

## **SUBMISSION**

### **Kaikōura District Council submission to the Productivity Commission Inquiry *Local Government Funding and Financing***

The Kaikōura District Council welcomes the government's inquiry in to local government funding and financing, and thanks the Commission for the opportunity to make a submission

We support the government's commitment to an agenda of wellbeing for our communities, and we believe that local government is a key partner in working with central government to deliver this agenda.

However there are a significant challenges being faced by smaller Local authorities such as ourselves and they are unique to each District. Councils must have the flexibility to be able to respond to their particular challenges. Our major issue is supporting the burgeoning growth in tourism and need for infrastructure given the small ratepayer base. Affordability of rates is our most significant issue post quake.

We strongly support funding and financing mechanisms that leave decision-making in the hands of those most affected, our local communities.

This is be a difficult balance to strike for government, when we look overseas we see a number of examples where local and central government work together to fund local services.

We consider these examples should be fully considered.

We support the submissions by LGNZ and SOLGM on the Issues Paper.

#### **Cost drivers**

##### **The price of core services is increasing**

Local authorities in this country are infrastructure providers and deliver essential water supply and wastewater services to community members. The price of these commodities and services that go into delivering infrastructure are increasing as standards and compliance increase, and have increased faster than the CPI for most of the last twenty years. In some years the rate of increase has been three times the rate of increase in the CPI. Funding this is particularly difficult for small authorities like ourselves.

##### **Declining or static population growth**

We have a static or even marginal population decline post quake. This compounds the funding issue for essential and tourism infrastructure as the tourism growth continues.

Kaikōura is also facing the implications of structural aging of our population. This creates demands for a different portfolio of services, higher standards of service, from a population where more are moving onto fixed incomes.

### **Many tourist centres require 'big city' amenity from a much smaller rating base**

Tourism has become one of the major sectors in the New Zealand economy. The Ministry of Tourism's 2017 Brief to the Incoming Minister suggests that tourism accounts for six percent of our GDP and is consistently one of the top two export earners (including the biggest exporter of services). Numbers of international visitors have increased by around 50 percent over the past six years. Current forecasts have the numbers reaching 4.9 million by 2023. Kaikōura is no exception to this trend – we are slightly below the pre-quake levels but tourism is returning as confidence in Kaikōura returns.

Visitor needs are one of the key drivers of amenity and standards in the tourist destinations, but also in communities along some of the key tourism corridors and premier tourism destinations. Our Council is increasingly concerned about the cost of meeting these needs with a small ratepayer base. It is onerous and clearly not equitable for local ratepayers to bear the impost of tourism infrastructure. An alternate revenue mechanism needs to be found to generate ongoing operating and income and capital to both service the operational costs and development costs of this infrastructure.

The Annual visitor spend in the district as of November 2018 was \$107m and this is close to pre quake levels. A large part of this spend is international (at least half) with our Whalewatch and dolphin encounters being a significant drawcard.

### **Dealing with the effects of Freedom camping and developing infrastructure**

In our district tourism is growing placing greater and greater demands on our small council to support the growing number of tourists visiting our region

1. Supporting freedom camping – provision of camping facilities with toilet facilities with the concomitant clean-up of refuse and faecal contamination by irresponsible camping. It is not equitable that ratepayers should bear the costs for this.
2. Creating and supporting a bylaw for freedom camping together with the cost of enforcements. Our Council is currently facing a dilemma of having to introduce a bylaw to control the unintended consequences of irresponsible camping
3. Funding and developing harbour and associated infrastructure to maintain the quality of the current tourism experience is nigh impossible.

All of the above comes at a cost to our ratepayer base when in fact the costs should be funded from tourism generated revenue. Kaikōura has a resident population of 3555 and 2957 rateable values properties. Our total rateable income is \$ 6.4m (2017/2018) and is it exceptionally onerous to continue bear increasing costs from tourism given the small rating base.

The recent improvement to the road have created some real opportunities but some of costs of operating some of the ablution facilities fall to our small ratepayer base to maintain and service.

There is no provision to introduce a tourism levy or even receive a share of the GST proceeds from tourism in the region.

There will come a tipping point where development of such infrastructure is beyond the capabilities of small local TA's with small ratepayer bases.

This then widens out into the aesthetics and beautification of tourism towns. In cases like Mackenzie it gets to the point where current infrastructure cannot support the influx of the burgeoning tourism which not only benefits the district GDP but national GDP.

We understand there is the contestable provincial growth fund but without the dedicated resources of a larger council is difficult to effectively compete against larger Councils. Unique marine destinations like Kaikōura have the potential to grow enormously and benefit the District and New GDP. If there was a revenue flow back from tourism spend in some form (allocation of percentage of GST spend to the district) to develop and grow infrastructure this would assist with the rates impost of supporting and building this infrastructure.

The Council is concerned that there appears to be no recognition in the Issues paper that tourism revenue is largely received by central government while expenses associated with tourism are borne by local government (ratepayers and communities).

The government's own draft *Aotearoa New Zealand Government Tourism Strategy* (October 2018) identifies the following at page 11-12:

*Challenges in the tourism system that have been exacerbated or created by recent growth include:*

- *enduring seasonal and regional travel patterns that exacerbate the pressures caused by visitor numbers, meaning that the gains from tourism are not spread evenly across regional New Zealand. These patterns can lead to congestion, adverse environmental impacts at specific places at specific times and loss of community support for tourism*
- *a fragmented regional picture, with some regions competing rather than cooperating, and some more focused on attracting visitors rather than managing destinations in line with the expectations of both local communities and visitors*
- ***funding arrangements that do not quickly respond to significant and rapid shifts in visitor volumes. This contributes to some less-than-optimal investment in maintaining and building the infrastructure, amenities and attractions necessary to support quality visitor experiences***
- *some policy settings and institutional arrangements – which were established at a time when government was focused on increasing visitor numbers – that are not always fit-for-purpose for a high-growth environment.*

Kaikoura is a small Council with a large land area of significant biodiversity and landscape value. As a result the Council has significant responsibilities in protection and management of these values, but has less resource to provide the required

regulatory standard of service as other Councils who act under the same national instruments.

Collaborative approaches with agencies and stakeholders have been successfully established and these are considered essential to effective management and protection of our significant areas. However these all come at a cost which at present is borne by ratepayers. As well as these non-regulatory approaches, increased regulatory standards around biodiversity and landscape are likely to increase compliance costs further.

Other examples of regulatory creep or the expansion of local government responsibilities include increasing standards for Environmental Health, building inspections and processes (for example, Earthquake Prone Buildings) (partially offset by increase in user charges), and increased national policy statements and standards under the Resource Management Act. We are also aware that the One Network Road Classification System (ONRC) may impose additional costs but as yet this has not been defined.

In response to the question asked by the Commission

**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?**

Our Council has come under considerable pressure post quake for contractor and worker accommodation. There is a significant lack of suitable long term rental accommodation for workers in our seasonal tourism. The facilitation or provision of worker accommodation is not a core statutory activity, but is a real issue for our communities.

In terms of Councils undertaking activities that are not traditional core business, this is often done because there is usually a lack of willingness or ability from other organisations to provide these services e.g. economic development advocacy and facilitation.

**We wish to acknowledge our support for some of the sentiments and the in the SOLGM submission:**

**Some form of taxation of tourism may make a real difference with little real impact on the industry – our Council strongly supports this**

New Zealand has become an international destination – but many of our most popular tourist places are in communities that are ill-placed to afford them. There are a variety of options for taxing tourists – a levy on accommodation, increasing tax taken at the border, or local taxes (such as the Stewart Island levy). Given we are the last stop on the planet and the distances to travel (and price) are so great we'd need convincing that the elasticity of demand is so high that taxation on a small level would have much of an impact at all.

Taxation of tourism

- That the Commission recommend an increase in the Visitor Levy.
- That the Commission recommend local taxation for tourist related purposes subject to the appropriate basis and accountability.

### **Increasing compliance standards is costly**

Recent work in the three waters review has given shape to the level of concern that the sector was experiencing. It has been identified that the sector will face an additional \$309-574 million of capital cost as a result of the likely removal of the all steps exemption under drinking water standards – most of which will fall on small communities. There is an additional \$1.4-2.1 billion in capital costs for the sector to comply with the Freshwater NPS. Often these costs fall on the smaller schemes and communities like Kaikōura with small ratepayer bases.

### **The costs of climate change natural hazards are legitimate**

LGNZ has suggested that circa \$8 billion of local authority assets is exposed to sea level rise of 1.5 metres. While this cost is significant on own these may be dwarfed when the process of managed retreat begins – with no real policy framework in place local authorities may be purchasing property from some and compensating others for regulatory takings. Small local authorities like Kaikōura have no ability to do this.

Our Council has recently been exposed to dealing with natural hazards that resulted from the earthquake and without the natural hazard funding contribution from the Crown our Council would have had no ability to assist ratepayers facing life safety risks move on.

### **A climate change adaptation fund is a must**

The costs of climate change, particularly adaptation could become one of the larger drivers of expenditure. New Zealand has no real policy framework for managed retreat whether it be making the decision, funding, liability, insurance etc. This gap must be rectified and supported with an adaptation fund.

We support SOLGM's recommendation

- That the Commission recommend priority be given to establishing a Climate Change Adaptation Fund.

### **Wellbeings**

The *Local Government (Community Wellbeing) Amendment Bill* currently before Parliament will reintroduce a focus on wellbeing to the purpose of local government, and in about a dozen places elsewhere in the *Act*.

We support the recommendation made by SOLGM that

- That central and local government agree on a joint wellbeing strategy that assigns responsibilities to central and local government.
- That this strategy set out jointly determined criteria for determining the national good element of funding for local government.

## **Rating Act**

### **We support SOLGM recommendations :**

- That the *Rating Act* 3 be amended to remove unnecessary limits on the use of tools in the rating toolkit.
- That the Commission not pursue proposals to 'cap' rates.
- That the Commission agree that the *Rating Act* be strengthened to require ratepayer disclosure of all land information relevant to the setting of rates at the time any change occurs.
- That rates exemptions, including those on Crown and non-Crown land be removed *in toto*.

### **Measurement of affordability**

In addition one of our key challenges is around affordability but that there is currently no way for Council's to understand or define affordability making it near impossible to genuinely account for affordability when setting rates. This goes directly against the wellbeing principals and does not allow for rates to be set in a way that represents equitable affordability for all ratepayers.

### **We support the fact that environmental taxes send good economic signals that may aid in the pursuit of other objectives**

The Tax Working Group has issued a draft report that recommends taxes on pollution and abstraction of water as medium-term priorities. We agree that the pricing signal these would send is a critical means of promoting good demand management, thereby supporting compliance with the Freshwater NPS. Local authorities are well placed to administer such taxes.

### **We support SOLGM's recommendations:**

- That the Commission recommend further consideration of taxation of water pollution and water extraction.
- That the Commission recommend further increases in fuel excise and the extension to other forms of vehicular energy.

### **Pricing powers could be brought into the 21st century**

Policy work on road pricing has gone around in circles for the last 20 years – it's time that central government recognised the value of an economic signal of the cost of road use. Likewise tolling of new and existing roads should be subject to road controller's discretion. All prices should be set on an actual and reasonable cost basis – including those for statutory functions.

### **We therefore support the SOLGM recommendations on Road tolling**

- That local authorities be permitted to toll any road – new or existing.
- That such tolling not be subject to Ministerial approval

### **The Rates Rebate Scheme needs a first principles review**

The *Rates Rebate Act* was written in 1973. It creates a paper-based and administration heavy application process that could benefit from the application of technology. At the same time the scheme is a product of its time – modern land tenure, social practice, and convention have dated the scheme. The more we adapt it to, for example, take account of retirement villages the more it looks like a form of social assistance. The assistance the scheme provides is invaluable, but the scheme itself needs a review.

We support SOLGM's recommendation :

- That the Rates Rebate Scheme receive a first principles review including purpose and delivery.