



Council Response to Local Government funding and financing

Issues paper - Productivity Commission

Q1 - What other differing circumstances across councils are relevant for understanding local government funding and financing issues?

- The forecast population changes are out of date and generally too pessimistic. Most rural councils are tracking on the 'high' scenario population growth or higher. This can be seen by comparing 2018 population estimates, superannuation benefit numbers, school roll data and international migration stats with the 2013 based population forecasts. The result is that the forecast decline in rural areas is likely to be significantly overstated or just wrong.

Tararua DC population estimate for June 2018 (Stats NZ) is 17,900. Stats NZ forecasts 2013 base latest update forecast (medium) for June 2018 is 17,500. The Commission should use high scenario forecasts which over time drives a completely different view of rural Council sustainability.

- The lack of timely census information and the continued reliance on incorrect population data is having significant impacts on government investment in social services including health funding to District Health Boards, and the distribution of funding within the region.
- Further variations driven by storm events coupled with local geography mean that there is wide variation between councils as to the actual impact on network infrastructure. This varies by soil types, land use, terrain, earthquake frequency and rainfall intensity. While this is in part addressed for roading through the NZTA FAR funding formula, some Councils face additional and increasing local share costs related to rainfall events where roads are built on unstable ground.
- Large exotic forestry locations and the timing of harvesting where the road network was never built to cater for heavy trucks.
- Rural councils have a higher percentage of expenditure focused on roading and three waters. They are affected more than urban councils by increases in mandatory national standards, and the ongoing above CPI cost increases of infrastructure provision.
- The ability to access significant amounts of grant funding to support / construct community facilities. Some regions (Taranaki, Southland) have very large community trusts that distribute large sums of grants annually and sponsor local facilities.
- The ownership of ports, airports, electricity lines companies and other community owned businesses varies substantially between Councils. This drives very different funding sources to deliver largely the same services (interest and dividends versus rates). These historical and past governance decisions can often explain why some areas of the country have more / better facilities coupled with lower rates than others.

Q2 - 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?

- The annual amount actually funded on renewals is driven by the assessed need to replace assets at or near their useful life. In the past there has been too much emphasis of reactive renewals rather than optimised life cycle analysis. This was a result of many networks still being in reasonable shape, a focus to keep rate increases down, and a lack of detailed asset data and condition rating information. Tararua has had a focus on improving asset management practices since 2009. This is a large task for smaller Councils and will take some years yet to reach the desired level of capability, with the good practice standard is increasing continuously. Doing so quicker would have taken significant additional rate increases.

Councils assessment of depreciation levels is also reliant on quality data, and comprehensive condition rating processes. The fact that these are still being improved in most Councils means that both depreciation levels and funding for renewals may be incorrect.

The Commission needs to understand that processes are improving, the tasks are often complex and come with extra short term costs (but potential longer term savings), and no changes are needed to methods at this time. The level of expertise / knowledge deemed acceptable is a discussion that could be had with the Office of the Auditor General as they prepare the audit standards for the 2021 Long Term Plan process.

An expansion of local government responsibilities

Q6 - 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?

- Mandatory drinking water standards – This is an example where mandatory national standards are imposing significant additional costs on Tararua urban ratepayers. There are likely to be further costs imposed as new standards covering drinking water are announced as a result of the Havelock North contamination. Also the new water quality standards (NPS for Freshwater Management) are likely to result in long term costs on wastewater discharge consents.

While most of the outcomes will be positive, the choice of appropriate standards and timing of upgrades has been removed from local residents. The impact can be significant on capital investment, debt and rates. There are often other local issues that may have been the focus of investment prior to these upgrades.

- There have been many smaller cost impacts as a result of government regulations. Examples include the Food Act, impacts on animal pounds from animal welfare regulations, s17A service reviews, Earthquake Prone building assessments and implementing the new planning standards in the RMA. In many cases these new requirements had no associated funding, or fees are limited by regulations. These are incremental mandatory tasks that require increases in staff or consultant resources. For smaller Councils the impact is significant, but difficult to quantify. These expanding responsibilities are felt more by rural Councils that often lack the specialist staff resources to provide full capability, and have no local (or even regional) private contractors available to provide the service.

Climate change and other natural hazards

Q8 - 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?

- Tararua is focusing on improving the resilience of networks subject to earthquakes and rain events. This is a long term task but resources in Roothing have been reallocated to improve drainage. Specific upgrade projects are being targeted through NZTA business cases. The infrastructure strategy also focuses on identifying and meeting the demand from forestry harvesting, and gaining a better understanding of the renewal costs of the bridge assets.

The short term impact of storm events (which are now much more frequent) is pressure on the roading reserves, and the need for additional central government funding through NZTA. Service levels are under stress as it often takes considerable time to repair storm damaged remote rural roads. Council has received more resources through an increased FAR, and changes to some of the rules around subsidised work. While increased NZTA funding is welcomed, the increase in local share to receive this does place pressure on rates.

- Tararua is conscious of the need to have adequate insurance cover, and a strong balance sheet that enables significant borrowing in the event of natural disasters. A continuing partnership approach with central government is critical to this strategy. Council notes that there is no funding to deal with earthquake prone buildings that are abandoned, or to carry out the required processes to meet the amended Building Act requirements.

Rising Prices

Q9 - 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?

Q10 - Do the prices of goods and services purchased by local government vary across councils? If so, what are the reasons for these differences?

- Competition in the construction sector can be low in rural areas. Tararua uses both competitive tendering and new alliance type contracts to deliver the most efficient solution, and is always seeking more efficiency. However, there is a shortage of both capability and supply of contractors. This has resulted in costs increasing by well above CPI in the last decade (as shown in the BERL LGI), and sometimes capital projects have to wait or be staged until contractors are available. Generally the Metro Councils have more competition for infrastructure contracts and professional services.
- For Tararua around 70% of rates are for the delivering of roading, three waters, solid waste and regulatory services. This has not changed significantly over the last 10 years, with some reduction due to the increase in FAR funding for Roothing and footpaths. These services have seen the largest cost increases impacting on the sector. As such rural councils in general have experienced more cost pressure on mandatory services.

Non – Core expenditure

Q11 - 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?

- Councils traditionally were always involved in the activities listed in your question, and communities have considered these 'core' for well over a century (the four well beings). The emphasis on non-infrastructure activities changes over time generally in response to government policy and access to funding. As government funding becomes available councils on the behalf of communities respond. Economic development increased in importance to rural councils as government services were removed in the 1980's and population decline become a real issue. The current Provincial Growth Fund has resulted in more resources in economic development. Sport has been a focus for Councils from recreation reserves being designated in the 1880's.
- Other organisations could provide sporting facilities, but only if funding is provided by central or local government. The reality of sport at a community level is that there is very little cost recovery. Economic development can be run through a trust and the services contracted out, but it is still largely funded by local government.
- Like many rural councils Tararua relies on community organisations to manage and deliver many community and recreation services (the largest public pool in Tararua was built and is run by a trust, while the largest indoor sports centre and the artificial turf was built and is managed and operated by the Bush Multisport Trust), with very modest council grants that support their delivery.

Managing cost pressures through efficiency gains

Q15 - How effective is the Long-term Plan process in addressing cost pressures and keeping council services affordable for residents and businesses?

- The LTP is effective in allocating resources within politically acceptable rating increases. While it enables a public debate on the key issues, affordability is driven on an ongoing basis by the governance team and Council staff capability. Submissions are usually focused on gaining new funding for specific projects or initiatives.

Q16 - 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?

- Given that most capital investment is to meet mandatory standards set by government or regional councils the views of local residents and businesses have little impact apart from timing and the options to achieve the standards.

Q17 - 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?

- Councils are now well used to producing the LTP and all the supporting documentation, most of which are important processes for Council to review (such as the Asset Management Plans, Activity Management Plans, Infrastructure Strategy). The current requirements contain some flexibility and changes can result in additional work to meet audit requirements. We have noted that the years where the least changes in Government policy and reporting have resulted in a focussed delivery of LTP planning. This is because continuous change to LTP requirements has led to more effort being placed on process rather than content.

Q18 - How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently?

Q19 - 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?

- There are few restrictions on Councils currently in terms of alternative governance structures, trusts, shared services etc. Regardless of the way the service is delivered there is a cost reality that efficiencies may not be able to change significantly. The availability of capable and experienced staff and professional consultants to manage projects and consider options is currently more of an issue.
- Political pressures and community views can override efficiency decisions, such as in the number of Council service centres, libraries, open spaces, recycling services. This is not to say that the decision is somehow wrong, just that efficiency is only one aspect of public sector decision making processes. The community (who pay for the service) are often happy to pay more for a high level of service.
- Our experience with CCTOs that deliver asset services to council is that they can have a lifecycle for their effectiveness. The performance of council owned businesses should be expected to change over time giving rise to the need for exit strategies at the time of their establishment. Their functions can become conflicted by goals of council ownership versus council as a purchaser of services from that entity.
- Tararua uses shared services, Alliance partnership contracts, benchmarking, CouncilMARK™ assessments, community trusts (see Tararua Aquatic Centre Trust, and Bush MultiSport Trust) and a mix of in-house and contracted out services.

Q20 - 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.

- Where affordable new technologies are used as often as possible. Generally this is driven by professional development of staff, attending conferences and ongoing communication within the sector.
- Examples are the funding of a full time employee to carry out drone surveys of bridges, reserves and buildings to better manage road and 3 waters projects. This has resulted in significant efficiency gains in terms of project option selection and design.
- As a rural Council it is difficult to provide full access to digital technologies as these are expensive to develop and deliver. Council contracts out IT support and development as one way of tapping into changes in digital technologies.

Q21 - What incentives do councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened?

Q22 - What are the most important barriers to local government achieving higher productivity?

Where rate increases are low there is little incentive to change. Where rate increases are high elected officials will be very focused on making productivity gains. Change can be challenging for communities.

Access to capability, staff and advisors, is the key to higher productivity. Processes focused on productivity / efficiency within local government include:

The requirements of S.17A (LGA) that require councils to review how their activities are delivered on a regular basis.

The Financial Strategy component of the LTP and the Asset Management Plans and Activity Management Plans.

The CouncilMARKTM assessment process.

Increased Crown investment in infrastructure

Are new funding tools needed?

Q37 - Under what circumstances (if any) could there be a case for greater central government funding transfers to local government? What are the tradeoffs involved?

There is a case for central government transfers to local government to part fund higher levels of service that meet national aspirations to deliver national public good outcomes.

- Where councils are undertaking delegated responsibilities on behalf of government departments. Such arrangements should be detailed in a contract that not only covers funding commitments but also service level expectations and reporting requirements.
- Where the Government imposes service level standards on local authorities that are higher than what citizens themselves are prepared, or able, to pay then some form of transfer can be justified. This already occurs for Transport through the NZTA co-funding arrangements (FAR etc).

This could apply to Public Water Supplies, Wastewater discharge standards for freshwater, service levels for recycling and tourism infrastructure. Government currently has a series of often ad hoc grant schemes that are severely underfunded and have no guaranteed base level of funding. Funding arrangements could apply a formula like the NZTA FAR that includes ability to pay (socio economic), rating base strength and local / regional cost differences.

- Tradeoffs are likely to be additional reporting and auditing requirements, plus the risk of changes to government policy that cuts funding and results in large rate increases (or sudden changes in service levels).

Q38 - 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?

- This is not currently an issue for Taranaki, but the community aspires for it to be one! Network infrastructure has capacity to accommodate higher population. There will be costs to Council to extend network services, but these will be modest even with urban growth. The current framework gives considerable flexibility for Council to be involved with development, and enter into development agreements for infrastructure funding.

- The one issue for smaller councils is that as the Council resources are focused on meeting national 3 waters standards there is little time to develop innovative solutions or growth related development.

Funding tools to support areas with declining population

Q39 - 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?

- The most effective assistance would be an extension of the FAR type funding to include other infrastructure that sets national standards, including access to fast broadband and mobile connectivity in the rural areas which is vital to future economic development. An extension of the current assistance schemes for public water supplies and wastewater, in the level of funding available and changing the criteria, would make a significant difference to rural Councils. Building modern communities with good infrastructure is one component of attracting new residents to live and invest in businesses. This would ensure basic urban service levels were similar across the country, and give rural / provincial New Zealand the ability to better compete with the larger urban centres. As a country there is a significant level of historic investment in provincial network infrastructure that has spare capacity.
- Any additional funding would need to be clear as the need for funding assistance, and the benefits to the taxpayer in general. These grants do usually result in added auditing, reporting and business case paperwork. These can be onerous for a small Council to deliver.

Q40 - 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?

- As a point of interest the latest estimates of population by Stats NZ show that only one Council in New Zealand had a population decline between June 2017 and June 2018. Perhaps the Commission need not spend much time considering this question.
- Rural councils are already keen supporters of shared services and other collaborative arrangements that are designed to share the load in service delivery. Councils have considered and trialled different models over the years such as trusts and private sector contracts. Often initial successes with trusts and contracting out has faded and services are increasingly managed in-house again. Often community enthusiasm for trusts and other models wanes and funding becomes tight as renewals are required. A major issue is risk management where Council funds an external delivery agency, where public resources are just transferring profits to the private sector while leaving risk with the Council.