

26 February 2019

The New Zealand Productivity Commission
PO Box 8036,
Wellington 6143

Dear Steven Bailey, Inquiry Director – Local Government Funding and Financing

WHAKATĀNE DISTRICT COUNCIL SUBMISSION ON LOCAL GOVERNMENT FUNDING AND FINANCING ISSUES PAPER (NOVEMBER 2018)

On 6 November 2018, the Productivity Commission released an issues paper as part of the process for gathering evidence in the Local Government Funding and Financing enquiry.

The Whakatāne District Council welcomes the inquiry and considers that the issues paper continues to progress a very important discussion between Local Government, Central Government and the wider community. The Council's submission to the enquiry is attached to this letter. Alongside this submission, the Council is also generally supportive of the submissions put forward on behalf of the Local Government sector by Local Government New Zealand (LGNZ) and the Society of Local Government Managers (SOLGM).

The Whakatāne District Council thanks the Productivity Commission for the opportunity to provide feedback on the issues paper and for the allowance of an extension to the submission deadline. The Council would welcome an opportunity to speak to the submission and has been in touch with the Productivity Commission.

For specific enquiries related to the submission please feel free to contact Strategic Policy Analyst Wouter Vullings at the Whakatāne District Council on wouter.vullings@whakatane.govt.nz or (07) 306 0500.

Ngā mihi,



Tony Bonne
Mayor
Whakatāne District Council

Introduction:

1. Whakatāne District Council (the Council), like many local authorities across the country, is acutely aware of the pressures placed on Local Government funding and finances. As a result of multiple drivers, Council revenue requirements continue to increase over time resulting in an ongoing trend of increases in the levels of rates and debt.
2. Over the past ten years Council property rates have increased by 50.8% (from \$28.2M in 2009 to \$42.5M in 2018) while debt has increased by 156.3% (from \$27.9M in 2009 to \$71.6M in 2018). This compares to an increase in mean annual earnings in our District of 29.6% over the same period. Council's projections within the Long Term Plan and Infrastructure Strategy do not expect this trend to reduce. Looking ahead, major funding hurdles are yet to come for our District, particularly in relation to three waters services and natural hazard resilience.
3. This analysis is in the context of cost drivers that are known. Other challenges as yet unknown; unquantified; or only partially quantified will further exacerbate the pressures on funding and financing. In particular (but not only) the challenges confronting our District due to climate change could be very significant.
4. The Council considers that this continued escalation cannot be sustained within the limitations on current funding mechanisms. Ultimately, the limitations of funding will dis-incentivise, or at least limit the ability of Council to appropriately maintain current levels of service let alone managing and responding to significant emerging challenges and opportunities facing our communities. Sources of funding other than rates and borrowing are already critical to the ability of Council to deliver on current priorities.
5. A greater range of available funding tools are needed to allow the Council to ensure the wellbeing and hauora of our communities and District into the future. Any new funding mechanisms need to be inclusive of varying district and regional contexts to ensure quality of life can be advanced equally for all New Zealanders.
6. While a broader range of funding mechanisms are needed, the Council also recognises that the cost drivers themselves need to be addressed to arrive at a longer-term sustainable position.

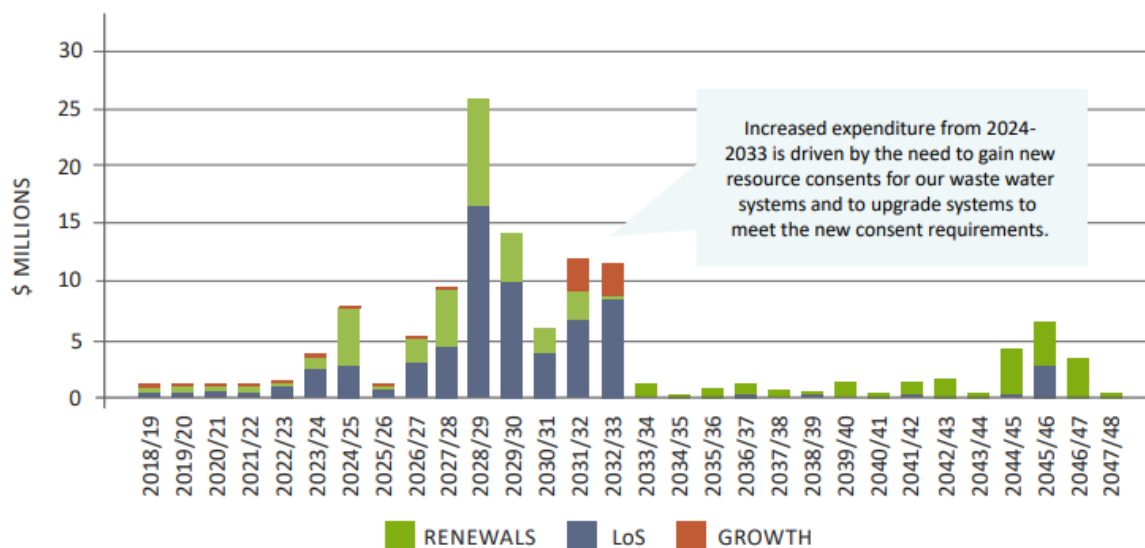
Drivers of increasing costs

7. Local Government cost drivers are well canvassed in the Productivity Commission's Issues Paper, many of which are broadly relevant to the Local Government sector such as price increases and higher mandatory standards set by Central Government for example. Looking ahead, the larger cost pressures relevant to the Whakatāne District are set out below.
8. **Cost of three-waters:** The level of investment needed into three waters services are a substantial cost driver for our District. Nationally, there is a strong focus on drinking water levels of service, and freshwater management, which comes alongside strong local demand for cultural and environmental outcomes in relation to our three water services. In particular, but not only, this is reinforced by iwi and hapū whom have strong connections to water and significant aspirations for water quality. Water allocation, storm water and wastewater discharges, and service standards will have much more stringent conditions in the future and this continues to demand significant upgrading of local infrastructure. Our Infrastructure Strategy contains comprehensive programmes of work to address historical under-investment in our District's three waters infrastructure and to prepare for service improvements. Our Infrastructure Strategy signals the need for capital expenditure investment of \$236.64 million on new or replacement infrastructure for three waters services between 2018 and 2048. Over the same period, \$673.70 million is expected to be spent on three waters operating costs; labour, depreciation, interest, materials, maintenance and overheads. In particular, the renewal of

wastewater consents by 2026, and the correlated need to upgrade infrastructure to meet increased standards presents the biggest challenge. This required investment is a significant increase from our community's current expenditure as illustrated by chart 1 below.

CHART 1: WHAKATĀNE DISTRICT PROJECTED CAPITAL WASTEWATER EXPENDITURE 2018-2048

Source: Whakatāne District Council Infrastructure Strategy 2018-48



9. **Impact of natural hazards:** Our District is at risk from a range of natural hazards such as flooding, storm surges, earthquakes, volcanic activity, landslides, and tropical cyclones. Some events, flooding in particular, have a higher likelihood of occurring, while others events, like earthquakes, have a lower likelihood of occurring but potential to cause significant damage. For example, the extreme weather events generated by ex-Tropical Cyclones Debbie and Cook in 2017 resulted in significant unexpected costs to the Council totalling \$22 million (total costs to June 2018). After accommodating much of the cost within existing budgets and recovering costs through insurance and other mechanisms, Council continues to carry an outstanding deficit of \$2.9 million which is roughly equivalent to 6.5% of total rates. In the coming ten years, the impact of the 2017 cyclones and the Matatā debris flow in 2005 will continue to have significant cost implications for our community and for the Council's work programme. The Council and the community are also faced with the substantial challenge of upgrading public buildings to meet earthquake strengthening requirements. Some budgetary accommodation is made for unknown future events, but these events are likely to add further costs.

10. **Infrastructure for economic and social development:** The Whakatāne District and wider Eastern Bay of Plenty region is making good progress on much needed economic development initiatives. A range of interconnected opportunities from Ōpōtiki, Whakatāne and Kawerau have the potential to deliver a fundamental shift in economic outcomes for the region. Support from Central Government through the Provincial Growth Fund is a significant catalyst. However, a major local funding commitment is also required towards the development of infrastructure needed for industry and economic growth opportunities to be realised. Furthermore, our District is entering into a post-settlement treaty environment. With Seven Iwi in our District, the Council has a responsibility to assist and support settlement implementation which presents opportunities but also creates challenges as a smaller rural Council.

11. **Unknown cost of climate change:** Climate change is already impacting how our communities live and function and the Council is in many ways already responding. Greater urgency is being demanded on the issue of climate change from many sectors of society including Central Government. Council

investigations, as well as the LGNZ “Climate Change Project” have started to quantify the significant costs and risks Council’s and local communities will face, highlighting the need for strong local leadership on this issue. The financial impact on the Whakatāne District and our local communities have not been quantified, but are expected to be substantial.

Local affordability challenges:

12. The demographic profile of the Whakatāne District results in a number of locally specific affordability challenges. These are set out below:
13. **Population growth:** The Whakatāne District has an uncertain future growth profile. Forecasts based on historic trends suggest a very flat growth profile with eventual decline from the mid 2030’s. However, significant industry potential in the District and wider Eastern Bay of Plenty is expected to change this trend, particularly given recent Provincial Growth Fund support. However, the uncertainty around the District’s growth profile forces Council to take a conservative approach with the application of debt and development contributions.
14. **Population density:** Our District is largely rural – characterised by smaller and less dense populations resulting in reduced economies of scale (compared to city councils for example). As a result, services such as local water schemes have much higher per-ratepayer costs than in denser populated areas, but with the need to meet similar standards or outcomes. The trend of declining populations in our smallest of communities exacerbates this problem further. Council currently manages this through cost equalisation measures that seek a collective funding approach rather than communities being left to face their own costs. Grants from Central Government have been critical to the upgrade of smaller rural water schemes in our District but this funding is no longer available. There is potential for these communities to become unsustainable under the current funding model if the drivers of change continue as they are and the rating base continues to decline.
15. **Socio-economic deprivation:** Within our District, we have high levels of relative deprivation (in comparison to New Zealand as a whole). 7 of our 19 census area units have the highest deprivation score of 10 (amongst the 10% most deprived areas of NZ). A further 5 census area units have the next highest deprivation level of 9. Together these areas capture 58% of our people. Implicit within these results are higher than average unemployment rates and lower than average income and qualifications (amongst other indicators).
16. **Aging:** Currently, approximately 16% of our District’s population is aged 65+. This percentage is expected to increase to 24% by 2028 and reach around 30% by 2043. Numbers of 85+ will increase, particularly from 2030. Aging population trends will mean more people on fixed incomes – of note, including those that may be asset rich but income poor and have limited ability to meet rising rates costs.

Principles for review of funding mechanisms

17. **Partnership between central and Local Government:** Whakatāne District Council strongly supports continued strengthening of the partnership between local and Central Government. There is a strong justification for a partnership approach where national level priorities are being progressed at the local level. A stronger partnership would also help to support increasing standards and expectations being placed on Local Government. A growing partnership recognises that central and Local Government ultimately work side-by-side for the same intentions of progressing wellbeing for our communities.
18. **Consistent goals for financial sustainability:** In advancing this partnership Council notes inconsistencies in the longer term financial strategies being progressed by Central Government compared to the Local Government sector. In particular, there is much pressure on Local

Government to maintain tax revenue (rates revenue) within certain limitations and to increase use of debt where appropriate. As indicated by Chart 2 below, Central Government taxation continues to increase at a much faster rate than that of the Local Government sector. An opposite trend can be seen in the debt profiles of the respective sectors. As illustrated by chart 3 Council debt has increased substantially over recent years and is forecast to continue to increase whereas Central Government continues to prioritise and deliver on their goal of debt reduction. Council requests that the review acknowledge these longer-term trends as it considers options for further funding mechanisms. The financial strategies of both Local and Central Government should be more closely aligned to help manage longer-term risk and to maintain longer-term financial sustainability of our communities.

CHART 2: TAX REVENUE PROFILE – LOCAL GOVERNMENT COMPARED TO CENTRAL GOVERNMENT

Source: *A snapshot of Local Government’s financial health: a sector in good shape, Local Govt Funding Agency (2015)*

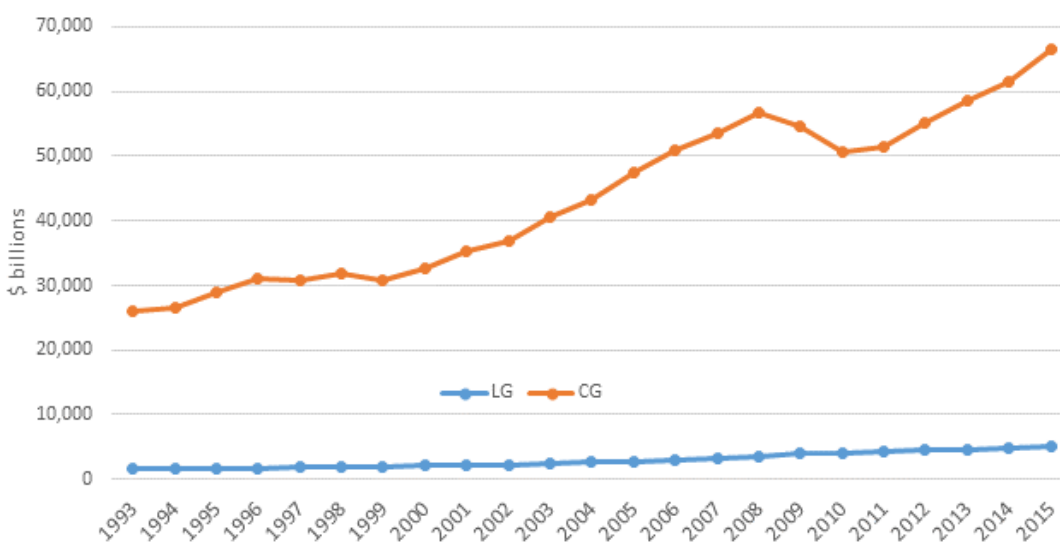
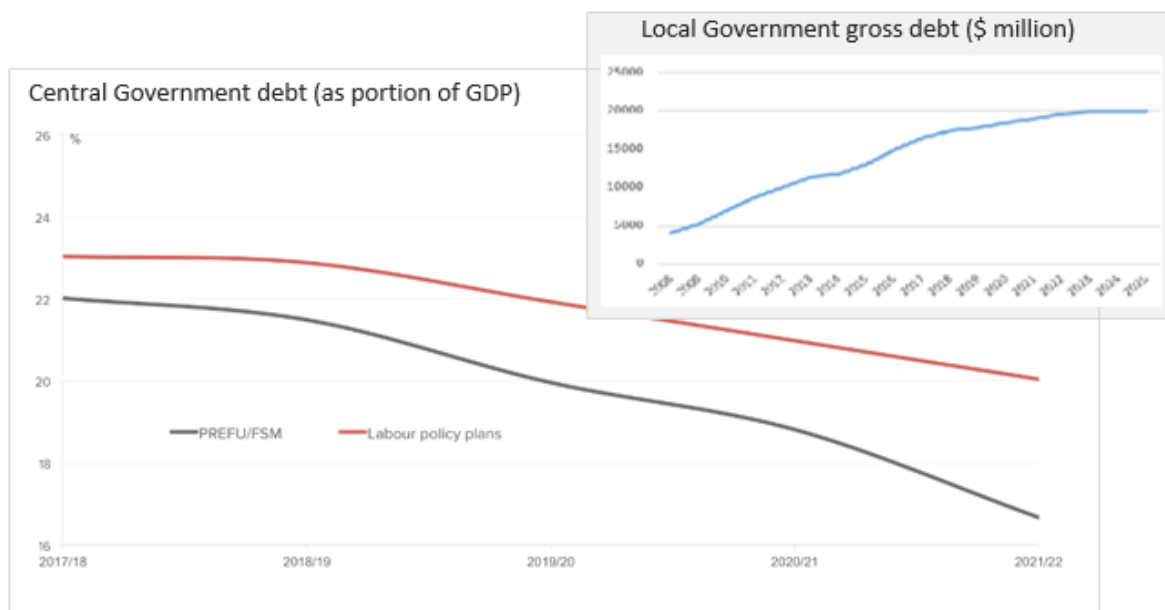


CHART 3: DEBT PROFILE – LOCAL GOVERNMENT COMPARED TO CENTRAL GOVERNMENT

Source: *Labour Government Budget Responsibility Rules*



19. **Maintaining local decision-making autonomy:** Council requests that care be taken with the development of new funding mechanisms to ensure local democracy and decision making autonomy is maintained. The ability to set priorities and correlating revenue requirements at the local level provides the Council with a mechanism of autonomy to respond to local challenges and opportunities. This in turn provides greater access for communities to determine and/or influence the decisions that will impact them. A broader set of funding mechanisms should act to support the Council decision-making autonomy and care should be taken that these do not dictate local priorities or promote 'short termism'.
20. **Consideration of long-term implications:** The Council notes that funding mechanisms provided by Central Government to Local Government are often necessary to support progress on national level priorities. The funding is necessary but does come with certain longer-term implications and risks for Local Government. Firstly, certain funding is often in the form of a one-off grant (usually for capital investments). This funding is critical to help get projects 'across-the-line' but does not reflect the ongoing operating costs that often result. Secondly, funding is often contestable. This can result in a substantial amount of resource dedicated to investigations and business case development without the guarantee of funding being achieved given the need to compete against other high profile projects and priorities. Thirdly, national level priorities and policy can change, particularly with a change in government. This could result in substantial local investments being made and expectations being raised but not delivered on. Some examples include the discontinuation of the Ministry of Health drinking Water Subsidy Scheme as well as the potential loss of Special Purpose Road status for SH 38 (Te Urewera Road), both of which present financial risk to the Council. The Council requests that the review be considerate of the longer-term impacts, risks and realities for Local Government in the development (or any discontinuation) of funding mechanisms.
21. **Equality of outcomes:** The Council wishes to see greater consideration of deprivation levels when developing or reviewing any Local Government funding mechanisms. This consideration has been built into the New Zealand Transport Agency Funding models and helps to encourage equalisation of outcomes across New Zealand. It is felt that such a model now has the precedent of working well for funding of infrastructure, providing support to those communities most in need and contributing to both social and economic outcomes. Council considers that the systems of funding public services must not be allowed to entrench the geographies of disadvantage. That is to say, funding models that do not allow for consideration of socio-economic deprivation may reinforce inequality, given the limited capacity of those communities to fund for improved outcomes for themselves.

Potential options to manage cost pressures

22. The ability to levy rates on property is a stable but limited funding mechanism for Local Government. For the Whakatāne District Council, property rates typically accounts for 65-70% of revenue annually. The Council considers that the current regime of Local Government funding relies too heavily on this source of funding which in turn creates risk for Council. The Council would strongly support a broadening of available funding mechanisms to help meet increasing costs and mitigate local funding pressures. Council's key considerations are set out below.
23. **Partnership between Local and Central Government:** The Council considers the relationship and funding arrangements with the New Zealand Transport Agency as a good example of a genuine partnership between Local and Central Government. A similar model could be considered to help progress our outcomes for three waters services. The intended outcomes in terms of health and safety and freshwater management are considered to be of both local and national good, and support levels of service increasingly being influenced by Central Government. This would also support equality across New Zealand whereby similar outcomes can be achieved for all communities, regardless of their levels of wealth.

24. **Tourism levy and alternative taxation:** The application of alternative forms of taxation with distribution to Local Government would be strongly supported by the Council and warrants investigation. For example, there has been much focus recently on various forms of tourism taxation, either at the national or local level, to help respond to impacts on local services. The Council requests that distribution of the Tourism Levy should be on the basis of an agreed subsidy regime rather than contestable grants for specific high profile projects. This would more accurately reflect the need to meet the ongoing existing impacts and costs of tourism. Other forms of taxation could equally support a more diverse set of Local Government funding mechanisms, thereby helping to mitigate the risk of a predominant reliance on property rates. This could include income tax, a share of GST, or taxation of specific goods and services where a strong correlation can be made to Local Government service provision. The Council consider that new/alternative forms of taxation should be alongside, rather than in place of, the existing property rates mechanism.
25. **Climate Change fund:** With many parts of the Whakatāne District particularly exposed to the potential impacts of climate change, this challenge could become a critical funding issue for the Council. Similar to the above discussion, and given the level of threat that climate change presents nationally, Council would like to see a strong and genuine partnership developed between central and Local Government in relation to this issue. Council supports the submission made by SOLGM on this matter which notes that New Zealand has no real policy framework for managed retreat or for community preparation and activation. This gap must be rectified and supported with an adaptation fund.
26. **Support for treaty settlement implementation:** Seven iwi have areas of interest that fall within the Whakatāne District. Ngāti Awa, Ngāti Māhino, Ngāti Manawa, Ngāti Tūwharetoa (Bay of Plenty), Ngāti Whare, and Ngāi Tūhoe have reached settlements with the Crown, with four of these settlements being reached in the past six years. Ngāti Rangitahi is currently in negotiations with the Office of Treaty Settlements. Iwi are actively involved in a wide variety of development activities throughout the District and Council has a role in enabling and supporting progress on these aspirations. Council requests that the review consider options for funding tools that could assist local authorities with treaty settlement implementation.
27. **Private financing opportunities:** The Council has mixed views on private financing. It is acknowledged that various forms of private financing arrangements can alleviate the costs directly to Council. However, the Council is concerned that this can result in escalated costs of services and facilities to the community. Council also have concerns regarding ownership of decision-making in relation to any services and assets that are privately funded. In particular the Council would want to ensure that decisions are not made in isolation to a broader strategic vision for the District. However, where strategy and structure align, public - private partnerships may present opportunity in the future.
28. **Income from bylaw infringements:** As an extension to the discussion on funding and financing, Council notes that Local Government has limited ability to enforce bylaws. This has cost implications in terms of legal fees to progress enforcement and/or the need to recover costs of a bylaw framework through other funding mechanisms – usually general rates. The LGA, section 259, provides for infringement offences to be created by regulation, but regulations are not forthcoming. The Productivity Commission could consider addressing this matter within the context of the funding and financing review.

Conclusion

29. As our nation, district, and communities change and evolve, so too does the demand for Council services. This change in demand relates to both 'what' Council's deliver but also 'how', 'how much' and 'how fast'. As a general observation, demand for Council services has matured over time. Core services are now a basic expectation albeit with increasing pressures on costs and levels of service

that will provide a substantial hurdle going forward. Councils are also place-makers, broadly responsible for advancing quality-of-life for their communities. Perhaps this is even more the case in smaller Districts where the wider community does not have the same level of capacity to deliver outcomes and therefore looks to Council for a broader level of leadership. Certainly, local and Central Government are very much in the same game - to advance social, cultural, environmental and economic wellbeing for our communities. Given the evolution over time of expectations and responsibilities for Local Government in terms of both core services, and beyond, it is necessary and appropriate for funding mechanisms to also evolve.

30. The enquiry continues to progress a very important discussion between Local Government, Central Government and the wider community. The Council appreciates the opportunity to provide feedback on the issues paper and consider it very important that the review process continues to be conducted in a collaborative manner. The Council would welcome an opportunity to speak to the submission and looks forward to continued involvement in the review process.