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Dear Murray

SUBMISSION ON THE DRAFT REPORT OF THE INQUIRY INTO LOCAL GOVERNMENT FUNDING AND FINANCING

Thank you for the opportunity to provide a submission on the draft report of the New Zealand Productivity Commission's inquiry into Local Government Funding and Financing.

The Commission's draft report is both comprehensive and detailed, and includes a robust description of a wide range of pressures and challenges that local government faces both now and in the future. To this end, rather than responding chapter-by-chapter, we have chosen to highlight elements in our submission that we believe are worthy of further commentary or exploration before the report is finalised.

The Council welcomes the Commission's finding that the financing and funding framework used by local government is broadly sound, and that rating is generally an efficient and effective mechanism. We also note the commentary about transparency, effective decision-making and community level responsiveness.

The Council also faces contextual pressures such as maintaining our talent pool and their depth and breadth of experience in local government matters.

We endorse the submission of Local Government New Zealand, particularly in reference to decision making and community engagement.

Current rating tools

The Council is of the view that rating tools currently utilised should all remain available, and therefore would not like to see the removal of the ability for Councils to strike general rates, targeted rates, uniform annual general charges, and differential rates. However, we are in agreement that improving transparency and consistency in charges is necessary, while still retaining flexibility. More clarity and guidance in this area would be welcome.

We consider that it would unnecessarily complicate the rating structure by introducing mechanisms to adjust for anticipated price inflation. Our lean and agile focus creates our drive to continuously manage our cost and price pressures and seek productivity improvements. We view that adding complexity would add cost through further policy and systems development, monitoring and reporting requirements without resulting in any greater transparency or efficiency.

Given the experience of the health sector, we do not see that the establishment of a capital charge would be likely to further incentivise good asset management. Robust long term planning and review, along with benchmarking against like organisations, are likely to be better tools to ensure effective asset management.

Relationship between central and local government

We strongly agree with the Commission's finding that the relationship between central and local government would benefit from a reset, along with reconsideration of the funding allocation and burden of costs that rest at each level. The increased expectations of central government on local government have put considerable pressure on our ratepayer base. This trend appears to show no signs of abating.

We note that even when local government is heavily involved in developing or otherwise contributing to central government policy, a second policy cycle cannot be avoided as local government works through the implementation of national level policies into the local (or regional) context. This is likely to be the largest cost (and least well understood by central government) of the local government policy cycle.

We also note that the Commission has recommended in previous inquiries that central government should pay rates on its properties, and that the terms of reference directed the Commission to make no recommendations on this topic. However, if this were to be a recommendation, it would be one that the Council would strongly support.

Benefit principal

We have considered with interest the Commission's proposal to use the "benefit principle" as a primary basis for deciding who should pay for local government services. While generally supportive of this principle, we anticipate instances where the benefits may not accrue locally could be common, and therefore difficult to charge to the identified beneficiary.

By way of illustration, once our environmental planning processes get to the litigious end of proceedings, the utility to our ratepayers is greatly reduced. We would go so far as to venture that even Council becomes somewhat of a bystander in the process as opposing parties engage over provisions in our plans (which are often unavoidable due to central government policy). These processes can come at a significant cost to our communities. We also note that some of these costs are cyclical – and the true pressures of environmental policy development costs may not have been picked up by the Commission in the inquiry due to the second generation completion of RMA plans by most Councils.

A further discussion point was raised by an energy company in their submission, stating that they received little benefit for the disproportionately high rates they were charged. This is an interesting view that may benefit from further exploration, particularly in view of the environmental and amenity effects.

For example, hydroelectricity generation is welcomed and yet impacts significantly on our region. Some iwi in the region are limited in their restoration of cultural practices and significant restoration of river bodies (and mauri) due to the damming and diversion schemes in place. These practices also impact on our native species (particularly our freshwater fisheries, and indigenous biodiversity), and reduce water availability downstream for drinking water, irrigation, and amenity values such as swimming spots. On that basis, it could be posited that these entities are being undercharged for the share of services they receive from the community.

Tourism

In the report's commentary on tourism pressures, it highlights where the benefits often flow to outside the district or region. This is where there could be merit in looking at other principles, such as fair use, to underpin some of the new funding models that may be developed.

Our view is that tourism ventures that are small scale and locally owned (for example, horse trekking and farmstays) or require significant commercial infrastructure (for example, bungee jumping or high speed jet-boating) are well provided for in the current taxation and rating regimes.

However, there appears to be a notable gap where tourism centres around natural resources that have no supporting commercial infrastructure (for example, walking tracks, regional reserves). Each of the approaches suggested to resolve this issue seem to be traditional and limited in their utility and ability to target the appropriate beneficiary group.

One of the possibilities that does not seem to have been canvassed to recover tourism cost pressures on these natural resources is harnessing the role of technology. For example, car parking costs could potentially be cost-recovered through parking charges using remote sensing technology (as is successfully deployed in Palmerston North and other centres), with deterrents designed to ensure payment avoidance is well managed.

Technological solutions could also be deployed for public toilet facilities, local park entry and tourist travelled local roads. Development work could usefully be advanced on a common platform to enable these technologies to be rolled out across councils, as well as linking to the staged upgrades of broadband infrastructure and satellite coverage.

Preparation for demographic change

It is encouraging to see the issues associated with growth were recognised, however we note that the same attention has not been given to issues of contraction, even though to some extent the effects are similar (constraints on the ability for councils to fund essential infrastructure effectively). Contraction was previously a long-term issue within pockets of the region, and has only recently turned around. We are unsure whether this will lead to a sustained period of growth, or if it is a medium-term demographic blip, and contraction will eventually reoccur.

Given the demographic dividend New Zealand (along with all other western countries) has received due to the post-war population structure, it is not unreasonable that a long-term view would suggest that contraction is inevitable.

Thinking about this likely long-term trend in a way that accounts for the dividend payback period could help to identify tools local government could use now to better prepare to manage those effects in the future.

Shared services

We note there is only a brief mention and acknowledgement of shared services (such as MWLASS) which the Council has found to be both an efficient and effective model of working with territorial authorities. The Council also utilises the shared services model in commissioning some of the work we do (for example, our Regional Integrated Ticketing System for public transport provision that is shared across several regions). We would encourage the Commission to identify where this model can be put to greater use.

Development funding

The Council agrees with the findings of the Commission that Councils are generally reluctant to levy development charges in growth areas, as this can create perverse incentives for developers. Development charges are also not welcomed by intending new residents as a reasonable cost. However, in effect, these charges are an illustration of the benefit principle being applied.

The value capture approach (to capture property value windfall gains) does appear to have merit in exploring further, though may be administratively complex and may not deliver the funding revenue anticipated. We note that even our current rating systems can cause some of this windfall gain effect and create significant concern for some residents – for example, when the Waiheke Island rates rose significantly, and existing residents felt they were in effect rated off their land.

The introduction of any vacant land tax would need to be approached carefully, as land may have a range of reasons for remaining undeveloped – and may be providing utility through doing so - for example, stormwater surface absorption or biodiversity support. The principle of fairness would raise the possibility of also placing a tax on rental housing (as this is a commercial activity, as well as being a home), and intermittently occupied property (vacant homes, holiday homes).

Long term planning

The findings and recommendations to improve and streamline the LTP process to encourage engagement and reduce bureaucracy are useful. The Council would need to carefully consider any extension of the current three year cycle to five years alongside the potential impact this may have of being able to influence the Council's direction. For example, it could mean that a group of elected members are tied to decisions made by a previous Council for their entire term of office. The additional costs of preparing a long term plan more frequently would likely discourage Councils from undertaking any earlier cycle than the statutory minimum.

The Council does, however, have a clearer view on recommendation R5.6 that suggests that LTPs describe the reasonably practicable alternative options could be an expensive and extensive exercise. A comparison could be the section 32 reports required under the Resource Management Act, which attract significant costs to produce and require specialist technical and legal input, as well as staff resources.

It would be unwelcome to see the section 32 process of the RMA replicated in some form under the Local Government Act.

Treaty of Waitangi associated costs

As stated in the Commission's report, we agree that the obligation as the principal treaty partner rests with the Crown, and this should not be delegated to local government. As such, the costs related to treaty settlements and effective implementation should be better costed, supported and funded by the Crown.

However, we also recognise that there is an important relationship between the Council and local iwi and hapū in the development, management and restoration of natural resources within our region and we value – and therefore invest – in further recognising and building on this relationship.

Much of our non-regulatory work carried out with iwi is in recognition of building and strengthening relationships, and recognising the value of their knowledge of our environment. It would be useful if this activity that is part of our business-as-usual would be considered as complementary to, rather than only as a result of, treaty obligations.

Climate change

While we welcome the Government's recent introduction of amendments to the Climate Change Response Act, we are in strong agreement with the Commission's findings about the policy and funding leadership that needs to be provided by central government.

Currently there is a lack of a legal framework to compel private land owners to take action to mitigate or manage effects of climate change. This creates an undesirable situation for Councils when they attempt to develop proposals and policies to reduce climate change effects; as they can experience significant pushback from the community and strong political pressure – even though these actions may be life preserving over the medium-term.

Climate change policy is often approached with a sense of permanence – that is, identified sites are to be avoided at all times, at all costs. However, it could be that impermanence and the eventual need to move may be a useful principal to scaffold in to some developments. Long term rural land users already employ this technique to ensure they have resilient farming systems – for example, making use of the fertile flood plains and having strategies for moving stock out quickly (or rotations of crops seasonally) when flooding occurs.

This could mean that further coastal development is not prevented in the short-term, but that housing types may be designed to able to be relatively easily relocated – or abandoned - once climate generated trigger points are reached. These kinds of approaches may recognise the importance of amenity values to our communities, while allowing for building longer term resilience to better manage climate change.

These approaches are not dissimilar to what was employed by iwi in the past, as Marae have been known to have been moved in response to climate events. This may allow for greater flexibility than trying to tie a future land owner to earlier decision making based on imperfect information.

A final point on climate change is that it is foreseeable that new insurance approaches may be needed across the spectrum – for central government, local government and private land owners.

Once again, we thank you for the opportunity to make this submission.

Yours sincerely

Michael McCartney
Chief Executive