



## SELWYN DISTRICT COUNCIL

# Response to Productivity Commission Report on Local Government Funding and Financing

Selwyn District Council welcomes the opportunity to provide comment on the Productivity Commission report which we believe is very timely given the significant population growth and demographic changes that are taking place within Selwyn District. With this growth comes expectation placed upon us to provide a greater range of services, deliver community projects in a timely manner, and give wider consideration to a range of services that are not currently provided across our district by other service agencies.

Funding levels to meet growth and expectation, together with the source of that funding is constantly at the forefront of Council's decision-making processes.

Our comments noted below are specifically aligned to the Commerce Commission's issues paper released in November 2018.

Question number	Comment
1	There is significant variation between local authorities in terms of their financial position – age and condition of infrastructure, debt, investments – that means they are not all starting from the same place and face quite different financial challenges. A local authority's previous decisions in respect of whether to invest (or not to invest) in infrastructure maintenance and in services it will provide to attract and retain businesses, employment skills and families within a District will impact on future decisions.
2	There is a lot of misunderstanding about the link between renewals and depreciation. They represent quite different things and do not align. Annual depreciation is a measure of one year's consumption of today's asset base. Annual renewal expenditure is one year's expenditure renewing end of life assets from the asset base of 20 to 100 years ago. As today's asset base across New Zealand is vastly greater than the asset base of 20 to 100 years ago, renewals (on average) will always tend to be lower than annual depreciation. For example, if we build a large wastewater treatment plant today we will have a large depreciation expense the following year but will not start to incur renewal costs until say 20 years' time. The fact that that we are not spending on renewals for the next 20 years is not an indication of under investment.
3	Population change is fundamental to the financial pressures on local authorities. For high growth areas this has a major impact on capital expenditure requirements to provide increased capacity as well as capital and operating expenditure to meet increasing service expectations, particularly where there is greater urbanisation. With this comes increased rates for existing ratepayers and increased financial risk as capital expenditure needs to take place in advance of the increased income from rates and development contributions.  There is no doubt that in growing communities with a young demographic that the 2012 limitations on development contributions have imposed a significant burden on the ratepayers of these Districts.

4	No additional comment
5	No additional comment
6	In addition to the comments made, it must be acknowledged that in rural and provincial New Zealand the local council is expected to provide a lot of non-traditional services, often as a result of government agencies withdrawing from the regions, or more significantly central government passing legislation that it is not able to support at local level. This can range from subsidised office space to service providers, engagement of specialist Council staff, transport subsidies, or greater than expected time commitment from Council staff advocating on behalf of their community for the provision of these absent services. This has been one of the consequences of centralising government services.
7	No additional comment
8	Climate change is a national/global issue that must be responded to under national direction/response expectation. Whilst response will be of direct benefit to local communities, is the entire nation that will ultimately be affected.
9	The challenge here is to clearly articulate that CPI is not a reliable indicator for local government activities.
10	The availability of procurement expertise varies across the sector – as it does for any service to any industry or individual. This question is not specific to local government.
11	<p>Community expectations naturally increase over time and this results in demand for a broader range of higher quality services. This will continue as well functioning communities require and expect more than infrastructure.</p> <p>We need to focus more on telling our community what services local government provide for their rating dollar, and the cost of those services. On the flip side, there is an expectation from communities on their local Council to provide a range of (often non-traditional) services, due to the absence of other suitable local providers.</p>
12	<p>As an industry, one of the things that we need to do better is to tell our communities what we do for them, and what the cost (either for the service, or per rateable property) is for these services.</p> <p>Annually we consult on proposed changes to services and the cost we will impose on our ratepayers. We must explain what the drivers are for rating variations. These will include -</p> <ul style="list-style-type: none"> <li>○ Impact of legislation with no financial assistance from central government</li> <li>○ Increased service levels</li> <li>○ New services that our community has requested</li> <li>○ Capital and operating costs of new facilities endorsed by communities through the consultation process</li> <li>○ Growth related costs</li> </ul> <p>Whilst we receive criticism for annual rates movement, it is rarely acknowledged that we (are legally obliged to) consult on these movements and they are only implemented following that process.</p>
13	Implementation of legislation to be administered by local government, often without clarity of intent, and certainly without financial assistance.
14	No additional comment
15	<p>Affordability is at the heart of local authority financial planning and is fairly well dealt with through Long Term Plans and associated financial strategies. These plans are consulted on, and only adopted after deliberation on community comments. Those comments will reflect each community's response to a requirement for services, balanced with accepted levels of affordability.</p> <p>Affordability means many different things to different individuals and communities.</p>
16	Consultation Documents on Long Term Plans are generally effective, but the legislative constraint around limiting content to consultation matters makes it harder for local authorities to provide a coherent explanation of their plans to their communities.

17	<p>There is concern that the LTP consultation documents are becoming too technical, and contain too many KPIs that are not representative of local interest, as a direct result of input by external auditors. We must remind everyone, that an LTP is a Council document, not an auditor's document. Flexibility of content to reflect local issues, local language, and local personalities would help engagement.</p> <p>For many people, the concept of the submission process is exclusively an objection process. We will enhance engagement through encouraging communities to use the process to advocate their support for activities or projects.</p>
18	No additional comment
19	Good asset management is critical and the sector has very well developed asset management planning tools, however expertise across the sector is constrained and consultants are expensive pushing up costs.
20	No additional comment
21	No additional comment
22	No additional comment
23	Not sure of the relevance of the staff costs. Services can be provided by external contractors, whose costs are not measured in the same way.
24	We should put more effort into mentioning KPI achievement, unqualified audit reports, annual customer satisfaction surveys.
25	We strive to perform at a level that meets community expectations.
26	The use of standardised rates across a district helps keep rates in rural areas more affordable than under localised rates models. Standardised rates mean larger centres of population effectively subsidise the smaller communities.
27	Local authorities' main revenue source is property based taxes, often linked to property value, but most services are linked to people and therefore the causal link between who pays and who benefits is not clean. Property based taxes however provide a stable and reliable way of funding essential infrastructure and as such are preferable to beneficiary pays models.
28	Communities will comment on the equity of cost sharing through the annual plan/LTP consultation process.
29	No additional comment
30	No additional comment
31	Development contributions provide a key funding tool to local authorities with population growth, but the legislation is complex and restrictive and results in imbalances in the cost of development in different areas. Simpler and more standardised charges would provide greater certainty of revenue and remove some barriers to development.
32	No additional comment
33	A move to land value rating would shift the cost burden to larger land owners making the link between who pays and who benefits from largely people related services even less clear than under capital value rating.
34	No additional comment
35	The complex and uncertain nature of development contributions raises risks in relation to long term investment in infrastructure. A simpler system would help, as would some risk sharing with central government – for example underwriting the growth risk associated with a large new wastewater system to cater for future population growth.
36	Property based taxes provide a very stable and reliable source of revenue.
37	No additional comment

38	Central government financial support for infrastructure development that supports economic growth, allowing both new homes and new businesses (and thereby generating increased taxes for central government) would reduce the burden on ratepayers and incentivise local authorities to provide infrastructure. This could apply for tourist hot spots or areas where there is exceptional population growth.
39	No additional comment
40	No additional comment
41	This Council would support the allocation of a proportion of GST revenue to local government. This should not necessarily be as proportion of locally collected GST as this may create inequity and introduce unhelpful incentives into the system. It is very difficult to see how local income tax would work in the current local government context. It would create greater disparity, would be inefficient in terms of collection cost and compliance, and would tend to increase the overall tax burden.
42	Property taxes that vary in line with values bring too much uncertainty and the obvious risk that changes in the level of tax revenues will simply reflect the local property market and not the needs of the local community.
43	No doubt this subject will be considered by the Cullen tax review. However, we remind ourselves that should Central Government forego a source of income it will need to replace it from another source.
44	Through a joined up approach with Central Government. This will however extend to a greater liaison than just cost sharing. It will also encompass the provision and delivery of a range of services, potentially at differing levels through urban, rural and provincial centres.
45	No additional comment
46	No additional comment
47	Private financing for infrastructure projects, however structured, will tend to result in higher costs. Any potential efficiency gains are likely to be more than offset by higher private sector financing costs, the requirement for financial return, the high pricing of risk transfer and the high cost of the consultancy and legal costs associated with such arrangements. And depending on how they are structured, partnership arrangements with the private sector may also result in tax liabilities for local authorities.
48	As local authorities already have access to low cost borrowing through the LGFA and the ability to set local targeted rates if they wish there is no obvious additional benefit of TIF.
49	Probably the biggest change we need to make is in the way we articulate our activities and their costs to our communities so that they have a better understanding of the role and responsibilities of their local authority.