



CONSIDERATIONS FOR THE PRODUCTIVITY COMMISSION INQUIRY INTO LOCAL GOVERNMENT FUNDING AND FINANCING

The Upper North Island Strategic Alliance (UNISA) has developed a series of responses to put forward to the Productivity Commission's (the Commission's) draft report on local government funding and financing, released in July 2019.

Introduction

1. UNISA is a partnership between Auckland Council, Northland, Waikato and Bay of Plenty Regional Councils, Hamilton and Tauranga City Councils and Whangarei District Council. The aim of UNISA is to manage and respond to a range of inter-regional and inter-metropolitan issues.
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UNISA's interest in local government funding and financing

3. The Upper North Island (UNI) consists of the Northland, Auckland, Waikato and Bay of Plenty regions. Despite being only 20 percent of New Zealand's land area, these regions contain over half of New Zealand's population and economic activity and include nationally significant infrastructure.
4. The UNI comprises:
 - 53 percent of New Zealand's population
 - 52 percent of New Zealand's GDP
 - 52 percent of all filled jobs in New Zealand
 - 64 percent of New Zealand's cargo by value traded through UNI ports
 - 49 percent of freight movements by weight
 - 54 percent of international tourism spend
 - 52 percent of New Zealand Maori asset base
 - 70 percent of New Zealand's refined oil needs through Marsden point.
5. The infrastructure networks of the UNI regions connect key growth areas and support the majority of national economic activity. These networks not only provide for the movement of people and exchange of goods and services, but also facilitate improvements in accessibility both regionally and sub-regionally.
6. The UNI is considered the 'gateway into New Zealand' as it includes Auckland Airport (the arrival point for the majority of New Zealand's international visitors) and Ports of Auckland, Tauranga and Northport. These ports are responsible for handling the majority of New Zealand's international goods trade.
7. The most recent set of Long Term Plans suggests the combined annual expenditure of UNISA councils is approximately \$7.6 billion, of which \$6.7 billion is from Auckland Council. The financial position of each UNISA council varies, due to different circumstances, cost pressures and incoming revenue.

8. For the reasons outlined above, the UNI is a key sub-region in New Zealand. It is critical the regions and cities within UNI are funded and financed appropriately to ensure the effective functioning of New Zealand Inc.

Comments on draft report

9. UNISA **supports** the following findings of the draft report:
 - The key areas identified where the existing funding model is insufficient to address cost pressures and new tools are required:
 - i. Supplying enough infrastructure to support rapid urban growth;
 - ii. Adapting to climate change;
 - iii. Coping with the growth of tourism; and
 - iv. The accumulation of responsibilities placed on local government by central government.

This mirrors UNISA's first submission to the Productivity Commission issues paper, which suggested the following changes to the local government funding and financing system:

- i. New requirements from central government being accompanied by appropriate resources, adequate lead-in time and consideration of local government funding cycles;
 - ii. Central government support to make infrastructure networks resilient to climate change;
 - iii. Exploring alternative transport funding solutions;
 - iv. New tools to fund and finance the development of infrastructure.
- That some fast-growing councils face debt constraints which limits ability to supply enough infrastructure to meet the growth in demand for housing and other developments. This challenge is particularly relevant to some partners in UNISA as this sub-region has grown more rapidly than anywhere else in New Zealand, and this growth is predicted to continue.

Responding to key areas experiencing funding pressures

Meeting the demand for infrastructure in high-growth areas

10. The report notes that there are issues around infrastructure provision in high growth councils. To help address this, it suggests a number of new tools, including the provision of central government payment based on new building work, or the use of value capture.

New funding streams

11. UNISA **supports** in principle the recommendation to consider a *new funding stream* from central government to local authorities, based on new building placed within an authority's boundaries. UNISA encourages further investigation of the basis for these payments, including considering using forecasts of new building work rather than completed building work. Forecasting may be preferable because additional revenue paid after growth has occurred will only make a small positive impact on the council's ability to access capital investment in infrastructure to facilitate growth. This new funding stream should be delivered in such a way that it creates financial certainty and benefits are evenly spread across different regions.
12. UNISA **recommends** the Commission considers other mechanisms to support growth. These include:
 - Regional councils being able to levy development contributions, in a manner similar to territorial authorities. This should be included as an additional tool to address this issue. Currently, territorial authorities are able to use development contributions to

help fund new or expanded growth related infrastructure. However, regional councils do not have the ability to levy for additional regional council infrastructure which is required to support growth. This includes infrastructure such as public transport services, environmental monitoring, flood protection schemes and drainage.

- Investigation into further rounds of interest free loans, similar to the government's recent \$1 billion Housing Infrastructure Fund that provided 10-year interest-free loans to high-growth councils.
 - Additional investment in regional infrastructure, such as roading and greater certainty of New Zealand Transport Agency funding.
13. UNISA also **requests** for Crown funding for local government infrastructure which protects Crown assets, such as roading. For example, flood control infrastructure owned and maintained by regional councils serves a national purpose in protecting Crown assets. However, this receives no Crown funding.

Climate change adaptation

14. The report notes as the impacts of climate change unfold over coming decades, local authorities will face future sea-level rise and increased flood risk from change. This will threaten local government infrastructure such as roads, bridges, stormwater, wastewater and flood-protection assets. UNISA agrees with these findings.
15. UNISA **endorses** the broad themes of the Commission's recommendations for the government to:
- Set standards for information gathering to ensure decision making is well informed
 - Legislate to guide decision making on development and land use in risk areas
 - Provide funding, through NZTA and the proposed Local Government Resilience Fund, to support investment in roading, stormwater and wastewater networks to manage impacts.
16. UNISA **supports** extending the role of the New Zealand Transport Agency (NZTA) from co-funding local roads to including assistance to councils facing significant threats to the viability of local roads and bridges from climate change.
17. However, the National Land Transport Fund (NLTF) is already significantly constrained. UNISA advocates that if the fund was to be used there would need to be increases in both fuel exercise duty (FED) and/or road user charges (RUC) to grow the fund. If the NLTF is increased, the simplest way to implement the increased funding would be to increase the funding assistance rate (FAR) provided to local authorities. Alterations to NZTA's Economic Evaluation Model may also be required to target climate change adaptation.

Unfunded mandates

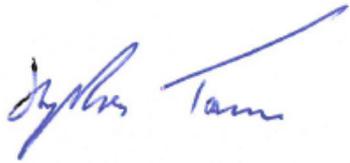
18. The report notes another cause of funding pressure on local government is the continued accumulation of tasks and responsibilities passed on from central government, without adequate funding means.
19. UNISA **supports** the development of Partners in Regulation Protocol to help foster an open and productive relationship between local and central government. UNISA **requests** for this to include guidelines on both 'how to work with local government' and 'how to work with central government', differentiating between regional councils/territorial authorities to clarify roles and responsibilities. This should also refer to the '[Guide for central government engagement with local government](#)', developed by the Department of the Prime Minister and Cabinet.

Conclusion

20. The UNI is a key sub-region of New Zealand and is experiencing high levels of growth and resulting pressures. Funding and financing all of local government in the UNI is critical to ensuring the functioning of New Zealand as whole. UNISA looks forward to the Commission's

final report on innovative ideas to reduce capital expenditure and how to ensure a sustainable funding and financing system in the short, medium and long term.

On behalf of UNISA Chief Executives,



Stephen Town
Chief Executive of Auckland Council



Richard Briggs
Chief Executive of Hamilton City Council

