

In reply please quote WDC Submission on Local Government Funding and Financing
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Tēnā koe

Whangarei District Council Submission to the Productive Commission on Local Government Funding and Financing.

Introduction

Whangarei District Council (WDC) welcomes the opportunity to provide feedback to the Productivity Commission on the issue paper concerning Local Government Funding and Financing.

WDC endorses the submission made by Local Government New Zealand (LGNZ). We consider that it accurately and appropriately represents our views on the matters raised by the Productivity Commission.

In addition to the LGNZ submission, WDC wishes to highlight the following points

Summary of Whangarei District Councils Submission:

- There are significant pressures on funding in areas where there is a high rate of population growth or a change in demographics. For example, funding large growth related projects or changes in levels of service to meet community expectations.
- Limitations of the current rating model means that it does not respond well to changes in our community when compared to other revenue streams, such as taxation.
- Difficulties and opportunities exist with contestable funds such as the Tourism Infrastructure Fund. We need greater certainty as to the long-term availability of these funds so they can be factored into our planning.
- There are issues with the burden and affordability to our community from further central government requirements imposed without resource support, without adequate lead in time and recognition of local government funding cycles.
- Recognition that WDC is in relatively good financial position compared to other Councils, but this has inadvertently prevented us from accessing central government funding.
- Need for any funding changes to support/align with any future legislative or policy changes by Central Government.

Whangarei District Council question responses

Question 1

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

WDC Response

WDC includes a large rural area as well as Northland's largest urban area. Therefore we are faced with both significant costs to provide and maintain infrastructure across a large rural area (i.e. roads) as well delivering amenity outcomes in our urban areas (high quality open spaces).

Northland's higher unemployment levels influences our ratepayer's ability to pay. Our high amount of Māori freehold Land affects rating and charging. Our revenue and financing policies are tools to address this.

From a WDC perspective there are several other key factors which the Productivity Commission should consider that will impact on funding and financing:

- different levels of historical investment in infrastructure;
- the quality of existing infrastructure;
- whether or not the Council has established alternatives to the general rates, particularly user charges and targeted rates;
- geographical distance and spread of services;
- levels of debt;

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?

WDC Response

Depreciation is more likely to be based upon adopting an accounting standard and asset age than upon asset condition and actual cost. The change required is for depreciation costs to accurately reflect the actual costs of maintenance and renewal which in turn depends upon the quality of asset management information. For example, an obstacle to this is that most three waters assets are underground and hard to inspect. Asset condition information must inform assumptions if depreciation is to reflect reality.

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?

WDC Response

Whangarei's urban area has been defined as High Growth under the National Policy Statement on Urban Development Capacity. WDC considers that the rate of growth is a significant pressure effecting funding. This is particularly true for more short-term increases in population that are higher than what would have been predicted in longer term growth modelling.

What is also important to consider is that the rate of population change will be felt differently across a District. The spatial nature of growth in Whangarei is putting pressure on areas which can be more costly to provide new or upgrade existing infrastructure, such as Coastal Settlements. Over and above this population change is the demands of tourism and visitors to our District.

Although WDC remains in a good financial position, without flexibility in funding, continued rapid or significant increase in growth may jeopardize that position. A barrier to providing for future growth is that the income from future developers, ratepayers and service users to pay for the asset lags the requirement to invest. Debt finance creates costs ahead of income and impacts upon the balance sheet.

The planning regime does not enable councils to stop new development on the basis that they can't afford it. The marginal costs of an additional connection can be minimal, but a major new development may trigger a requirement for significant new capital investment. Retrofitting infrastructure is expensive, so there needs to be adequate planning to ensure that any major infrastructure investment is future proof.

Central government could assist in this area by:

- ensuring that local government have the necessary resources to deliver the necessary planning tools, such as Spatial Plans.
- providing funding for large projects, such as interest free loans similar to those used in the Housing Infrastructure Fund. These should be widely available and not just limited to large cities or Councils with financial constraints

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?

WDC Response

Tourism and visitors to Whangarei do put pressure on funding through increased demand on existing infrastructure and services as well as the need for new facilities. Whangarei is a key destination for visitors travelling north of Auckland. Not all ratepayers wish to fund infrastructure and operational costs for tourists.

WDC has been successful in securing funding through the Tourism Infrastructure Funding and the Responsible Camping Initiative. WDC welcomes the use of these funds, to make them more effective in funding tourism related projects the following could be considered:

- Less restrictive timeframes on delivery (e.g. Responsible Camping Initiative) to assist with procurement and project delivery
- Increase budget for the funds to assist in a wider variety of projects
- Greater lead in time and certainty to assist in long term financial and project planning – this is particularly important if this is to be the ongoing approach of central government in assisting the funding of tourism related projects
- Funding for feasibility studies through TIF should be accompanied by assurance that further funding will be available if the feasibility study is favourable (i.e. either for capital investment or to support the next stage of planning and design).

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?

WDC Response

The requirements on councils set by national policy statements and national environmental standards under the RMA can significantly increase cost pressures. For example, raising drinking water standards and the National Policy Statement on Freshwater.

The cost of monitoring compliance (e.g. food and liquor licensing, swimming pools, consent monitoring) and consultation is currently increasing at higher rates than inflation which places a further burden on the community.

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?

WDC Response

Currently costs associated with natural hazard events are accommodated within existing budgets. For example – unexpected road repairs following a slip might result in the deferral of planned road projects.

Longer term planning for the effects of climate change is underway through our Climate Change Adaptation Strategy. This will initially focus on risk assessment for our infrastructure to inform decision making in the next LTP.

Developing resilience to natural hazards is a major, and increasing, challenge for councils and their communities. The cost implications could be significant. We have many coastal communities and much of our city centre is low lying and at risk from flooding and inundation.

To assist in this issue, WDC would suggest the following:

- Greater certainty from central government on expectations for local government in relation to adaptation. Currently there is not sufficient direction on this issue.
- Greater support in terms of expertise, data and resources for local government to understand the risks to infrastructure and communities. The costs of exercises such as risk assessments is significant, particularly for smaller Councils.
- Greater financial support if infrastructure work is required.

WDC also notes that the work of the Climate Change Adaptation Technical Working Group (CCATWG) has identified this as an issue for Local Government and this should be considered by the Productivity Commission.

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?

WDC Response

For WDC, higher costs for goods and services can be attributed to some of the following factors:

- Many goods and services can only be procured from major centres such as Auckland. This can result in a premium on costs for increased travel.

- Staffing costs can be higher in order to attract and retain skills in competition with larger employers in cities such as Auckland
- Small sized authorities such as WDC do not always have the appropriate in-house resources to complete projects. This is particularly true for work stemming from requirements which are not usually part of a local governments portfolio of responsibilities. For example: the significant amount of technical work resulting from the National Policy Statement on Urban Development Capacity.

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?

WDC Response

WDC does not agree that there has been a shift away from traditional core business. WDC has had a long standing role and responsibility for activities relating to public open space, recreation and economic development. However in terms of expenditure these are not as significant where compared to roads and three waters. Below is a breakdown from our 2017 - 18 Annual Report.

The more recent challenge has been increasing ratepayer expectations for higher standard of amenity, more things to see and do and better services.

Question 18

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

WDC Response

WDC is continually looking for cost savings and improving business processes to reduce costs. WDC support the notion made by the Productivity Commission that:

HOW WE SPENT EACH DOLLAR^o



“Any decisions about how infrastructure is paid for should be framed in the context of ongoing efforts to ensure that infrastructure is provided and managed in a disciplined, cost-effective and efficient manner”

WDC also note that we need good information about our network and assets to drive down costs and improve our services. However, to get this information requires further investment into resources, technology and systems which can be costly for small Councils. Central government could assist with these costs.

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.

WDC Response

New technologies or approaches are identified through a number of sources:

- Local government networks
- Contractors
- Strategy development

WDC has implemented a number of projects using new technology or innovative solutions. One example would be our waste to energy facility at our Waste Water Treatment Plant which generate energy from the wastewater treatment process. More information can be found here:

<https://www.eecabusiness.govt.nz/resources-and-tools/videos-and-webinars/wast-to-energy/>

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?

WDC Response

Productivity performance is not part of the purpose mandatory measures prescribed by central government for roading and the three waters. Instead, they focus on aspects of service quality (e.g. road condition, compliance with the drinking-water standards and wastewater discharge compliance) and customer satisfaction (timeliness of response to reported faults and the number of complaints). The non-statutory measures are set by Council to reflect a communities expectation for a level of service and are therefore not necessarily an indicator of productivity

WDC are beginning a process of developing performance indicators across the business to better measure our productivity and inform decision making. This Corporate Performance Management system has required significant resourcing and effort, but will ultimately be an effective mechanism for us to measure performance and identify opportunities for improvement.

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?

WDC response

The property rates system is well-known and property owners factor in the rating requirements when purchasing or upgrading properties. It enables councils to be confident they will have revenue.

However, it is based on an assumption that those with more valuable properties are better placed to pay higher rates, which can generate hardship for some property owners particularly in retirement.

The rating system is not very flexible and as limitations in responding to demographic changes which impact on the demand for services – such as an aging population or rapid population increase or increase in household size.

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?

WDC Response

The Financial Assistance Rate system administered by the New Zealand Transport Agency is an example of significant central government funding. This eases the costs of roading on councils and enables central government to set consistent standards which apply across the country. While it means that councils have less choice in determining what their roading programme will be, a council is still able to decide roading improvements outside what NZTA has approved on the basis that they are entirely funded by the council. This model could be extended to other infrastructure such as drinking water and wastewater.

Question 41

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

WDC Response

Such taxes mean everyone in the community funds council expenditure, which aligns better with the accountabilities councils have. However, the administrative costs would be considerable. Rates in small rural councils are typically higher on a property basis than in the large metros: local property taxes would be likely to intensify that difference.

Whangarei District Council welcomes further opportunity to provide feedback on the draft report from the Productivity Commission before it is presented to Central Government.

If there any questions or points clarification needed on our submission please contact Tony Horton, Manager – Strategy (tony.horton@wdc.govt.nz)

Nāku noa, nā

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Whangarei District Council



Whangarei
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