

15 February 2019

Local Government Funding & Financing Inquiry  
New Zealand Productivity Commission  
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WELLINGTON 6143  
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## **LOCAL GOVERNMENT FUNDING AND FINANCING INQUIRY ISSUES PAPER**

### **Introduction**

1. Thank you for the opportunity to make a submission regarding the Productivity Commission's 'Issues Paper' on your inquiry into local government funding and financing.
2. The Wellington Chamber of Commerce (the Chamber) has been the voice of business in the Wellington region for 160 years since 1856 and advocates for policies that reflect the interest of Wellington's business community, in both the city and region, and the development of the Wellington economy as a whole. The Chamber is accredited through the New Zealand Chamber of Commerce network.
3. Business Central represents business interests throughout central New Zealand from Taranaki across to Gisborne and down to Nelson. Business Central is one of the four regional organisations comprising New Zealand's peak business advocacy group, BusinessNZ. In Wellington, our organisation operates the Wellington Chamber of Commerce, accredited to the New Zealand Chamber of Commerce network. Our organisation also delivers ExportNZ to Wellington and the Hawke's Bay.
4. To begin, we wish to note our support for the Productivity Commission's inquiry into local government funding and financing. This is a vital part of New Zealand's economic performance and has come under greater scrutiny recently, partly as a result of rapid house price escalation following inadequate housing construction over recent years. Large challenges remain in front of local government including how to pay for the maintenance and improvements to large-scale assets such as three waters, facilitating the construction of new residential developments, and the provision of cost-effective transport infrastructure.

5. We are a member of the Local Government Business Forum which has have provided a separate submission to the current 'Issues Paper'. We endorse this work and the recommendations of the Forum's submission. Our submission contains our own views and further supplementary information to inform the work of the Commission.

## **Overview**

6. Local government is important. Its regulation settings, service delivery, and infrastructure provision are fundamental to New Zealand having a functioning society and economy. Local government is responsible for regulations from land use zoning to pollution discharges, for providing parks for enjoyment and public transport services allowing people to get around, and it constructs the infrastructure providing clean drinking water and sanitation to our largest cities and remote locations alike.
7. Yet, for all this importance, oversight and accountability is muted. Less than half of voters participate in local body elections, the ultimate voice of the community. Without healthy participation and debate, the voices of the few win out and resources are not directed to where they are needed most.
8. One idea to encourage greater accountability is to establish a central government unit whose job is to collate and publish relevant benchmark data about each council. This publication could take the form of a dashboard, giving ratepayers the ability to see and compare how their council is operating. Giving this role to central government allows common definitions to be used, data to be standardised, and publication to be independent of the organisations being reported on. This work could incorporate some of reporting Audit New Zealand already does to measure individual councils' performances.

## **Chapter 2: Local government in New Zealand**

*Question 1: What other differing circumstances across councils are relevant for understanding local government funding and financing issues?*

9. A common regional challenge in New Zealand is the ability of smaller, rural councils to attract and retain the staff required to understand, report, and advise councillors on difficult problems and trade-offs. Smaller councils might encounter issues intermittently, issues which larger councils deal with routinely. This can potentially have a negative productivity affect as staff and councillors bring themselves up to speed on issues, as well as leading to bespoke systems and processes.
10. These challenges exist beyond local government and equally apply to district health boards, polytechnics, and the like.

## **Chapter 4: Key funding and financing trends**

11. The Local Government Business Forum's submission raises a key question around the driver of significant increases in operating expenditure during the 2004 to 2011 period.

We ask the Commission to investigate the driver of these increases, including the role of the Local Government Act 2002's 'four well-beings' purpose statement. Understanding the role, if any, of a more generalised purpose for local government in contributing to escalating costs would be a vital contribution to the debate around how changing local government's scope will impact on ratepayers.

*Question 2: What explains the difference between the amount that councils account for depreciation and the amount spent on renewing assets? Are changes needed to the methods councils use to estimate depreciation? If so, what changes are needed?*

12. Expenditure on asset renewals is one of the key cost pressures for councils and the justification for the rising rates burden on ratepayers. It would be useful for the Commission, or other qualified body, to examine the volume of historic expenditure on current pressure points. The clearest example of this is water infrastructure. If it was shown that considerable resources have been dedicated to water infrastructure in the past but that cost pressures remained high, that is a strong argument for additional funding and financing tools or central government contributions. However, if council resources have been diverted to "non-core" activities or alternative projects with water infrastructure renewals neglected, then that is a strong argument for councils to reprioritise their resources accordingly.
13. Such information would greatly assist councillors and ratepayers examining previous trade-offs and making decisions about future resource allocations.

## **Chapter 5: Where are the pressure points?**

*Question 3: In what ways are population growth and decline affecting funding pressures for local government? How significant are these population trends compared to other funding pressures?*

14. Growing councils should be using population growth and the associated infrastructure capacity upgrades required to cover across maintenance and renewals work. This gives growing councils the ability to improve their asset management productivity, if done well.
15. Perversely, even natural disasters can have this beneficial impact. For example, following the Canterbury earthquakes councils rebuilt damaged infrastructure with modern, fit-for-purpose infrastructure.
16. Growing councils should welcome the fact that population increases provide for tomorrow's larger rating base, as well as a more dynamic local economy providing locals with jobs. Therefore, councils should have regard to promoting economic growth and housing affordability because it is in the best interests of their ratepayers, regardless of whether growth raises revenue immediately or not.
17. Areas with declining populations associated with a declining ability to pay rates (not always a straight correlation) should consider pooling their risks with neighbouring

councils. This does not necessarily extend to amalgamation, but consolidation of services and infrastructure should be considered. Providing direct Crown funding to depopulating areas could be unfair to other councils who have avoided this problem either by making difficult financial trade-offs or by containing areas of relatively higher growth and, therefore, maintaining their ability to pay.

*Question 4: What are the implications of demographic changes such as population ageing for the costs faced by local government?*

18. The ethnic make-up of a population may change the nature of local infrastructure and facility use. Projections of increases in ethnic diversity should be accompanied by consideration of how this might change patronage of council supplied services.
19. More generally, it is important for council facilities to be as flexible as possible. Trends for hobbies and sports change over time and so large investments in single-use facilities make little sense, whereas different clubs coming together and pooling resources helps everyone. Councils should rethink their involvement in some non-core community activities, particularly questioning whether they are supporting 'declining' activities for historical reasons that no longer apply. For example, Hutt City Council spent over \$6 million on the construction of a new bowling club in 2017.
20. It is important to look at raw population numbers rather than proportions. Even an ageing population centre can have growing numbers of children wanting to use sports fields, swimming pools, and the like. Ageing populations are also supported by inward migration, bringing working-age families in to support elderly residents. Therefore, councils supporting immigration and talking positively about its benefits will improve their own financial sustainability as well as adding to the vibrancy of their communities.

*Question 5: To what extent is tourism growth resulting in funding pressures for local government? Which councils are experiencing the greatest pressure, and how is this manifesting?*

21. A growing tourism sector provides regions with vital economic activity underpinning the livelihoods of local ratepayers. For this reason, tourism should be supported by councils as an economic development activity – a responsibility many councils already support through dedicated economic development agencies. Where costs begin to exceed justifiable ratepayer support, greater use of user charges should be used to ensure those benefitting from facilities are paying for them.

*Question 6: Is an expansion of local government responsibilities affecting cost pressures for local government? If so, which additional responsibilities are causing the most significant cost pressures and what is the nature of these increased costs? To what extent do these vary across local authorities?*

22. Undoubtedly, there are increased regulatory compliance and responsibilities expected from councils. However, there is a need to balance additional costs with increasing ability of technology to reduce costs; in addition, councils should be deriving an annual

productivity dividend from better understanding their organisation and introducing process efficiencies over time.

23. Councils have to be realistic about the trade-offs between additional expectations put on them by central government legislation, and their voluntarily assuming wider responsibilities over traditionally central government areas such as housing and welfare. For example, in 2018 Wellington City Council's proposal to redevelop its social housing stock in the suburb of Mt Cook fell over, requiring Housing New Zealand to take over and fund the project. Page 37 of the consultation document provides useful detail on the growth of non-core expenditure items
24. Rising standards for service and infrastructure provision are increasing costs. Rising standards can be driven by society's expectations or government regulation. For example, earthquake standards for buildings or drinking water standards for water supply. Such drivers require a national conversation about the cost-benefit trade-offs.

*Question 7: How is the implementation of Treaty of Waitangi settlements, including the establishment of 'co-governance' and 'co-management' arrangements for natural resources, affecting cost pressures for local government? How widespread is this issue?*

25. The cost examples cited in the consultation document appear very marginal. All costs cited are approximately one or two full-time-equivalent staff per year. This amounts to a small contribution to the Treaty of Waitangi settlement process by councils and pales into insignificance compared to total council overheads.

*Question 8: How are local authorities factoring in response and adaptation to climate change and other natural hazards (such as earthquakes) to their infrastructure and financial strategies? What are the cost and funding implications of these requirements?*

26. Mitigating and responding to climate change and large-scale natural hazards clearly requires a central government policy response. In practice this means a centralised analysis of where the areas of higher risk are and then ensuring proportional mitigations are carried out in response to those risks. Through a central government-led process such as this, community tolerance for either additional expenditure or curtailment of freedoms is identified.
27. These significant challenges also demonstrate a need for risk pooling and sources of funding only available through central government.

*Question 9: Why is the price of goods and services purchased by local government rising faster than the consumer price index? To what extent is this contributing to cost pressures for local government?*

28. The analysis presented on page 36 of the 'Issues Paper' appears to cover an arbitrary short-term span from 2008-2017. CPI over the period 2009-2017 would show an even greater disparity between the two measures, particularly when acknowledging the CPI spike of 2011 was caused by an increase to GST. A longer-term analysis over 30 years

would be more interesting and demonstrate any fundamental issue with local government inflation. Inflation, of course, is keenly felt by ratepayers who have to shoulder the burden of excessively rising local government costs.

*Question 10: Do the prices of goods and services purchased by local government vary across councils? If so, what are the reasons for these differences?*

29. High fixed costs indicate local government is not making the most of their ability to use technology and innovation to defray costs. Additionally, seeking voluntary agglomerations to save costs, including pooling purchase orders and service contracting, could lead to lower price escalations than would otherwise be the case.

*Question 11: 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?*

*Question 12: Does the scope of activities funded by local government have implications for cost pressures? If so, in what ways?*

30. Yes, as already touched on in the answer to question six. We cite the example of social housing in Wellington where a troubled residential property development required a specific bailout from central government.
31. There is a role for councils, but it is not to replace the responsibilities of central government. These cost pressures manifest from diverting activity into non-core areas as well as poor execution. Therefore, these activities increase the risk profile of the council. Housing is an expensive activity to be involved in requiring large capital outlays to make a significant impact. Should they go wrong, they become a distraction for councillors and management, and due to the political risk, resources are always allocated to clean up.
32. Supplementary activities, such as sport and community facilities, are important but they should not come at the expense of core infrastructure and service provision.

*Question 13: What other factors are currently generating local government cost pressures? What will be the most significant factors into the future?*

*Question 14: How will future trends, for example technological advances and changes in the composition of economic activity, affect local government cost pressures?*

33. Technology advancements should be a major driver of cost savings, not increases. The example cited on page 38 of the ‘Issues Paper’ of electric vehicle charging stations is immaterial in the context of the local government sector’s annual infrastructure spending. EV charging stations are another example of infrastructure that local government is not required to supply.

34. Councils should think about how they can help facilitate technological change. For example, distributed solar generation and making it easy to consent installations, encouraging transport innovation like licensing for-hire electric scooters, and looking for cost-saving measures such as introducing water metres.

## **Chapter 6: Managing cost pressures**

*Question 15: How effective is the Long-term Plan process in addressing cost pressures and keeping council services affordable for residents and businesses?*

*Question 16: How effective are councils' Long-term Plan consultation processes in aligning decisions about capital investments and service levels with the preferences, and willingness and ability to pay, of residents, businesses and other local organisations?*

*Question 17: Is there scope to improve the effectiveness of Long-term Plan processes? If so, what, if any, changes would this require to the current framework for capital expenditure decision making?*

35. The purpose of councils having and consulting on LTPs is worthy and important. However, in practice the consultation provisions have been less than ideal in some situations and stakeholders have been left frustrated that their concerns have been unheard by councils.

36. LTPs and infrastructure strategies are important documents but sometimes fall short in the following ways:

- Trade-offs are not clearly articulated, and counterfactual scenarios are not laid out for stakeholders to consider.
- Consultations can be used to nudge stakeholders towards desired outcomes.
- Few outside reference points are included to inform stakeholders about how other councils are tackling the same issues.

37. We believe this reinforces the point raised in Section 2 of our submission, about the need for a standardised reporting mechanism on councils. This would better inform stakeholders considering LTPs.

*Question 18: How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently?*

*Question 19: What practices and business models do councils use to improve the way they manage their infrastructure assets and the efficiency of their services over time? How effective are these practices and business models in managing cost pressures? Do councils have adequate capacity and skills to use these practices and business models effectively?*

*Question 20: How do councils identify and employ new technologies to manage their infrastructure assets and produce services more efficiently? How effective are councils in using new technologies to manage cost pressures? Please provide specific examples of the use of new technologies to manage cost pressures.*

*Question 21: What incentives do councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened?*

38. Agglomeration of councils and/or their services and infrastructure would make it easier for them to improve management quality by attracting more specialised expertise. Full mergers of councils have been debated vigorously in New Zealand and uptake has been weak. Without proceeding to a full merger, councils still have options to improve service delivery. One example of this is Wellington Water, a focused shared service vehicle for water across the Wellington region.
39. As an unsuccessful example, we point to Wellington's electronic car parking meters. Despite being installed in 2017, stakeholders have still not seen any reporting on the data and insights generated by the system. It has the potential to be a very worthwhile system, improving the flow and turnover of parking in the city. However, it is not used to its potential. This is now impacting on council decision-making. The introduction of weekend parking charges in Wellington several months ago aimed to help alleviate the congestion created by earthquake-prone carparking buildings being unavailable for use. However, this council decision was made on a hunch, not on the data. Furthermore, Lower Hutt has a different parking system to Wellington. This is a lost opportunity to generate efficiencies and improve the user experience of people parking in both cities.
40. The introduction of water meters by Kapiti Council is a compelling example of introducing new technology and changing the service delivery model. Water meters there have dramatically reduced local water use, providing environmental and economic benefits. The council has now been able to postpone water capacity upgrades due to these efficiencies.

*Question 22: What are the most important barriers to local government achieving higher productivity?*

41. The factors laid out in the 'Issues Paper' bullet points reflect our views about local government as well. In addition, other factors include:
  - Reinventing the wheel between councils,
  - lack of communication and cooperation,
  - parochialism.
42. These factors all hold back productivity improvements across local government.

*Question 23: How does local government measure productivity performance? Are these metrics useful? If not, what metrics would be better*

*Question 24: To what extent and how do councils use measures of productivity performance in their decision-making processes?*

*Question 25: Do councils dedicate sufficient resources and effort toward measuring and improving productivity performance? If not, why not, and how could effort toward measuring and improving productivity performance be increased?*

43. Driving productivity improvements within councils is a significant issue. There is a lack of objective, independent assessment about whether performance is improving. As stated in Section 2 of our submission, there is merit in a central government unit dedicated to providing a uniform picture of local government's performance. One example was the centrally set "Health Targets" on which all DHBs were required to report to the Ministry of Health. These were then published and individual DHBs could see where their performance was weak; additionally, patients could hold DHB boards to account for health outcomes in their region.
44. Whereas in central government all departments are required to submit their significant policy and spending proposals to the Treasury for assessment, there is no such function for local government. Ultimately, ratepayers have no 'peer review' to rely on when making assessments about how councils are improving their performance.

*Question 26: What measures do councils use to keep services affordable for specific groups, and how effective are they?*

45. The rates rebate scheme is an effective method for ensuring those who cannot afford council rates are able to continue living within their means. The scheme's low uptake appears to be a problem with education and promotion of the scheme, rather than its design.
46. Affordability of rates highlights the importance of the preceding questions about productivity and efficiencies. Ratepayers rely on councils keeping services and infrastructure provision affordable. It also reinforces why it is so important councils stick to what is required, and not branch out into expensive tangents that worsen rates affordability for their residents.

*Question 27: How do councils manage trade-offs between the ability to pay and beneficiary pays principles? What changes might support a better balance?*

47. More attention should be paid to who benefits from new or improved infrastructure and services. We specifically endorse the Local Government Business Forum's comments in their submission on this point. Councils should be required to consult directly with the identified beneficiaries of any project and, if the beneficiaries agree, councils can make them pay more to fund the improvements. Stakeholders will be willing to pay more to get the improvements that will directly benefit them. If the beneficiaries identified by councils either do not believe they will benefit, or resist paying more, then councils should question whether their assumptions hold. There have been experiences in the past where businesses are asked to fund 'nice-to-haves' on the assertion by councils that businesses benefited. This is not to give stakeholders veto power over council projects, but to ensure councils are rigorous in their approach.

*Question 28: Do councils currently distribute costs fairly across different groups of ratepayers? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across ratepayers?*

48. Following on from Question 27, there are examples of different costs being imposed on different ratepayers on an assumed ability to pay argument. For example, in Wellington City businesses pay around half of the total rates collected while making up only one-quarter of the total rateable property.
49. We encourage the Productivity Commission to undertake an analysis across land asset ownership types (residential, commercial, agricultural), and examine who carries the heaviest rates burden and who uses the most council services and infrastructure. The results would greatly inform the debate about who pays and who benefits.

*Question 29: Do councils currently distribute the costs of long-lived infrastructure investments fairly across present and future generations? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across generations?*

50. Councils should make greater use of different types of procurement, whether it is PPPs, infrastructure bonds, and the like. Ownership questions should not be taken off the table. There are plenty of legitimate and straight-forward examples where private companies are willing to house council facilities or provide services. For example, does a library building need to be owned by a council? Traditionally, library buildings are publicly owned, but there is no reason why a council cannot ask a private landlord to design, build, construct, own and maintain a building for 30 years which the council then rents for the purpose of running a public library. This fairly spreads the capital cost of building a new library from one item of capital expenditure into annual operating payments, across the economic life of the building, and across generations of ratepayers.
51. Councils need to consider how changing their portfolio mix of assets can improve infrastructure provision while limiting demands on new capital. For example, a council-owned airport could be sold to fund council construction of a new waste water treatment plant. Under this scenario, the overall asset base of the council is maintained, the airport continues to operate and service local air travellers, and ratepayers benefit from an improved environment due to better treatment of waste.
52. We recognise that the terms of reference to the Commission for this inquiry specifically exclude “substantial” asset sales, but there are many benefits available while still falling inside the boundaries given to the Commission. Councils would have the ability to get the improved infrastructure they want. There are many other options, such as leasing existing assets, PPPs for new assets, infrastructure bonds, etc. The Commission must provide councils with a mix of options because it is not necessarily a binary choice between public or private ownership.

## **Chapter 7: Future funding and financing**

*Question 30: What principles should be used to appraise current and potential new approaches to local government funding and financing, and how should these be applied? What are appropriate trade-offs across these principles?*

53. In our view, the principles listed in the ‘Issues Paper’ are sound. Our only suggestion is to consider adding transparency as a principle. Transparency promotes fairness by making trade-offs explicit to stakeholders, and accountability by ensuring ratepayers know how future revenue will be raised.

*Question 31: How effectively is the existing range of local government funding tools being used?*

*Question 32: Is there a case for greater use of certain funding tools such as targeted rates and user charges? If so, what factors are inhibiting the use of these approaches?*

*Question 33: What is the rationale underlying councils’ approach to levying rates? What are the costs and benefits of shifting from a capital value system to a land value system?*

54. Land values should be investigated thoroughly for future use in the rating system. Land values have the benefit of nudging land to higher economic uses, and this is important. It can be used to drive productivity and deliver housing supply benefits. Any land value-based system does require protections for farm land through zoning and differentials.
55. Targeted rates can be useful to bring forward improvements benefiting specific stakeholders, because those groups are willing to pay more to achieve the benefits sooner. Differential rates have been used by some councils to focus the rates burden on those deemed “able to pay” rather than on those who benefit, so discipline from councils is required. As mentioned in response to Question 28, the business rate differential in Wellington City is very high.

*Question 34: In addition to restrictions on how targeted rates are applied and the types of services where user charges can be levied, do any other restrictions on existing funding tools unduly limit their uptake or usefulness?*

56. Value capture does offer the ability to provide funding for major council constructed assets. Proposed assets need to go through a detailed consultation as not all ratepayers will want, need or use the proposed asset. We also urge caution ascribing the causality of infrastructure to value uplift. For example, does light rail make a suburb more desirable, or does a desirable suburb attract light rail?

*Question 35: How does the timing and risk associated with future funding streams influence local authority decision making about long-term investments? What changes to the current funding and financing system (if any) are needed to address these factors?*

57. There are obvious challenges for councils associated with the mismatch in expenditure going out before the funding comes in. However, the role of all governments (central and local) is to plan for these scenarios and act accordingly. As discussed in the ‘Issues

Paper' and previously in this submission, there are various tools available to smooth infrastructure funding out.

*Question 36: What are the pros and cons of a funding system where property rates are the dominant source of funding? Does the local government funding system rely too heavily on rates?*

58. The 'Issues Paper' assessment of New Zealand's rates system is fair. We support improvements as long as they are not used simply to justify adding additional revenue streams with no corresponding decreases in rates. Any changes should be designed to be revenue neutral.

*Question 37: Under what circumstances (if any) could there be a case for greater central government funding transfers to local government? What are the trade-offs involved?*

59. Where central government requires a task to be completed by local government that is significantly beyond what they would choose or what they can afford, then central government should contribute significant funding. For example, the increases to drinking water standards is a case for central government support because of the scale involved. Incremental increases to standards do not require such central government support.

60. Conversely, councils need to carefully examine its own circumstances and what they can do rather than just reflexively asking for central government funding. At a time when local government holds significant assets, it can look to reshape its own portfolio before expecting central government to contribute.

*Question 38: Do local authorities have sufficient financial incentives to accommodate economic and population growth? If not, how could the current funding and financing framework be changed to improve incentives?*

61. Councils should facilitate and cater for growth because it is one of their core responsibilities to do so. Growth provides constituents with opportunities and jobs. Additional funding from central government grants or GST concessions just becomes extra revenue for council infrastructure that they should have the ability to fund anyway using appropriate procurement methods.

*Question 39: What funding and financing options would help councils to manage cost pressures associated with population decline? What are the pros and cons of these options?*

*Question 40: Are other options available, such as new delivery models, that could help councils respond to funding pressures associated with a declining population? What conditions or oversight would be required to make these tools most effective?*

62. A declining population should force councils to think harder about their use of technology and how innovation can drive down the cost of services.

63. Councils can look to their neighbouring councils, especially if their neighbours are large and growing, to help meet their costs. This could include, as mentioned earlier in this submission, shared services and amalgamation of common infrastructure assets.

*Question 41: What are the pros and cons of local income and expenditure taxes?*

64. The role of local government within New Zealand is constrained and defined. New Zealand is a small country and we do not devolve complex service delivery such as health or education down to local councils. Therefore, the need to generate relatively significant revenue is not there. New Zealand prides itself on a simple and easily compliant tax system, and we recommend against unnecessary complexity that would come from local income and expenditure taxes. Any additional tax is an impost on citizens.

*Question 42: What are the advantages and disadvantages of a local property tax as an alternative to rates?*

65. There are advantages in the better use of land and avoiding land banking by nudging land towards its highest economic value use. But, as stated above, local government accountability is weak, so the disadvantage of runaway expenditure for ratepayers on the back of such a tax is a very high risk. Any change could lead to windfall gains to councils which can mean politicians move expenditure into non-core, unproductive areas.

*Question 43: Are there any other changes to the current local government funding and financing framework, such as new funding tools, that would be beneficial?*

*Question 44: How can the transition to any new funding models be best managed?*

66. The strain of tourism growth has led to the development of bed taxes through councils imposing targeted rates on accommodation providers. Concern has been raised with this mechanism because the use of the revenue has not necessarily been of direct benefit to those paying the tax.

*Question 45: To what extent does the need for particular funding tools vary across local authorities?*

67. It is worth remembering that ratepayers experience the overlay of rates for territorial authorities and regional councils. Therefore, the impact on each individual ratepayer is the combined decisions of two councils. Unitary authorities avoid this somewhat, due to their complete picture of how their decisions are affecting their ratepayers and their ability to pay.

*Question 46: To what extent are financing barriers an impediment to the effective delivery of local infrastructure and services? What changes are needed to address any financing barriers?*

68. Councils coming up to the limits of what they are prepared to borrow will constrain their ability to fund new infrastructure. As discussed earlier, there are multiple procurement options available to councils to help them get around this problem. Watercare in Auckland is a good example of creating a CCO with its own income streams allowing them to make their own asset management decisions without impacting on the overall council position.

*Question 47: What role could private investors play in financing local government infrastructure and how could this help address financing barriers faced by local governments? What central government policies are needed to support private investment in infrastructure?*

69. The ideas contained in the ‘Issues Paper’ are good and deserve further work. Infrastructure bonds were talked about extensively in 2017, so an update on the use and worth of these as additional tools by the Commission would be illustrative.

*Question 48: If New Zealand replaces rates on property with a local property tax, should it also adopt tax increment financing as a way to finance growth-related infrastructure investments? What are the advantages and disadvantages of tax increment financing?*

70. Special purpose vehicles investing in specific assets with a dedicated income stream from a revenue source or user pays has the potential to achieve the same goal. It appears that Watercare in Auckland is able to achieve the bringing forward of revenue within the current system.

*Question 49: How effective are the current oversight arrangements for local government funding and financing? Are any changes required, and if so, what is needed and why?*

71. In our view, improvements to current oversight arrangements would benefit councils and ratepayers. As stated above, particularly in Section 2, standardised oversight of councils’ activities and financial performance is warranted. Along with regular reporting, we propose an independent entity that can function for local government in a similar manner to how the Treasury does for central government. This new entity can examine significant projects and provide councils with a peer review, as well as an overall benchmark of how the council stacks up against its peers.

## **Conclusion**

72. We thank the Productivity Commission for the opportunity to make this submission on this important Inquiry.

73. Should you have any questions about this submission, please email:  
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Yours sincerely,

A handwritten signature in black ink, appearing to read "John Milford".

John Milford  
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