

## **Productivity Commission**

Thank you for the opportunity to participate in this review.

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

In addition, we have commented briefly to some of the questions from this small, rural, local authority's perspective.

### ***Q1 What other differing circumstances across councils are relevant for understanding local government funding and financing issues?***

SWDC is a small local authority with a large geographical area. In addition, one of our idiosyncrasies, shared by a few others, is that we have three towns of roughly the same size 1,800 to 2,500 population each.

It is therefore difficult to get economies of scale, we have three of everything... Libraries, pools, halls...

In particular, changing legislation has required three wastewater systems, treated wastewater to land. This is a \$30M project across 4,000 connections.

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### ***Q2 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?***

The difference is that depreciation rates do not reflect reality. SWDC has moved away from funding based on depreciation to funding based on forward works programs. We have modelled our infrastructural asset network (a significant proportion of this modelling included actual asset inspection) out to 2106. This modelling allowed us to significantly reduce the amount we rate funded (by nearly 50%).

We still arte fund the same amount, but have been able to use divert funding to pay for the wastewater to land project.

Local authorities should have the freedom to fund infrastructural assets as they see fit, and not be bound by an outdated concept (Depreciation funding)

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

**Q3 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?**

Local Government must be able to collect the cost of increased population from the developers. This should not be a cost on the ratepayer (although it is acknowledged the developer will factor this into their pricing)

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***Q4 What are the implications of demographic changes such as population ageing for the costs faced by local government?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

Changes in demographics, particularly if communities are aging mean additional expenditure of things like footpaths and crossings. Historical solutions need to be upgraded to higher standards.

***Q5 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?***

SWDC has experienced significant growth in tourism and is thankful of the government's tourism infrastructure fund.

The issue is that the costs of tourism fall in different areas at different times, and cannot be met from capital funds like this.

Almost all of the increase of 28 tonnes in solid waste over the Christmas/new year break for us was tourist driven, this is an operational expense borne by the general ratepayer who does not benefit from the tourist numbers .

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

**Q6 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?**

The response is undoubtedly yes.

There are two aspects, firstly the cost of new regulation, building, liquor, food and the like, and secondly there is the cost of complying with the legislation.

Firstly, it is useful to note that the alcohol legislation made really good strides in allowing local authorities to recover their costs. It has to be said, however, that in these cases local government is effectively an "arm" of central government and this needs to be recognised because local authorities

are increasingly having to fill an educational gap, many we deal with who have to comply with the legislation seem to have very little knowledge, or seemingly access to knowledge, and we are having to employ people to make it easier, that is get the knowledge, to be able to operate effectively.

While it is quite clear from discussions with Government officials, that legislation is generally written in a way that mandates compliance, on the ground there is a reluctance of many to care about new regulations.

For example, in regards to swimming pools, while we can carry out an inspection (and have to) there are no legislative mechanisms to recover the cost of this activity.

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q7 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?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q8 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? Summary of questions 63***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q9 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?***

The basket of goods and services that are included in the CPI are very different from the basket that are included in the LGCI.

It is not contributing to cost pressures at all, it is reputational pressures that are negatively impacting local government operations, when these comparisons are made.

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q10 Do the prices of goods and services purchased by local government vary across councils? If so, what are the reasons for these differences?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

**Q11 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?**

In SWDC case, we are comfortable we have an understanding of the condition of our assets, and sufficient funding in the very long term to ensure serviceability into the future.

People don't want to come and live, work, and play in our district because we have great underground assets.

Ratepayers and residents enjoyment comes from enjoying amenities. SWDC has been able to shift toward funding in a modest way, more amenity, youth, and health initiatives.

In terms of health and youth, our community feels the government is not doing enough at the grass roots, our communities see there is a shortfall and see that healthy engaged youth will make for a much better district to enjoy. Our communities are willing to fund this shortfall, however still see it as the government's responsibility in this space.

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q12 Does the scope of activities funded by local government have implications for cost pressures? If so, in what ways?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q13 What other factors are currently generating local government cost pressures? What will be the most significant factors into the future?***

In SWDC case, the cost of compliance with environmental and drinking water legislation.

To meet the new environmental standards for freshwater, we have committed to a \$30M wastewater to land project. We cannot build a longer pipe and put the treated wastewater to sea.

We have approximately 4,000 connections with which to pay for this project, and as mentioned above, we have three separate towns (cost about \$10M each)

There is no governmental assistance for this, accordingly the project is over 30 years. SWDC set a policy of wastewater to land prior to the NPS freshwater being released, and would really like to accelerate this project, but cannot.

The separate layers of government have certainly added significantly to this cost pressure, and I really do think we could have achieved a far cheaper result if a unitary authority regime operated here.

The costs of our consents alone will be enough to pay for an irrigation kit big enough to irrigate about 100Ha.

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q14 How will future trends, for example technological advances and changes in the composition of economic activity, affect local government cost pressures?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q15 How effective is the Long-term Plan process in addressing cost pressures and keeping council services affordable for residents and businesses?***

The long term planning process has some benefit in that local authorities can prioritise workflows to meet perceived affordability by ratepayers.

Asset management, though, is not driven by the LTP, it is carried out every day. The LTP process is long and torturous, and should be reviewed for effectiveness. Small Local authorities struggle to resource the LTP and it does take valuable resource away from day to day business.

Our LTP costs in the order of 2% of our rates to prepare and have audited, and that is without the internal staff costs.

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***Q16 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?***

The majority of our capital expenditure is engineering based, and as such there is little choice that can be made. Costs can be spread to smooth rates impacts, however by and large the big decisions are mostly engineering based.

In this regard, for the bulk of our expenditure, the LTP is a very cumbersome document.

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***Q17 Is there scope to improve the effectiveness of Long-term Plan processes? If so, what, if any, changes would this require to the current framew 64 Issues paper | Local government funding and financing***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q18 How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q19 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?***

SWDC is investigating, and hopefully becoming a shareholder in Wellington Water. WW are a management company that have significant levels of expertise SWDC simply could not afford were it not for an arrangement like WW. In addition, we will gain a significant level of resilience.

Agglomerated models need to be of a size and scale to allow expertise and resilience

The benefit of this model is SWDC retains asset ownership, and can manage the costs and look and feel of our three waters delivery. SWDC is still very close, therefore, to its ratepayer base.

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***Q20 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.***

Small local authorities tend to deliver, for example three waters, services relatively cheaply. The introduction of new technologies on small operational plants often fails on a cost benefit analysis. In this way, small authorities either have to bite the bullet and have a more expensive system, or retain the simple, but serviceable options.

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q21 What incentives do councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q22 What are the most important barriers to local government achieving higher productivity?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q23 How does local government measure productivity performance? Are these metrics useful? If not, what metrics would be better?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q24 To what extent and how do councils use measures of productivity performance in their decision-making processes?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q25 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?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q26 What measures do councils use to keep services affordable for specific groups, and how effective are they?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q27 How do councils manage trade-offs between the ability to pay and beneficiary pays principles? What changes might support a better balance?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q28 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? Summary of questions 65***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q29 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?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q30 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?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

In addition, in terms of the theory that taxes should be levied across as many as possible, government agencies should be fully rateable. Currently the true cost of delivering governmental services is understated by a very significant amount, the amount of rates not charged. In addition, the burden falls unevenly, those authorities with a lot of government properties suffer heavily compared to those who do not..

***Q31 How effectively is the existing range of local government funding tools being used?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q32 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?***

Local Government needs more flexibility in the way it gathers the revenue it needs. On the basis that local government funding decisions will be equitable for their communities, funding caps should be lifted as they can constrain rational decision making.

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q33 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?***

SWDC uses land value already, and sees this as the most equitable system for our district.

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q34 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?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q35 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?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q36 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?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q37 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? 66 Issues paper | Local government funding and financing***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q38 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?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q39 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?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q40 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?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q41 What are the pros and cons of local income and expenditure taxes?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q42 What are the advantages and disadvantages of a local property tax as an alternative to rates?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q43 Are there any other changes to the current local government funding and financing framework, such as new funding tools, that would be beneficial?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q44 How can the transition to any new funding models be best managed?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q45 To what extent does the need for particular funding tools vary across local authorities?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q46 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?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q47 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? Summary of questions 67***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q48 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?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

***Q49 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?***

South Wairarapa District Council supports the submissions made by Local Government New Zealand, and Society of Local Government Managers.

We look forward to the results of this review.

Paul Crimp

Chief Executive Officer