Northland REGIONAL COUNCIL
Te Kaunihera ā rohe o Te Taitokerau

Submission

To: **New Zealand Productivity Commission**
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By: **Northland Regional Council** (our Reference: A1149581)

On: **Local government funding and financing Issues paper - November 2018**

Introduction

The Northland Regional Council (council) is grateful for the opportunity to comment on the issues paper. This submission is made in the interests of promoting a sustainable environment and economy in Northland and with council's statutory functions and roles under the Local Government Act 2002 and other relevant legislation in mind.

Council supports the inquiry into local government funding and financing given the range of funding related issues councils and communities are facing currently and expect to face in the medium to long term. Climate change adaptation is probably the most significant example but there are numerous others that councils and constituent communities are grappling with. These issues are outlined in more detail below.

Background

The Northland region has a population of approximately 175,000[1] and a land area of 13,286 km^2 (about 1 person per 7.5ha). The region has challenging geography and climate and coupled with numerous remote rural communities, this can make infrastructure provision especially difficult. We also have significant deprivation issues, particularly in the mid and far north[2], meaning affordability can be a constraint for communities in these

[1] Stats NZ estimate for 2018: http://nzdotstat.stats.govt.nz/wbos/Index.aspx?DataSetCode=TABLECODE7501&_ga=2.206554451.136673021.1544568307-1636453986.1499119935

[2] Ministry of Health: New Zealand Index of Deprivation Atlas: http://healthspace.ac.nz/dataviews/report?reportId=261&viewId=96&geoReportId=1619&geoId=15&geoSubsetId

areas. That said, our economic performance has improved dramatically in recent times and we have numerous opportunities for further improvement, including diversification of primary production and growth in commercial sectors.

We respond to each of the questions in the issues paper below where relevant to Northland and our experience as a regional council.

Submission

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

There are different circumstances in the operational expenditure, capital expenditure and revenue sources across the different ‘types’ of councils (i.e. unitary, regional, district and city) and sector group (metro, provincial and rural). This is likely to reveal some additional and perhaps more nuanced funding / financing themes or patterns that would inform the debate. We suggest the upcoming draft report take a more in-depth analysis of these factors as the apply to each type of council.

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?*

We agree with the Local Government New Zealand (LGNZ) response to this question, particularly the point that depreciation is accounted for annually but expenditure can be extremely “lumpy” and depends on asset maintenance programmes. The LGNZ comments on the influence of the Long Term Planning cycle also ring true.

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?*

One of the difficulties with rapid population growth is the need for funding mechanisms that are more responsive to population increases. The financial benefits of a growing population (E.g. a bigger rating base) accrue in the long-term while the costs are faced in the short-term (and borne largely by existing residents in the form of higher rates). While development contributions were designed as a means to address the impacts of development / growth on infrastructure, we agree with the limitations of this tool identified by LGNZ (noting that development contributions are not available to regional councils and financial contributions are not designed as a response to ‘growth’ and relate to managing environmental effects of consented activities on a case by case basis).

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

Local government has always faced issues related to changing demographics and changing demand for services, which varies spatially and over time. The point that older people are more likely to be on fixed incomes is very real and often highlighted in submissions on Annual/Long Term Plans. Low income communities have similar concerns. This ‘ability to pay’ issue is particularly problematic in situations where targeted rates are proposed to fund infrastructure / improvements in areas with a high proportion of elderly (for example flood management / protection works).

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?*

Northland is a popular tourist destination for both domestic and international tourists, peaking over the summer months and this is growing – for example it is estimated that visitors to the region travelled a total of almost 200 million kilometres on roads in Northland during the year ended June 2016. This is 33% higher than the distance travelled in the year ended June 2005. The distance travelled in light vehicles by visitors to Northland in 2015/16 is estimated to be around 13% of the total distance travelled by light vehicles on Northland roads. This is slightly up on the 11% estimated for 2004/05. With the increase in visitor numbers expected over the next few years, the distance travelled by visitors on Northland roads is also forecast to increase, rising to over 234 million kilometres in the year ended June 2023. At that point visitors will account for 15% of total distance travelled by light vehicles in Northland.

While this benefits our economy, the returns do not necessarily accrue to local government in a timely way or at a rate that enables an efficient response to tourism related demand for infrastructure / amenities - in fact central government generally receives most of the financial benefit (through GST or tax revenue). This disparity could act as a disincentive for future local government investment. While funding tools such as the Tourism Infrastructure Fund are appreciated, it is miniscule (up to $25 million annually) compared to the annual tourism spend (estimated by MBIE at $39.1 billion) – nor can such ‘discretionary’ funding be relied upon for future investment by local government on an ongoing basis.

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?*

We are pleased to see acknowledgement that central government regulatory / policy initiatives can place cost pressure on councils, including those related to ‘cost shifting’, ‘raising the bar’ and ‘regulatory creep’. It is our experience that these are very real and not limited to new legislation – they also arise because of new or changing central government policy initiatives. An example is the National Policy Statement for Freshwater Management (NPS-FM). The NPS-FM imposes significant science, monitoring, reporting, consultation and process obligations, none of which are cheap to resource. The costs associated are compounded when the goal posts are shifted as has been the case with the NPS-FM (it was first gazetted in 2011, amended in 2014 and 2017 and further changes have recently been signalled for 2019/2020). Other examples include National Planning Standards with the requirement to amend plan formats. The result of these changes is that much previous work is either no longer relevant or needs review – this can mean duplicated process and consultation costs. It is also makes forecasting / planning for implementation in LTP and Annual Plan processes very difficult.

Related to the above, a stable and reasonably certain policy environment provides councils with some confidence in forecasting the implementation costs associated with central government initiatives. This can be undermined by a lack of cross party support for central government policy which can result in reversals of previous policy / law changes by successive governments at significant cost to councils. Examples include the ongoing amendment of the RMA (it has been amended over 20 times since its inception in 1991) and Local Government Act (LGA) – with each amendment these laws tend to get more complex and difficult to administer (for example the RMA is about twice the size it was originally).

The complex and changeable and in some cases vague nature of law that local government works within can lead to significant complexity and cost, which increases vulnerability to ‘procedural’ challenge in the courts (as opposed to challenge on merits) – a recent example in Northland has been the challenge in successive courts to the rating process used in the Kaipara District (culminating in Rogan v Kaipara District Council CA107/2018) – in this case councils use of a ‘shared service’ type arrangement to improve the efficiency of rate collection was challenged at significant cost (Northland Regional Council was the second respondent and the legal challenges cost around $450,000 in legal fees). Similar risks occur in RMA decision making due to relative ease of appeals on plan change / consent decisions or by judicial review.

Central government should put more resource towards providing councils with the tools needed to implement national policy direction (such as the NPS Freshwater or planned NPS on indigenous biodiversity) and other new legal requirements. A recent example of such was the collaboration between the Ministry for the Environment and regional councils to develop a model to predict improvements in water quality (and associated costs) as a result of livestock exclusion rules. A similar example is the models provided to support council implementation of the NPS for Urban Development Capacity. This sort of initiative would reduce the need for each council to duplicate costs and would also reduce some of the legal / process challenges councils face in implementing central government policy (if central government models were used to support implementation, councils are much less likely to be challenged in the courts).

A similar need for guidance arises in relation to Coastal Occupation Charging (a tool available under the Resource Management Act 1991 (RMA) that enables regional councils / unitary authorities to charge for the occupation of public space in the coastal marine area). This is a potential source of revenue but has not been adopted widely by councils as there is no guidance from central government on the underlying principles, the basis for charges or how they should be calculated. This lack of direction means any such regime is very likely to be challenged – clear guidance documents (and the tools to implement the guidance) being developed by central government would remove much of this uncertainty and risk, making uptake by regional councils far more likely – it would lead to more consistent implementation across the country at lower cost to local government.

Government guidance and tools will be increasingly important in relation to responses / adapting to climate change. We also consider that central government should put more effort into understanding the cost implications of policy initiatives / new law for local government and identify these in thorough cost/ benefit assessments or regulatory impact statements.

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?*

Treaty settlements are an area where councils (and iwi) are expected to absorb ongoing costs into 'business as usual' – these can include co-governance / co-management obligations and in some cases development of management plans or similar documents required by settlement legislation which are often subject to Resource Management Act 1991 (RMA) processes and associated costs. While settlements can include one-off Crown funding for these costs (E.g. funds for the establishment of boards or plan development), the ongoing obligations are expected to become business as usual and council's obligations fall to the ratepayer. In any given region, there can be multiple settlements and obligations – this cost pressure is likely to increase as settlements in Northland progress. In our experience, Crown contributions have been significantly underestimated. While local government often has some involvement, it is not a party to Treaty of Waitangi settlement negotiations and has no direct say in the process. A similar concern also applies to mechanisms such as Mana Whakahono ā Rohe, which again impose obligations on councils that are potentially onerous / complex in regions with multiple iwi (compounded by the fact that in Northland many hapu understandably have aspirations for such arrangements).

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?*

Climate change presents a significant future funding challenge, which is compounded by the fact that there is so much uncertainty over the rate / nature of changes and spatial variation in the level of risk and ability to pay. Northland has an extensive coastline (about 3200km), with numerous settlements on the coast – sea level rise of 1.5m is expected to incur costs of $370 million infrastructure replacement costs (not to mention other factors such as increased flood / storm damage, pest impacts and drought). We also have challenging geography and climate meaning infrastructure can be very vulnerable to the effects of storm damage that will be exacerbated by climate change. This is a particular concern where the cost of infrastructure provision / maintenance is funded from a small ratepayer base (i.e. an extensive rural road network is required to serve numerous small Northland communities with comparatively high maintenance costs due to climate and geological conditions – roading therefore consumes a large percentage of district council budgets). Repeated storm damage is an ongoing issue in Northland given mobile clays (causing slips) and funding is 'lumpy' in nature and therefore difficult to plan for.

There is likely to be some reluctance by ratepayers to fund responses to climate change (such as future proofing infrastructure), particularly if the pay-off is uncertain or far into the future. Local government is also likely to face increased costs of identifying coastal / flood hazard areas, increasing demand for 'protection' and procedural costs associated with planning proposals that place restrictions on property rights. We support the proposals identified in the LGNZ submission, particularly the establishment of a central government adaptation fund with the proviso that this not be ad-hoc / contestable and allocation is equitable / needs based.

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?*

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?*

The price of goods and services purchased by local government is likely to be rising faster than the consumer price index because local government is particularly exposed to the costs of construction (particularly for infrastructure). Also, councils have specialist needs in areas with a limited number of suppliers (for example water quality science / consultancy or modelling) with 'products' that cannot be applied across multiple regions (i.e. must be tailored to local conditions) – nor are such services prominent in the consumer price index and we suspect a comparison between the two measures is not particularly useful given councils are not 'normal' consumers with spending often driven by legal / policy requirements rather than income or prices. Given councils are often subject to the same central government policy direction, demand for such services can be fierce.

Prices for local government procurement vary for a range of reasons but a key driver is related to comment above – a lack of providers means prices are higher where there is limited competition, especially the case outside larger centres.

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?*

Community expectations of local government are changing. Councils are subject to numerous requests for funding / support for a wide range of local initiatives through annual/long term plan processes – many of which have significant benefit / merit and community backing but are not necessarily 'core' business of councils. Examples include requests for financial support from not-for-profits or charitable organisations involved in art promotions, surf life-saving and similar services valued by communities. Such requests are often driven by a genuine need or shortfall in central government funding / support with a strong endorsement from the ratepayers / public. Arguably, local government is better placed to understand and respond to these concerns than central government and we consider there are cost savings for central government from local government support for so called 'non-core' spending / effort that should be recognised.

Communities are also expecting more from councils in terms of levels of service and access to staff time, advice and support – in recent times this has been particularly evident in areas of land management and biosecurity. It may be that these rising expectations are a result of under-investment or slow response by central government. Council investment in economic development has been described as 'non-core' spending but is important in jurisdictions where socio-economic deprivation is a concern and / or there are unique circumstances where local government can intervene / provide support for long economic benefit unlikely to be provided by the private sector.

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

Adapting to climate change is likely to be the most significant future cost pressure (see response to Question 8). These costs are likely to include costs of natural hazard assessments, resourcing consultation with communities, funding responses (such as protection works / infrastructure upgrades) and the challenges to proposals for restrictions on property rights, not to mention costs associated with damage to / replacement of infrastructure or managed retreat.

Other cost factors include:

i. Enforcement and compliance (while ideally cost neutral) can result in unforeseen or unpredictable expenses – stronger penalties will go some way towards remedying this while acting as a stronger disincentive for non-compliance. We suggest council discretion over the amount able to be issued in fines should be increased. We also consider there should be greater leeway for councils to recover costs associated with monitoring – especially permitted activity monitoring which is limited by section 36(1)(cc) to circumstances where this is empowered by regulations or national environmental standards.

ii. Another factor is deferred maintenance and / or capital spending on infrastructure by previous councils in the interests of minimising rate increases. This essentially shifts / concentrates the cost burden – in some cases beyond the community capacity to pay.

iii. In an effort to keep rates affordable for communities, councils often subsidise rates with income from investments. This is effective when returns are good, but can cause problems when investments do not perform as predicted. This is particularly problematic when commitments to levels of service or new / enhanced programmes have been made, but investment returns are lower than expected.

iv. While we understand mechanisms for rating Māori freehold land are not within the inquiry scope, the recovery of rates from Maori land is an ongoing financing issue for council. For example, in the 2017/18 financial year the Northland Regional Council struck rates amounting to $685,000 (GST incl.) on Maori Freehold Land in the Far North District. Of this amount, we collected $216,000, representing a collection rate of 31.5%. The total outstanding rate arrears on Maori freehold land in the Far North District at the start of the 2017/2018 financial year totalled $2.5m. Adding to these cashflow concerns, is the fact that council can only claim the GST back on unpaid rates once they are written off after the six-year statutory timeframe. This essentially means council's rate strike must cover this GST liability. We suggest the commission investigate the potential implications of removing the GST from rates and any likely cost / benefits for local government.

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

Future trends and technological advances are extremely difficult to predict and Local Government needs to be agile to take advantage of these changes. While technology is an area with significant potential for improving efficiency (and we have adopted new technology where practicable), it comes at an initial cost (this is not limited to capital expense but includes training, ongoing licence costs etc). It is also changing so fast that large investment decisions can be risky (E.g. opportunity costs or technological obsolescence). Shared services are another area with potential for productivity / efficiency gains and we suggest this be a focus of the inquiry – we have made progress in Northland in this area, particularly in relation civil defence and transport planning (Northern Transportation Alliance). With potential duplication of processes / systems across 78 councils, we see real benefit in an increased focus on shared service, especially in information technology.

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?*

Long Term Plans in themselves do not address cost pressures per se – they are merely the vehicle for setting out the planned funding and allocation of expenditure, with the consultation document providing a summary and opportunity for feedback. We agree participation in Annual / Long Term Plan processes can be low and lack representation from all sectors of society. We consider more flexibility in these processes is required, which would enable councils to design the consultation (and supporting documents) to be fit for local purposes. Disaggregating the multiple elements of Long Term Plans may also be an option worth considering (E.g. separating the strategic plan, corporate plan and infrastructure strategy). That said we consider the financial benchmarks (summarised in Table 3.2 of the Issues Paper) are an effective means to test the affordability of council services.

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?*

We are always looking for productivity and efficiency gains, but many local government processes are prescribed rigidly in law with little room for innovation or improved efficiency (E.g. RMA plan development processes) – this is one of the barriers to productivity and processes should provide flexibility / ability to innovate or improve efficiency. As noted above, there are risks associated with innovation (particularly innovation in process) given local government is highly exposed to procedural challenges.

We regularly consider different service delivery models, particularly the costs and benefits of contracting out services versus using in-house expertise (E.g. s17A assessments). Councils also undertake internal 'system' audits (for ISO accreditation) and CouncilMARK™ assessments. Opportunities for shared service arrangements are also regularly considered. Councils often have unique demands and in many cases need 'bespoke' tools not widely used in the private sector – where these prove effective they are typically shared with other councils where they are transferable (examples include online GIS based consultation tools and models for assessing the effectiveness of water quality mitigations).

In response to Question 21, public pressure and political drivers are probably the key incentives to improve productivity / manage costs – councils are constantly under pressure to do more with less.

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

As noted above, rigid processes prescribed in law that do not reflect / keep up with changing technology or circumstances (such as the rapid shift to online technology) are one of the barriers to productivity gains. Councils have been criticised for having risk averse cultures, but this needs to be seen in context of the very high exposure council decisions have to legal challenge (on 'process' or 'merits') through Judicial Review, Environment Court or other legal mechanisms.

As noted above (at Question 6), changing policy direction and legal requirements are difficult to deal with and in our view, can lead to real inefficiencies. A lack of procedural clarity and / or implementation tools / guidance can also result in councils interpreting and applying central government direction differently, rather than using consistent mutually agreed / developed approaches (noting though that solutions such as models / tools are not always transferable across jurisdictions).

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?*

The LGNZ submission provides a good overview of how Local Government measures productivity and performance. We would add the use of ‘internal’ key performance indicators (KPI’s) which we use to track progress against Long Term Plan / council objectives.

In response to Question 24, while not necessarily explicit in all decisions, assessment of performance / productivity and efficiency is inherent in most council deliberations. Some assessments are required by law (such as efficiency / effectiveness tests in section 32 RMA) or good practice such as activity management planning used to support Long Term plan proposals (these test service resourcing / delivery modes and budgets).

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

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

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?*

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?*

We have used the tools available to re-distribute / allocate costs to recognise affordability issues (recent examples are available in our 2018 LTP where region-wide ratepayers contribute 70% of the cost of new flood protection infrastructure with 30% funded by ‘beneficiaries’). The inter-generational cost-share depends on the asset / infrastructure but our approach to long lived flood infrastructure is to spread this across as equitably as possible (E.g. approximately 60 years in some cases). Rates remission / relief can also be useful as are ‘subsidies’ (such as our Environment Fund) to achieve positive environmental outcomes / public good, however we are aware that this tends to shift the ‘burden’ onto other ratepayers. The rating tools at our disposal are reasonably effective but greater ability to levy charges based on user / beneficiary pays would be useful, particularly those who are not subject to rates (such as tourists).

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?*

We support the funding and finance principles outlined in the issues paper (at Page 48). However, we agree with the comments by LGNZ that trade-offs between these will be necessary and that 'buoyancy' should be considered as the funding system should be able to adjust to changing economic circumstances. We agree with LGNZ that the current system relying heavily on rates is not particularly 'buoyant'.

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?*

We consider the current funding tools available to Local Government are being used effectively (at least we use them) but consider the type of tools should be expanded, we particularly need those that can target non-ratepayers who create demand for infrastructure / services and respond more nimbly to growth / economic changes (user charges do not always capture these beneficiaries and the circumstances where these can be used is limited). We understand LGNZ have suggested allocation a proportion of GST to local government – we have reservations as there is potential for inequity if the disproportionate benefit likely for major urban centres is not adequately addressed. We suggest the commission instead look at the pros and cons and implications for local government of removing the GST component on rates as this could mean additional 'head room' for revenue for councils (i.e. potentially an extra 15% going to councils with no discernible impact on ratepayers). We would also support greater use of tolls for the building of *new* state highways (we do not support the use of tolls for upgrading existing state highways or being applied to local roads by local government roading authorities).

Questions 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?*

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?*

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?*

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?*

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?*

We agree the current system does not capture the increase in land value resulting from public spend on infrastructure improvements (such as public transport). A means to do so would assist in infrastructure funding. We understand LGNZ have suggested that the 30% cap on uniform general charges be lifted – we see real risk that this could be over-used by councils facing funding pressures or infrastructure upgrades / spend to the disadvantage of ratepayers on fixed or low incomes. This is of particular concern in where infrastructure is failing in areas of comparatively high deprivation. We agree with LGNZ that Crown owned land should be rateable and that it would be useful to review the basis levying targeted rates.

In our view the NZ system relies too heavily on property rates, which creates affordability problems in some communities and risk if the rate base fails in some way. We think new funding tools are needed, particularly tools that have some flexibility to respond to rapidly changing circumstances. We agree with the observation that reliance on property rates does not provide a remedy for funding economic growth – nor does it incentivise investment in economic growth.

In response to Question 34, Coastal Occupation Charges (currently available under the RMA) are potential source of funding for regional councils / unitary authorities, but uptake has been low largely due to the fact there is limited central government guidance on how charges are to be set, meaning each council must design it's own regime with a very high susceptibility to challenge – this is why there has been no such regime adopted to date (that we are aware of) This situation would be much improved if central government were to remove some of this ambiguity by developing strong guidance and methodologies that can be adopted by councils and remove the risk associated with uptake of this charging regime.

We believe there is a case for more central government funding transfers to councils - noting NZ is highly centralised fiscally compared with other comparative countries – the central government share of public spending is 88%. This means councils are more reliant on central government discretion to respond to community needs and allocation can be inefficient and / or inaccurate. We see real gains across all well-beings if NZ were to move to a more decentralised fiscal model. We would caution though that any such move should not necessarily solely use contestable funds as councils are not equal in their ability to 'compete' for central government funding and in some cases the first applicants may exhaust funding in areas that may not provide maximum benefit. Such funding if short term in nature can also lack the ongoing certainty in the medium to long term councils require for significant medium / long term investment. We'd suggest a permanent central government funding stream with allocation based on objective / evidence based criterion.

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?*

We think incentives for councils to encourage economic / population growth are insufficient – especially given costs of growth are typically faced by existing residents. We agree with the LGNZ view that the Local Government Rating and Financing system should set out a framework not only for applying property rates but also the process for creating local levies to deal with locally specific funding issues.

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?*

We don't see population decline as a pressing concern in Northland at present and consider it would be even less so if some of the funding / finance issues were to be addressed as councils would be better placed to assist communities.

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

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

As noted above, the current system is not responsive to economic changes (i.e. are not 'buoyant'). In response to question 42 with agree with the commentary in the LGNZ submission.

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?*

Government policy on greenhouse gas emissions may also present an opportunity for councils to earn carbon credits in the Emissions trading Scheme given the substantial area of land under their administration (such as parks and reserves). A specific category of carbon credit for local government may attract a premium and also enable local investment in carbon sequestration.

We understand the Tax Working Group is looking into 'resource use / pollution' taxes – we consider there is real risk to the economic base of regions such as Northland that rely heavily on primary production, especially if these were to compound with the entry of agriculture into the emissions Trading Scheme. We are also concerned at the complexity involved in setting such taxes and associated administrative difficulties (particularly the associated measurement / reporting and compliance). We also highlight the potential for the administrative burden to outweigh the financial benefits (I.e. the cost of administration is higher than revenue gained).

Another funding option to be considered is Local Government being contracted to central government to provide certain services in their jurisdictions – examples could include biosecurity or economic development services. This could also provide opportunities to co-locate central and local government and thereby improve collaboration.

Also see response to Questions 33 – 37 above.

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

This depends on the models / tools proposed.

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

This is considerable variation in the need for tools – this depends on the type of council (E.g. district vs regional), it's priorities, social / demographic make-up, community needs and economic pressures (which also change over time). We consider the important thing is that there is an expanded tool-box available to address this diverse range of issues.

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?*

We agree with the comments by LGNZ on this question.

Question 47 *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?*

We see some potential for a property tax regime that enables tax increment financing to address many of the growth related financing issues faced by councils.. However, this could bring risks if forecasts for increased tax revenue are not realised and the costs of borrowing then need to be covered from other sources. It is would also be more complex to manage and explain to constituents.

Question 48 *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?*

We see some opportunity for private investment depending on the nature of infrastructure and its ability to generate a return (most likely through user charges – for example toll roads), but it would not be viable for many regional council infrastructure assets such as flood mitigation works. There is also the issue of the profit driven nature of private investment which could mean 'leaner' maintenance and ongoing pressure for charge increases.

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?*

In our view, oversight of Local Government funding / financing is robust and the controls in the Local Government Act work well.

Conclusion

We thank the commission for the opportunity to provide feedback on the issues paper and look forward to the draft report – in closing we suggest the upcoming draft report take a more in-depth analysis of the operational expenditure, capital expenditure and revenue sources by council ‘type’ (unitary, regional, district and city) and sector group (metro, provincial and rural). This is likely to reveal some additional and perhaps more nuanced funding / financing themes or patterns to emerge that would inform the debate.

Bill Shepherd (Chairman)	Dated: 13 February 2019
Malcolm Nicolson (Chief Executive Officer)	Dated: 13 February 2019

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