

15 February 2019

020-11-10

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New Zealand Productivity Commission
PO Box 8036
The Terrace
Wellington 6143

Dear Sir/Madam

WAIPA DISTRICT COUNCIL SUBMISSION ON THE LOCAL GOVERNMENT FUNDING AND FINANCING ISSUES PAPER

Thank you for the opportunity to make a submission on the local government funding and financing issues paper. Please find attached Waipa District Council's submission regarding this document. The submission was formally endorsed by the Council's strategy planning and policy committee under delegated authority on 5th February 2019.

Should you have any queries regarding the content of this document please contact Haven Walsh on (07) 872 0030 or by email at haven.walsh@waipadc.govt.nz.

Regards



Garry Dyet
CHIEF EXECUTIVE

Encl. Submission by Waipā District Council

Submission by Waipā District Council

1 Introduction

- 1.1 We appreciate the opportunity to make a submission on the local government funding and financing issues paper (the paper). The council has contributed to and generally supports the submissions prepared by the New Zealand Society of Local Government Managers (SOLGM) and Local Government New Zealand (LGNZ).
- 1.2 Over time, cost pressures on local government shift to meet changing community and central government expectations. Waipa District Council recognises the importance of examining options and approaches for improving the system of local authority funding and financing to meet these changes. We commend the Productivity Commission for undertaking this inquiry.
- 1.3 Our contact details are:

Waipa District Council
Private Bag 2402
Te Awamutu 3840
(07) 872 0030 ext 7598
Attention: Haven Walsh, Strategic Projects Driver

2 Submission Structure

- 2.1 Overall, we are supportive of the submissions provided by LGNZ and SOLGM. This submission makes general high level comments below. Attachment 1 provides specific responses to questions in the paper where our council has an additional perspective to those provided by LGNZ and SOLGM.

3 General comments on key elements discussed in the issues paper

- 3.1 In our view it is imperative there is an improved planning system upon which to base expenditure of public funds. A core driver for good planning is to move capital to its highest and best use, rather than local government having its spend directed through cumbersome and/or single sector focussed planning frameworks like the Resource Management Act 1991 (RMA), Land Transport Act 1998 (LTA) and the Local Government Act 2002 (LGA) without any centralised plan for informing those decisions. We advocate for a fundamental base principles overhaul of the New Zealand planning system upon which central government and local government investment decisions are based.
- 3.2 We see a future planning system centred on integrated spatial planning with input from all layers of government. This would provide the mechanism to generate better outcomes, including better use of public funds. The benefits of spatial planning are well described in the

Productivity Commissions 2017 inquiry into better urban planning. That inquiry highlights better cross-regional cooperation and understanding, more efficient use of existing infrastructure, enhanced responsiveness, greater certainty and cost savings. Finding 10.3 of the inquiry notes:

'current legislative provisions do not encourage integrated land-use and infrastructure planning. Barriers include different timescales, consultation requirements and decision-making processes. While some links and common processes exist across the Resource Management Act, the Local Government Act and the Land Transport Management Act, improving on these in a future planning system is possible.'

Recommendation 10.5 of the inquiry goes on to state:

*'In a future planning system central governments and city councils should work together through the spatial-strategy process and subsequently, to assess and agree on the design, benefits and **funding** of major programmes of urban infrastructure investment with wider spillover benefits.'* (emphasis added).

- 3.3 It is our view that there needs to be a linkage between this inquiry, as well as other inquiries undertaken by the Productivity Commission and central government. It is unclear to what degree the findings, recommendations and outcomes of the various inquiries will have on each other.
- 3.4 What is clear and of crucial importance, is that there is joined up thinking, genuine partnership and mutual respect between local and central government. Ultimately, we are seeking the same outcomes as we focus on the wellbeing of our local communities and nation. We are far more effective when working together, than when working against each other, as has sadly been the case at times.
- 3.5 Councils provide communities with a number of important services and facilities. The report describes the funding mechanisms councils use to fund these as well as commentary on rates affordability and ways affordability can be considered. To provide further context to such discussion, we note our rates are usually a lower proportion of household expenditure than an annual power bill. In our view, providing roads, libraries, museums, parks, drainage, water and regulatory services etc, all for less than a power bill, is very good value for money.
- 3.6 Another way to put rates affordability into context is to compare changes in rates to changes in central government taxation. Central government taxation per capita in 2017 was 24.5 times higher than in 1900 when adjusted for inflation. On the other hand, rates revenue per capita was seven times higher than in 1900 when adjusted for inflation¹. Greater recognition from central government on the role local government provides, the challenges it faces, and its performance would be welcomed.

¹ <https://nzinitiative.org.nz/assets/Uploads/Fit-for-Purpose-report-summary-Final2.pdf>

Attachment 1: Responses to questions in the issues paper

Please note: We support the submissions prepared by SOLGM and LGNZ. The comments below are intended to provide an additional perspective to the questions in the paper.

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

In addition to what is noted by LGNZ, there are also differing financial circumstances between councils. These can be due to historical decisions on the ownership or disposal of port and/or electricity or gas lines company shares, or in some cities and districts, the benefits of liquor licencing trusts which can be significant financial contributors to the wellbeing of communities and help alleviate cost pressure on the local authority by creating and distributing profit used for community good.

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?*

Both the LGNZ and SOLGM submissions highlight the significant limitations in local governments' powers to charge and collect development contributions. As a high growth district we have experienced first-hand the challenges associated with charging and collecting development contributions. We strongly support the view that these limitations are removed.

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?*

We agree alternative funding sources (in addition to general and targeted rates) are required for local authorities where tourism is driving considerable and/or disproportional demand for infrastructure and services. We strongly endorse the LGNZ view that targeted rates are too blunt a tool to practically and equitably capture revenue from the tourism sector. This is due to highly variable operator structures and business practices. Under current funding and financing frameworks many operators escape the rating 'net'.

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?*

In our view the papers commentary on regulatory creep is too one dimensional. It focuses on regulation local authorities are required to enforce, yet misses the

many regulations that must be complied with. Complying with new regulation often adds great cost. Recent examples can be found in water allocation rules, RMA amendments combined with treaty settlements, new storm water attenuation and discharge standards, and earthquake protection for community infrastructure.

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

We emphasise LGNZs submission point that notes:

Recent research, led by Waikato Regional Council, found that while central government's provision of a one-off financial contribution to local government for the implementation of Treaty settlement outcomes was helpful, it did not cover all the costs it imposed on both parties, or cover ongoing costs. Indeed, the analysis shows that both establishment and ongoing costs of co-governance and co-management arrangements are far greater than anticipated, and that Crown contributions have been significantly underestimated.

Waipa District Council has also found itself exposed to significant costs as a result of Treaty of Waitangi settlements and new 'co-governance' arrangements involving multiple iwi groups.

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?*

Both the LGNZ and SOLGM submissions point to the differing profile of construction cost inflation and consumer inflation. This has been a significant issue for our council. A recent and painful example is the construction of a new covered pool in Cambridge (a high profile project in our community). The project was caught out by construction industry pressures that resulted in significantly increased construction contract pricing. The project had been estimated (with professional advice from Quantity Surveyors) at \$16.7m in the long-term plan. Just weeks later cost increases were identified that raised total project costs by \$4.1m (note this also includes \$623,000 of additional costs resulting from changes to the scope of the project).

Another recent example of extraordinary levels of inflation can be seen in recycling contract pricing. Increased pricing was triggered when China reduced the range of recycling products it had previously accepted. In response to this change, our council (and likely many others) weighed up accepting a considerable and unexpected increase in cost, or withdrawing an important service. We chose the

former, however it is unclear how financially sustainable this will be in the long term. This is an issue with a clear need for a national solution.

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?*

We have experienced a paradigm shift in community expectations that is causing increases in funding pressures. The days of volunteerism have declined and the trend in long-term plan submissions has been for council to take ownership and deliver projects for the community, rather than provide assistance. Increasing health and safety requirements, the need to consult with iwi, and other regulatory pressures are likely to have assisted this trend.

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

An issue for our Council is the expectation to duplicate services and amenity across multiple communities. This includes expensive infrastructure such as covered swimming facilities and full library services in multiple towns.

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

Increasing standards in the RMA are generating local government cost pressures. The RMA is driving significant investment decisions to be made with a single environmental focus, largely uniformed from any wider community agenda. In our view capital investment decisions should be informed by integrated spatial planning. This would provide the mechanism for issues like water allocation to be balanced by other pressures facing communities, such as socio economic status, urban growth agendas, or the need to invest in other critical infrastructure (like transport, or compliance with earthquake standards).

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

Future trends in technology have significant implications for a council of our size. As well as the expectation that we invest in technology that enables customers to interact with us in a 24/7 'everything digital' space, we must also be conscious of cyber-security risk. Investment in technological changes and risk mitigation is a strong cost pressure.

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

While the long-term plan process has general merits regarding its longer-term focus and locking-in of agreed costs and funding arrangements, it does not capture everything. There will always be additional demands that come with a price tag in between long-term plan cycles.

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

In the council's experience it is crucial there is effective pre-engagement on investment and service level matters to get value out of the long-term plan process.

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

See response to Question 16.

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

In addition to the list provided in the LGNZ submission, Centres of Excellence and Shared Service initiatives are important areas to consider. The local government sector benefits from operating in a connected and collegial manner.

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

Relaxing rating requirements would allow local authorities more flexibility to set rates for their communities. One approach would be dropping the 30 percent fixed charges cap, however with additional requirements such as water metering and wastewater charging based on 'water-in'. This approach would create incentive to minimise water usage.

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

The paper notes sound reasons to be cautious of introducing local income and expenditure taxes. Our council agrees with these concerns. We would not be

comfortable implementing a local income and/or expenditure tax without much further research into the matter.

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

We note LGNZ is undertaking work that investigates a 'tax swap' model. We will be in a position to comment on this potential funding tool once that work is released.