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Dear Steven

### **Inquiry into Local Government Funding and Financing – Draft Report**

Thank you for the opportunity to comment on the Commission's draft report into local government funding and financing. This is a significant contribution to the role of local government and its relationship with central government. The Council fully supports the Commission's view that "the funding and financing framework for local government must...incentivise good performance and enable local authorities to deliver quality services in line with the preferences and aspirations of their local communities. This requires that local government has the necessary autonomy, responsibility and accountability in delivering these services."

The Council has focussed on eleven issues:

1. Allocating costs
2. The basis for rating
3. Rates postponement rather than rates rebate
4. Payment for new building work
5. Development contributions
6. Climate change
7. Tourism
8. Review of the performance framework
9. 3 Waters – scale an capability
10. Collaboration with central government
11. Improved governance capability

I take these in turn.

## **1. Allocating costs**

The draft report considers that local government should use the benefit principle in allocating costs of services and redistribute the rates burden in a way which is consistent and coherent with the income-distribution policies of central government. Following on from this, the report recommends abolishing the Uniform Annual General Charge, abolishing differentials and increased use of targeted rates.

We consider that this approach, if implemented, would raise serious issues of affordability, and oppose the suggested abolition of the Uniform Annual General Charge. For some years, the Rangitikei District has had a district-wide approach to funding the three waters because for smaller communities the rates burden was too high and a transparent mechanism was needed so that the sharing of costs was apparent to all ratepayers. This led to what is known as a 'public good' component, a fixed charge on every rateable property, irrespective of whether connected to a Council scheme or not. We consider that this is a fair way of distributing the costs, and recognises the struggle to fund infrastructure. We think this is a useful model for other councils and it may prove the only viable way to fund responses to climate change.

We also consider that the approach recommended in the report is too heavily weighted towards centralism (i.e. allowing central government to set the rules) rather than localism (aspirations and preferences and needs of local communities). It would depend on a clearer and more cohesive approach by central government around income-distribution. Otherwise, the community will pressure local government to give effect to affordability.

The report seems not to have considered the desirability of a simple rates framework. We also think that greater consideration is warranted for passing on GST raised locally.

## **2. The basis for rating**

The report suggests that rates should continue the main funding source – on the basis that there is no good alternative local tax. It also prefers land value rather than capital value and favours higher rates on vacant land (to discourage land-banking and encourage affordable housing).

We consider that rates-setting contributes to critical autonomy for local councils and that they should continue to be able to determine whether to rate on capital or land value. Rangitikei District Council uses capital value as the basis for rating: our experience is that higher capital value is typically associated with higher use of Council facilities and services. One issue we wish to highlight to the Commission is the exclusion of forestry (particularly exotic plantings) when assessing capital value. We think this is unfair since when it comes time to harvest the trees, there is often significant damage done to local roads which can mean a disproportionate burden on other ratepayers.

Valuation (and the associated rates) may be a better mechanism for recognising rising value of land close to urban areas and the need to retain productive land and natural landscapes.

## **3. Rates postponement rather than rates rebate**

The draft report considers the current rates rebate scheme inefficient, not targeting those with greatest material hardship and has the perverse effect of giving councils the courage to raise rates. As a result, the report recommends that the Government phase out the rates rebate scheme and

replace it with a national rates postponement scheme on the basis that it would remove risks (and administration) from local councils, be more attractive than private sector reverse mortgages, and be available to a wider group than covered by the rates rebate scheme.

We do not support an investigation of a national rates postponement scheme. It will be complex to administer. We think a more effective approach is to focus on accommodation supplements.

#### **4. Payment for new building work**

The draft report recommends that Government consider implementing payments to territorial authorities based on new building work to incentivise increasing supply of infrastructure-serviced land to match growth in demand. Payment would be related to rates revenue (\$5.8 billion nationally in 2018) and specifically, floor area, the value of building consents or the value of completed building work (\$22.76 billion in 2018).

We support implementation of such a fund based on value of building work and three to five years rolling averages, and capped at 5% of total rates revenue to all territorial authorities. Council should be required to ring-fence such payments to ensure they were used to increase supply of infrastructure-serviced land. This will make it easier to access land for housing developments. It could be available to urban centres of any size.

We suggest consideration of a similar fund to address earthquake-prone buildings in urban centres. This will help revitalize heritage buildings and reduce the risk of such buildings being abandoned, where that happens, there is a negative impact on other businesses (particularly in rural town centres) and an increasing risk of public safety as buildings fall into disrepair (ultimately presenting costs to other ratepayers in the area).

#### **5. Development contributions policy**

The draft report acknowledges that the development contributions policy and its implementation are inherently complex and recommends that the Government, Local Government New Zealand and the New Zealand Society of Local Government Managers work together to develop standardised templates which councils would be required to use. There is an implication that this would apply to all councils. If that is the case, we do not support such a recommendation. The Rangitikei District Council's current policy is not to have a development contributions policy. Instead, we have initiated development agreements, having regard for sections 207A-F in the Local Government Act 2002. We wish to retain local flexibility to use this mechanism.

#### **6. Addressing tourism pressures**

The draft report recognises that tourists don't fully pay the costs of local infrastructure and services they use, and suggests that councils be empowered to implement accommodation levies to recover tourism-related costs and increase user pays for mixed-use facilities (i.e. those used by visitors and locals).

We agree that local accommodation levies would be a useful mechanism for meeting current costs and providing comparative advantage for areas not experiencing excessive demand, but they do result in additional administrative overhead. This mechanism could only work in high tourism areas. We think the international tourism border levy is a more efficient mechanism to assist councils experiencing significant tourism demand. However, we suggest that a portion of the levy is set aside

for councils wishing to extend their attractiveness to visitors (thus relieving pressure on areas with over-demand), including feasibility studies.

## **7. Recognising climate change**

The draft report recommends that the New Zealand Transport Agency includes threats to local land-transport infrastructure from climate change in its financial assistance, and that a new agency and a Local Government Resilience Fund to be established to assist with relocating/rebuilding wastewater and stormwater infrastructure and lessening future flood risks from rivers

We support the proposed wider scope for NZTA but this needs to be associated with an increased budget. We also support establishment of Local Government Resilience Fund, but suggest that drinking water is brought within the Fund's scope and that it is established in the broader context of the previously proposed Local Government Risk Agency.

## **8. Review of the reporting framework**

The report considers that current reporting requirements for local government are too detailed, unfocused and not fit-for-purpose (i.e. they do not contribute to improved decision-making). The resulting recommendations are for a first-principles review by a working group (Internal Affairs, External Reporting Board and local council representatives) of the local government financial and non-financial reporting framework – and for streamlining the content requirement of long-term plans

We agree that reporting requirements warrant a first-principles review and suggest using the same approach for streamlining the content requirements the content of the long-term plan. We think a stronger emphasis on detail about funding of specific major projects would be a useful outcome. The three-year frequency of the long-term plan and its timing need not change

## **9. Three Waters – scale and capability**

The draft report finds that compliance with drinking-water standards declines as population declines. It recommends that the Government should 'favour models capable of applying efficient scale and specialization to help small communities meet the challenges of maintaining and upgrading their water, wastewater and stormwater infrastructures'.

Our view is that the approach being taken by the Government means that local government remains uncertain over the degree of responsibility they will exercise in the future, resulting in costs – e.g. opposing chlorination, seeking regional decision-making. We consider that the Government should look to the NZTA model for setting standards – aligning well with the stronger regulatory presence – and providing financial support.

We support the position taken by Local Government New Zealand in supporting a stronger regulatory role alongside local control and management where that is the community's preference. This perspective is critical, since it will be the local community which will still be paying a significant share of the costs and they should have some say in how those costs are determined and distributed.

## **10. Collaboration with central government**

The draft report recommends a number of ways of increasing collaboration – providing input into each other’s relevant policy-making, having meaningful dialogue in developing new regulations, environmental standards, creating feedback loops to identify problems with new regulations, and sharing expertise and knowledge

We support the principle of greater collaboration, but in the context of not losing ‘local’. We have further suggestions to those made in the report: local government sector policy-making needs to be more co-ordinated to make central government input feasible, Internal Affairs needs to take the lead in developing this collaboration (including the convening of working groups), there should be clearer insight into central government’s responses to the remits from LGNZ conferences, central government policy/regulatory proposals should be given a ‘test drive’ with a few different councils, and LGNZ and SOLGM could be more open to sector discussions with central government.

## **11. Improved governance capability**

The draft report recommends that Internal Affairs, LGNZ and SOLGM to collaborate on training, mentoring etc. and share ongoing participation in review and improvement initiatives (e.g. CouncilMARK and Australasian LG PEP). It also recommends that all councils to have Audit/Risk Committees, with an independent chair with members bringing necessary skills and experience

We agree that collaboration is a factor in improved capability but are uncertain whether evaluation of training etc. would be better done by another party outside the sector rather than LGNZ. What matters is that the sector is outward-looking. Certainly it is critical for all elected members start to understand their role, as early as possible in the triennium. For smaller councils, where elected members (apart from the mayor) will be part-time, providing webinars and access to training outside working hours is essential. At present there is no compulsion for any elected member to participate in any training, whether in-house or external. We think compulsion should exist over key elements.

We have had an Audit/Risk Committee for several years. It has an independent chair. However, we think it is essential that elected members participate in and ‘own’ the Audit/Risk Committee proceedings so that they are relevant to the other council business that they direct.

We hope these comments are useful, and look forward to reading the Commission’s final report.

Yours sincerely



Andy Watson  
**Mayor of the Rangitikei District**