise to identify the transport resilience work that is being undertaken in Canterbury by local and central government and lifelines utility providers, and how to align this work. This has included identifying gaps in resilience planning that need to be addressed.

While this work is not yet complete, initial options analysis supports the introduction of GIS resilience risk mapping across Canterbury councils. Some councils have no mechanism for risk mapping and therefore have not identified the transport resilience risks to the road network in their locality. There is also inconsistency in how local authorities currently plan for resilience, including the identification and quantification of risk.

It is not efficient for each council to run their own resilience risk mapping process, and some smaller councils do not have the budget or resources to undertake risk mapping at all. Undertaking risk mapping at a regional level would provide consistency and economies of scale. This work will ensure that significant resilience gaps are identified and provide a consistent, robust, evidence-base for managing these gaps. If this work is not progressed, then Canterbury's exposure to risk may not reduce, and investment in resilience-related activities may not be effective as risks may not be fully understood.

**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?**

This is a widespread problem across the public sector and government/s worldwide. Scarcity of certain types of skills nationally, such as water scientists and consent planners, drives up the price of specialist labour. The ad-hoc nature of council contracting often means that council is a price-taker when contracting out. The construction costs index often runs ahead of the consumer price index due to labour shortages, material shortages, raw material costs etc although this is less of an issue to regional councils.

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

Yes, there is variance in the prices of goods and services purchased by local government across the country due to different market conditions, competition across the country and differing ability to negotiate.

**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?**

As a regional council, all our services are considered core (as set out in table 5.3 of the issues paper) and this question may be of more relevance to territorial authorities.

Environment Canterbury does not lead or fund activities such as economic development, sport and recreation and community development. The council is a member of the Canterbury Mayoral Forum which leads the Canterbury Regional Economic Development Strategy (CREDS). The Forum itself has no budget. Environment Canterbury is the fundholder for central government grants to support CREDS implementation and provides secretariat support as agreed in the Canterbury local authorities' triennial agreement 2017-19 (Local Government Act 2002 section 15).

All our services reflect the council's perception of community needs. Council proposed expenditure for activities and services is set out in Long-Term and Annual Plans for which we are accountable. Plans are developed with consideration to the many statutory obligations and requirements in consultation with the community. It is also worth noting that some activities/service have multi-faceted benefits e.g. establishment of Regional Parks in river areas helps protect flood protection assets.

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

Yes, generally the broader the scope, the higher the total costs. Continued broadening of a council's scope of activities will inevitably result in continued cost pressures as it presents councils with the difficult challenge of prioritising their activities within their necessarily limited budgets. While this amounts to a classic function of governance and can't in itself be complained about, what is a source of legitimate complaint is the tendency of central government to add to the communities' expectations of local government without providing any greater means of meeting these expectations.

Expansion of local government responsibilities and activities can also relate to changing community (and central government) expectations. For example, flood protection 30 years ago was mostly a utilitarian function to keep water off land. Now the community expectation is that the flood protection will be achieved while enhancing biodiversity, habitat, recreation opportunities etc. This is an admirable shift, but it does cost more.

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

Several other factors generate cost pressures. In considering cost pressure factors, some are out of our control and some we can influence. Some factors are also more uncertain to forecast than others. A number of these cost pressures have been discussed within the issues paper and earlier in our responses to questions 1, 6 and 8. For regional councils, the most significant factors now and in the future are:

- environmental issues and climate change, and awareness of council roles versus public expectations. For regional councils, working in the context of environmental challenges and legacy issues with growing community needs and expectations is a significant cost pressure, due to the open-ended nature of our services (i.e. there is no end to the amount of regulatory work we could do, it comes down to affordability and the impact of our plans/rules on those affected).

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- the transactional cost of collaboration and managing community expectations is significant. For example, the Land and Water Forum has rightly encouraged councils and communities to address water issues collaboratively. This makes sense and can ultimately aid progress on otherwise intractable issues. But it isn't easy, quick or cheap.
- technology shifts alongside the pace of technological change are commonly quicker than contract periods or asset lifespans meaning that additional costs are priced into contracts, pushing costs up
- uncertainty due to political cycles, frequent regulatory change and changes to central government policy. This includes uncertainty of future funding models (e.g. potential outcomes of the 3 waters review, Urban Development Authorities development, state services review, National Planning Standards)
- expanding requirements for regional councils from regulatory change has been discussed in question 6. In addition, the increase in demand for information and expectations/requirements to report is resource intensive. For example, reporting on time taken for resource consents under the RMA or extent of information required to produce the Long-Term Plan (under LGA).

Another significant factor for local authorities and their communities – the regulation and delivery of three waters is currently being reviewed by government. The review has highlighted the challenges faced by local authorities to the service and delivery of three waters infrastructure including funding pressures, rising environmental standards, climate change, seasonal pressure from tourism, and the recommendations of the Havelock North Drinking Water Inquiry. Given the significance of this issue for local government funding and financing, the implications and findings of the review should complement this work.

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

It is unclear what impact future trends will have but there will always be costs and benefits to weigh up from technological advances. The key challenge here is the rate of change and the ability to leverage and adopt such innovations and disruptions, within legislative, funding and contractual constraints.

For example, technological innovations have the potential to change transport demand and the way that people travel. Electrification of the vehicle fleet is taking place now, and we are likely to see improvements in alternative fuels, ride share, vehicle safety, telecommunications and traveller information. Increasing automation of vehicles and, in particular, driverless vehicle technology have the potential to revolutionise transport. These all have associated cost pressures, especially as a transport network that was not built for these phenomena will need to adjust to new developments. The desire of some segments of the community to be seen to be innovative and front-footed can also add pressures to manage risk and change. Local government is often risk averse (not least because of the limitations of its sources of funding and its obligations to consult) and thus innovative change can be slow. Innovation requires adequate funding mechanisms to underwrite and being prepared to fail. The appetite for local government initiative failure is arguably lower than in



the private sector (where one is often risking one's own money and earning returns that reflect that risk) and coupled with limited capacity to sustain failure from a financial perspective, means the costs of this can be perceived to be too great.

### **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 (LTP) process is not very effective at addressing cost pressures and keeping council services affordable due to the principal source of funding (rates) limiting what can be raised. It is rare to see LTPs that result in reduced rates, or inflation adjustment increases only – rates increases often exceed inflation (often significantly). Where rating revenue increases only in line with inflation, significant activity increases, e.g. in infrastructure, are problematic. On the other hand, rating increases significantly ahead of inflation are politically problematic. Given that councils are democratically elected, this circle can only be squared with community support. Which requires either a crisis (e.g. where investment has been too long delayed) or significant leadership.

The rigidity of the annual and three-year decision-making process means there is not a lot of flexibility/opportunity to quickly respond to cost pressures or emerging issues and a lot of the focus is on the budget for the year ahead. In addition to the rigidity of councils' mandatory budgeting regime, the fact that councils' principal source of revenue is from rates adds another element of inflexibility, since it is problematic to make significant changes to this revenue stream from year to year.

The investment timescales and rate of change from local government strategy can be very long term, thus re-litigating strategies every 3 years can lead to sub-optimal delivery and short-term focus as benefits of strategies and investment may not be realised for 6, 9 or more years. Transport, urban development, social change and environmental change are clear cases in point. The cycle of consultation and planning essentially means up to 40-50% of resource time can be spent in managing this process, rather than delivering on initiatives and outcomes. Further, given such planning cycles are aligned with the political cycle, there is greater opportunity for variability and change in policy direction and investment priority and focus, again diluting and compromising medium to long term investment initiatives.

The LTP process is not conducive for addressing long – term issues and future challenges beyond ten years, although this has improved with the introduction of infrastructure strategies. To depoliticise long-term infrastructure issues, robust infrastructure plans could be implemented with funding streams set down. Other options should be explored to enable some flexibility to be deployed outside of the rigidity of setting budgets through annual and long-term planning processes.

The legislative framework and compliance requirements are resource intensive and analysis of the costs of the Long-Term Planning process across local government would be useful to see to explore inefficiencies further.

**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 consultation process is reasonably effective and responsive to ratepayer views on regional issues although limited engagement with local government consultations and getting a balance of demographics engaging with the process is an ongoing issue. A hot issue can distract, and it is more important to understand the priorities of the community further upstream. Raising awareness and providing clarity is often needed for ratepayers on differing council roles to manage expectations about what councils can provide under their remit, particularly as territorial authorities collect rates on behalf of regional councils.

The consultation process can be burdensome and rather prescriptive in terms of the requirement to have options and does not always align with the many other engagements local government has with the community and organisations. For example, in the transport space we are required (by the Land Transport Management Act) to consult on a Regional Public Transport Plan and a Regional Land Transport Plan every three years which overlaps with the LTP (mandated by the Local Government Act) by a matter of months. From a transport perspective we need to see alignment in the timeframe and content of key planning documents, such as the Government Policy Statement on Land Transport 2018, Long Term Plans, and Regional Land Transport Plans.

For flood protection, a significant portion of our rates comes from targeted rates for flood protection schemes. These are discussed annually with the benefitting communities through a very effective (because very localised) process.

**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?**

Yes, there is scope to improve the effectiveness of Long-Term Plan processes for the reasons discussed in question 15 and 16. A review of the cost to deliver components of the LTP would be a useful exercise.

We don't have a lot of capital expenditure and where there is, localised processes are in place.

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

Generally speaking, there is always some means for local government to manage cost pressures by ensuring their procurement processes are managed as effectively as possible and internal processes are as effective as possible. This is continually evaluated by local government, through processes such as the Long-Term Plan and our own effectiveness and efficiencies reviews. Examples of more efficient management are:

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- outsourcing of various functions
- collaboration with other councils in terms of purchasing power and sharing services
- avoiding duplication of services (contracting to other councils where expertise lies)
- ensuring personnel have the skill sets to project manage services effectively

However, in many cases the ability for local government to manage cost pressures is limited due to legislative requirements. For Public Transport, the legislative model requires achievement of a user pays ratio target (currently average farebox recovery of 50%) and the contractual obligations to adjust costs by inflation quarterly. This puts significant pressure and focus on financial performance, rather than community benefit and outcome. Rates, Fares and Service continuity are the three levers available to local government to manage cost pressures.

With public transport being a combined social and community benefit service there is constant pressure to provide service to what would otherwise be an unsustainable locality from a commercial perspective, and to support growth through loss-leading service delivery, in the hope usage will grow sufficiently to obtain the required farebox ratio. There is no capacity within the local government public transport funding model to carry or sustain poor performing services. As such Fares and Rates must continually be increased to maintain the status quo or generate additional capacity to increase service, or, inevitably, poor performing social services are removed with the corresponding negative social and community impacts.

With the increasingly urgent need to provide an attractive and viable alternative to the private car to reduce greenhouse gas emissions and improve transport network efficiencies, a different funding model is required to enable a step change in Public Transport service delivery and innovation. The current model will see a progressive decline in service and slow innovation uptake as Councils and communities cannot sustain the rating contributions that will otherwise be required.

Flood protection assets are already being managed on a very lean (and efficient) budget. In some cases we are observing asset condition declining but the community is not willing to contribute more financially.

### **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?**

Environment Canterbury uses a range of practices to improve the way it manages infrastructure assets and the efficiency of services over time. As mentioned above, council is continually reviewing efficiency and effectiveness of services through our decision-making processes such as Long-Term Planning. Other examples include:

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- have a timetable of rolling section 17A reviews and reviewing of current systems to identify any shortfalls and ensuring more efficient processes are set in place-continuous improvement
- asset management plans and strategies to more effectively manage infrastructural assets
- capital works identified in Floodplain Management Strategies or Scheme Reviews which include option assessment and economic review
- wide range of reports of current state that have been used to inform plans, modelling of future state under different plan/implementation scenarios, and progress reporting/real-time data being made available e.g. air quality, water quality – as well as activity reporting
- ongoing improvements such as project management are in place to ensure actual expenditure remains close to budget and any problems are detected early
- maintenance of ISO certification for harbourmaster functions

Some practices are more effective than others. For example, section 17A reviews are useful but very prescribed and probably something we would do anyway. No s17A reviews to date have resulted in changes. It is also difficult to benchmark costs given outside regional government no one delivers the same services.

### **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**

There can be delay in uptake of new technology by councils as they are typically very risk 'aware', wanting to ensure reputational and safety risks are fully mitigated before trialling something new. This slows development. There are often limitations to take up new technologies due to policy constraints. For example, the use of drones for policy reasons can't go over some properties. In flood protection, technology is being trialled and used as appropriate to substitute man-power for time efficiency, cost saving and safety reasons. Drones are being used in some instances for inspections and survey work and a remote controlled jetboat has recently been purchased to survey riverbed channels. The use of these technology types is likely to expand and increase over time. LiDAR is used to monitor riverbed and stopbank elevation change.

In the case of Public Transport, the opportunities to leverage technology innovation for core assets is cyclical, based on operator contract model and quantum of investment needed. Examples would be transitioning to a zero-emissions bus fleet and refreshing of Ticketing systems, both of which represent high value capital investment with a long asset life. Buses have a useful asset life of between 15 -20 years in the urban space, yet public transport contracts are for a maximum of 9 years under the Public Transport Operating Model. Fleet lifecycle management therefore is the key determinant of timing of fleet replacement to take advantage of technology change. In the case of Ticketing Systems, such systems will typically have a 10-15 year life cycle. Again, the quantum of capital investment required

means investment opportunities are infrequent. Accessing capital can be a constraint for local government, and contracting constructs and legislative barriers (in the case of bus fleet ownership) can be an impediment to efficient fleet asset procurement and utilisation.

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

The real pressures to improve productivity that currently exist are political, fiscal responsibility and keeping rates affordable/palatable in an environment of increasing operating costs. Improving productivity means delivering services at the same level of rates or less. Incentives to improve productivity to deal with cost pressures could be strengthened. For example, 70% of our operating expenditure costs are contracted services, and through contract management and good procurement practice we are continuing to improve our productivity and manage cost.

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

Risk aversity to trying something new rather than sticking with status quo can be a barrier for local government achieving higher productivity. At the outset a new approach may have upfront costs that will have benefits in the future, so a case needs to be made about the intergenerational benefits. Restrictive regulatory and funding sources can also be a barrier, by not allowing councils to be agile/flexible (refer to technological examples). As mentioned, 70% of costs are contracted services we are reliant on outsourcing of functions. With this comes a need for a sufficient supplier community to ensure a competitive market.

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

Productivity is hard to measure in non-traded public services and it is difficult to show productivity improvements with main measures being inputs/outputs. There is a limitation in the RMA that means we can't charge for activities that are "permitted". This means that if we write rules that are more flexible, in the sense that they allow people to undertake activities without needing a consent, we limit our own revenue stream and load more costs onto others.

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

We are unaware of any sufficient productivity measures.

**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?**

As above in question 23 it is difficult to measure productivity performance within the scope of the delivery of regulatory services.

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

Council uses a mix of funding tools, for example subsidising of services from the general rates pool and use of part charges i.e. bus users, consent applicants. Over time, if services being delivered are not being run efficiently, the proportion of cross-subsidisation increases, eventually making the service unaffordable. Councils need to monitor the degree of cross-subsidisation to ensure it doesn't increase over time and user part charges are set at reasonable inflation-adjusted levels.

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

Trade-offs are not managed particularly well. Rating is a blunt tool that does not take into account ability to pay (e.g. asset rich, cash poor pensioners) hence the rating remission process. Because rates bear little relationship to the community's ability to pay there is an inherent limit on the amount by which they can be adjusted each year. Which means that rates revenue is both limited and inflexible. A local income tax collected via the IRD would eliminate the need for income-based rating remissions and tie the council's spending programme more closely to what the community could afford if the tax rate was set at a reasonable level to begin with.

**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?**

Affordability, demand and fairness all play a part in the judgments made to manage the gathering, investment and spending of rate-sourced funds, grant-sourced funds and user-pays-sourced funds as set out in our financial strategy. As an overarching principle, we seek to fund our activities as much as is practicable from those who benefit from activities or those who cause those activities to be undertaken. A mix of different funding and financing tools are used depending on the benefits from that service, the desired outcomes and statutory frameworks. This in itself is complex and often hard to understand for the ratepayer. For example, we have multiple targeted rates.

In respect of a regional council's role in the sustainable management of resources and providing services that do not necessarily directly relate to property, when it comes to who

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pays consideration of the private benefit gained by landowners versus public good is required. For example, water and the recreation and amenity value it provides may be valued by those outside the area, region or even the country yet the cost is carried locally. The result is often that part of the council's resource management activity is run on a user-pays basis and part is funded from general rates. The delineation between the two is often subjective.

In Canterbury, the co-funding of Public Transport services between users (farebox recovery), regional rates and National Land Transport fund are currently roughly a third each and therefore there is a focus on "people benefitting pay" rather than "user pays". For example, much of the benefit of passengers using the bus is to other motorists as there is less congestion on the road and less space being used in high value land areas for storing vehicles. There is also the consideration of social isolation and the access that public transport provides for those who cannot drive.

Better targeting of who benefits from certain council expenditure could be considered a change to funding practices. In Environment Canterbury's case the move to greater land area rating for plant pest incursions while justified from a beneficiary basis resulted in a big shift in targeted pest rates and some pushback from rural ratepayers.

The Resource Management Act could be changed so that resource consents are like building consents and granted only when applicant has paid the full costs of any application prior to consent being granted. At present, considerable costs are being incurred to recover user pays consent debts that due to the nature of the activity to recover these debts the associated costs are being borne by the general ratepayer.

### **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?**

Current and future generations equitably share costs through debt versus rates allocation (particularly in relation to the renewal and replacement of infrastructure assets). Currently we are borrowing for any new flood protection assets to ensure intergenerational funding.

Decision making on infrastructure/capital assets can be influenced by political cycles – i.e. deciding who pays for intergenerational benefits and over what period. We are also inheriting assets paid for by our previous generations. Also the case for inter-generational cost sharing is more obvious and easier to make in the case of physical assets (buildings or flood-protection assets being local examples). Cost-spreading in the case of intangible assets (such as data archives) may be less easy to justify. We would like to capitalise more spend in relation to data, recognising the intergenerational benefit from holding hundreds of years' worth of data for trend analysis. We believe data is an asset as it's going to be held indefinitely and will continue to be built on and used for generations to come. The accounting reporting standards make it challenging for data costs to be capitalised.

**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?**

The principles listed on page 48, (efficiency, equity and fairness, revenue integrity, compliance and administrative costs and fiscal adequacy) seem appropriate although the need for coherence with the broader (national tax) system principle is unclear. Fiscal adequacy is an overarching principle. Ability to pay, exacerbator pays, consistency, effect on both direct & indirect beneficiaries of certain expenditure should be considerations, along with the need to be flexible and responsive – attributes that are difficult to achieve with rates. If there is an exacerbator, the cost of collection and investigating is sometimes not practical.

The overarching approach to local government funding means the cost of collection based on these principles may mean that it is more efficient to fund local government by other methods. Political cycles mean that these principles are reassessed every three years as part of the LTP which can be confusing for the ratepayer and inconsistent between local authorities.

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

Compared with central government tax system, the rating system does not allow for the same flexibility. The use of funding tools can also be quite politicised in the extent to which the beneficiary pays principle is applied i.e. whether targeted or general rates are utilised for services. This leads to a variation of funding tools being used and it is often difficult to link funding tools to desired outcomes. The Rating Act would benefit from a review, to modernise and simplify.

**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?**

There is scope to increase the toolkit and as above, there can be inconsistencies in how funding tools are being applied. The cost to administer can inhibit the use of user charges, i.e. annual charges can be seen as more expensive to administer due to customer service time than money generated. UAGC, targeted rates and others are all useful tools but are still subject to same limitations as general rates with limited flexibility.

**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?**

Council collects general rates for activities which benefit the region as a whole. Capital value is seen as a better indicator of ability to pay than pure land value (though neither bare any necessary relationship to tangible income). In some circumstances land value rating can be



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more progressive through increased tax on holders of large land parcels. Shifting from a capital value system to a land value system would mean different sets of ratepayers were affected and in Canterbury would also involve a rate burden shift from urban to rural ratepayers.

We use both capital and land value systems for flood protection depending on the type of scheme and how the benefits are being realised.

**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?**

As above, direct invoicing of a user pay charge to a large number of ratepayers is very costly in terms of the administration required to run any such scheme (based on council experience in the past).

The use of one-off levies to fund infrastructure at a district level enables the issue to be paid off but uptake of upfront/one off levies is limited by affordability issues i.e. a lot of ratepayers will be unable to pay and need an alternative option to pay. This limits their usefulness as a mixed funding model is needed, leading to a mismatch of funding and a need to still borrow funds.

**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?**

Refer to above 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 benefits are the ability to adjust rates annually to set desired level of expenditure and new property being included in the rating database after the rates fraction has been set at the beginning of the rating year. A reliance on property rates also allows for local relationship and control. Targeted rates give the ability to target groups benefiting from specific spending.

The cons of the property rates system include affordability - a tax on property relates poorly to people's ability to pay. Also, many services that regional councils provide are not directly related to property and there is no natural link between the services we supply and the means (rates) we use to fund them.

But above all, rates are an inflexible revenue source. They don't vary with the state of the economy (being set by the council's anticipated expenditure, not changes in external conditions). Unlike PAYE or GST they are not collected automatically. They thus have a high visibility to those paying. All these factors mean that rates tend to face a ceiling of last year's level plus some modest increment that is usually related to the rate of inflation. Combined with the rigidity of a council's financial planning requirements (Annual Plans and LTPs) reliance on rates produces a markedly inflexible financial framework, especially compared to the private sector.

**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?**

Where regulatory change or responsibilities are delegated it would seem appropriate policy to transfer funds from central to local government and would also help to apply consistency nationwide (where consistency is needed). A potential trade-off of central government picking up the tab is we could lose accountability/ control of service delivery decision making. For example, road safety as national priority compared with being a locally set priority, central government sets the priorities, precedent and what the solution is. But central government tends to regard itself as responsible for much that local government delivers, there being little clarity of role separation in the minds of either the general public or their elected representatives.

In respect to national (indeed international) issues such as climate change there could be more national directive rather than all the regions setting different precedents and subsequently creating different approaches in policy.

**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?**

Refer to question 3 on population growth.

**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?**

No comment.

**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?**

An option could be more regionally shared services across local government.

#### **41. What are the pros and cons of local income and expenditure taxes?**

Local income taxes would need to be collected somehow. If this was via IRD there would presumably be more costs from compliance and administrative costs to collect.

Local income tax would not be as visible as rates– this could have advantages and disadvantages – it may reduce costs and transparency.

Advantages of local income and expenditure taxes include

- All citizens have an interest not just land owning ratepayers
- Local income tax could be progressive
- Collection via IRD, local sales/income tax

The principal negative impact of property rates being the main source of local revenue is that it sets an informal expenditure limit plus inflation (including for local infrastructure, assets and services). In other words, we would expect both local income and expenditure taxes to be more flexible than rates. They would be more responsive to economic conditions than rates.

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

- Advantages are:
  - local property tax hard to avoid, set on market value.
  - can be slightly progressive depending on how the property bands are determined so higher value properties may pay more – presumably but not necessarily reflecting ability to pay.
- A disadvantage could be uncertainty for long term investments.

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

No comment.

#### **44. How can the transition to any new funding models be best managed?**

Some form of gradual rebate scheme for a limited period (say three years) for those most adversely affected.

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

High growth councils (Auckland, Queenstown) are under pressure to fund infrastructure but are restricted by the debt already on their balance sheet. They would benefit from central government/ developers taking on debt directly.

**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?**

No comment.

**47. 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?**

No comment.

**48. 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?**

Developers could fund subdivisions' infrastructure and take the borrowing burden off councils.

Central government could fund local government infrastructure by taking on debt and funding it via long term infrastructural bonds to private and foreign investors.

**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?**

The extent of accountabilities and requirements in relation to revenue raising and expenditure is significant. Current oversight arrangements are not very effective due to their resource intensive/costly and inflexible nature . Councils are only answerable to voters every three years, yet large rate increases due to delayed projects can appear in the first year of an election cycle.