

29 August 2019

The New Zealand Productivity Commission
PO Box 8036,
Wellington 6143

Dear Steven Bailey, Inquiry Director – Local Government Funding and Financing

WHAKATĀNE DISTRICT COUNCIL SUBMISSION ON LOCAL GOVERNMENT FUNDING AND FINANCING DRAFT REPORT (JULY 2019)

In July 2019, the Productivity Commission released the Local Government Funding and Financing Draft Report for public comment. The Whakatāne District Council welcomes the inquiry and considers that the Draft Report continues to progress a very important discussion between Local Government, Central Government and the wider community.

The Whakatāne District Council submission on the Draft Report is attached to this letter. Alongside this submission, the Council is also generally supportive of the submissions put forward on behalf of the Local Government sector by Local Government New Zealand (LGNZ) and the Society of Local Government Managers (SOLGM).

The Council's submission on this matter follows feedback provided to the Commission on the initial November 2018 Issues Paper for the Inquiry. The Council wishes to extend thanks to the Commission and specifically to Murray Sherwin (Chair of the Commission) and Steven Bailey (Inquiry Director) for having provided the opportunity to meet and discuss matters personally.

The Council looks forward to the outcomes to be achieved through the review. The enhancement of funding mechanisms to support Local Government to sustainably manage funding pressures in the long-term, would be very much welcomed.

For specific enquiries related to the submission please feel free to contact Senior Strategic Policy Analyst Wouter Vullings at the Whakatāne District Council on wouter.vullings@whakatane.govt.nz or (07) 306 0500.

Ngā mihi,



Tony Bonne
Mayor
Whakatāne District Council

Introduction

1. The Whakatāne District Council (the Council) thanks the Local Government Commission for the opportunity to comment on the Local Government Funding and Financing Draft Report. This submission from the Council to the Commission on the Draft Report follows Council's earlier submission to the initial November 2018 Issues Paper for the enquiry. The Council wishes to extend thanks to the Commission and specifically to Murray Sherwin (Chair of the Commission) and Steven Bailey (Inquiry Director) for having provided the opportunity earlier in the year to meet and discuss matters in relation to the Issues Paper.
2. The Draft Report continues to make progress on a very important and timely discussion. Whakatāne District Council like many local authorities across the country, is acutely aware of, and directly experiences many of the pressures placed on Local Government funding and finances. As a result of multiple drivers, Council's revenue requirements continue to increase over time, resulting in an ongoing trend of increases in the levels of rates and debt, as our two main funding instruments.
3. At a national level, these trends have been analysed by the Commission with the observation made that rates have remained stable as a proportion of per capita national and household incomes for many decades, despite widespread concerns to the contrary. The Council recognises this historic context, but doubts the continuation of this trajectory in light of the unprecedented challenges and opportunities facing our District and more broadly, our Nation (as discussed in the Issues Paper and reinforced in chapter four of the Draft Report).
4. If we are to support genuine uplift in wellbeing for our communities, Local Government needs to be adequately resourced to take on the challenges and opportunities it faces. Notwithstanding innovation across other aspects of Local Government, this gives rise for the need for innovation and change in relation to Local Government funding and financing. To this end, the Council agrees with the Commission that "new tools are needed to address key pressures" and would welcome the introduction of such.
5. The Council also agrees with the general sentiment that the current framework is broadly sound, and that a new system should be 'based on' and 'added to', rather than a wholesale change to a different model. In particular, this recognises that wholesale change would be costly and disruptive – a point raised by the Commission – but further, the ability to determine revenue requirements and raise funds locally, supports local decision-making autonomy.
6. The Council recognises that the review is not the first of its type, but provides an opportunity for an updated and fresh analysis within an evolving context. The Council looks forward to the recommendations of this review being actioned and implemented. The enhancement of funding mechanisms to support Local Government to sustainably manage long-term funding pressures, and more importantly - to support the uplift in wellbeing for our communities, will be very much welcomed.

Pressures on funding and financing

7. The Draft Report identifies that funding tools are needed to address a series of key pressures facing Local Government including infrastructure investment, climate change, tourism, population pressures and the accumulation of increased responsibilities from Central Government. As the Commission has identified, pressures are not equally felt across New Zealand. The identified pressures are all of relevance to the Whakatāne District, albeit to very varying degrees of intensity. Those of particular relevance are climate change, and the accumulation of increased responsibilities from Central Government (such as lifting standards and compliance monitoring in the three waters

activities). Pressures driven by tourism and growth are increasingly on our radar as the Eastern Bay of Plenty and Whakatāne District specifically, continue to progress development opportunities. As visitor numbers continue to grow, this pressure also needs to be considered in the context of the size of the local community and the scale of Council services provided.

8. In the case of the Whakatāne District, these funding pressures are set within the challenge defined by our socio-economic context. This provides a further pressure for the Whakatāne District Council in terms of both expenditure and revenue implications. This comment recognises that the principles and structures of funding for public services (ultimately who pays and who benefits) are both a facilitator and barrier to uplifting wellbeing. It also recognises that the Council takes on substantial costs to support economic and social development. As such, Council considers that the socio-economic context provides a fifth 'key pressure' as well as a foundational constraint to the entire funding and financing review.
9. While Council acknowledges the Commissions' assessment that the role of income distribution primarily rests with Central Government, many of the outcomes related to the distribution of wealth and to economic inclusion, are locally borne out. As such, economic development continues to be a strong priority for our District and Council. Given the current economic development partnership opportunities between Central Government and the Whakatāne District Council (through the Provincial Growth Fund) and with the reintroduction of the wellbeing's into the Local Government Act, the Council contends that Local and Central Government's respective roles in relation to wealth distribution and economic and social inclusion are very much interwoven.
10. Council therefore suggests that equality (of outcomes) should feature among the principles for the review. Other principles for the review are supported.

Allocation of cost burden

11. The inclusion of 'equality of outcomes' as a principle for the review directly informs assessment of the allocation of burden (who pays). Council notes that the Commission favours the "benefit principle" as the primary basis for deciding who should pay for Council services. Council contends that the application of such funding principles (within the parameters of the available funding mechanisms) is for local councils to decide. For example - vertical equity (ability to pay) is particularly relevant in the Whakatāne District given the socio-economic context. This has influenced decisions such as the equalisation of funding for water schemes across the District, and the provision of free swimming pool and waste transfer station facilities in Murupara (a community with much elevated socio-economic challenges) which are effectively subsidised by the general rate.
12. The principles cannot be generically applied as they are specifically relevant to local context, and to individual services. As stated by the Commission on page 142 of the Draft Report: "The different fairness concepts can conflict with one another. For example, the benefit principle may conflict with ability to pay. It follows that the designer of a funding system will have to choose which fairness concept to follow and, where necessary, strike a balance between them". The Council agrees with this assessment and it is therefore not appropriate for the Commission to favour one funding principle over others. Balancing these principles is something that councils already do through the tools currently available, as articulated through our revenue and financing policy where councils are legislatively directed to consider various components of fairness and ability to pay.
13. Council also considers that the application of benefit can, in any case, be subjectively debated. Guidance on determining benefit would prove useful.
14. At a more macro level (beyond individual Council services), the "benefit principle" and the "user pays" methodology are useful considerations but could arguably have the perverse outcome of

further entrenching geographies of disadvantage. This is to say that communities or District's that have a lower ability to fund Council services are logically at risk of receiving lower levels of service, while those that can afford, receive higher levels of service and better outcomes.

15. Whether through direct funding to Local Government, or through design of new funding mechanisms, Central Government decisions determine distribution of resource, and allocation of cost burden. Council recommends that the development of new funding mechanisms consider 'equality of outcomes' within their design. The inclusion of socio-economic context into the funding assistance rates model by the New Zealand Transport Authority provides a good example.

Improved decision-making

16. The Draft Report notes that there is scope to improve the use of the existing funding and financing framework, and enhance decision making more generally, through improving councillors' governance skills and financial literacy. Council is generally supportive of the recommendations acknowledging the critical importance of good decision-making, including but not limited to the best use of available funding and financing tools.
17. Council is supportive of the recommendation for DIA, LGNZ and SOLGM to work together to improve basic governance, including financial governance, skills and knowledge across elected members. Council is also supportive of the recommendations to embed best practice for Audit and Risk Committees into the Local Government Act, and note that the proposed best practice is in keeping with Council's current arrangement.
18. Council is supportive of the intent to improve accountability and transparency through a review of reporting requirements and corporate planning processes. Council is also supportive of efforts to ensure administrative efficiency of funding structures.
19. Council recognise that there is currently much information provided to the public and that this is in various forms, with varying levels of detail. While an improvement in performance reporting is encouraged, an ongoing and significant challenge lies in improved engagement on the information that is already available.
20. The intent to fundamentally review current performance reporting requirements on local authorities, with a mind to significantly simplifying the required disclosures, and improving their overall coherence and fitness-for-purpose, is supported. The Council requests a co-design approach (involving rather than consulting the Local Government sector) in the review.
21. Similarly, the move to a five-year Long Term Plan cycle is supported in principle, and should be explored further. This (exploration) may wish to consider the role of the LTP as a strategic direction and resource prioritisation document with greater community orientation, versus a compliance document. The review will also have implications for LTP amendment and auditing processes. Council also notes that this would not align with the political (election) cycle, which should be considered in the review.

Changes to the framework for Council rating policy

22. The Draft Report makes a number of recommendations that seek to enhance transparency and understanding of rates funding policy. Council support this general intention but recognise that the recommendations in this section generally consider redistribution of costs amongst existing ratepayers rather than alleviating the rating burden in light of coming funding pressures.

23. The Draft Report recommends that the Rating Act should be amended to remove rates differentials and the UAGC, and that Council's should have five years to implement their removal. The Commission suggests targeted rates as a more transparent tool. The Council is opposed to this recommendation and sees much value in retaining a range of rating tools, including the UAGC amongst others. Both differentials and the UAGC are used in the Council's current rating methodology. These mechanisms (alongside others) provide Council with the flexibility needed to manage rating distribution in a way appropriate to the circumstances of our District.
24. Further to this discussion, Council requests that the current statutory 30% cap on uniform charges be retained but raised. Over recent years, the Whakatāne District Council rating methodology has sat very near to this cap - generally in the 27-28% range. The retention of the cap recognises the need for disciplines that are sensitive to the concept of property value and affordability, while raising the cap provides greater flexibility in the context of property values that continue to diverge over time.
25. Enhancing transparency and understanding of the rating system is an intent that is supported. However, this is considered by Council as an outcome that can be achieved in various ways outside of the restructure of rates funding mechanisms. While the Council continues to use a number of targeted rates, it has in the past intentionally reduced the number of activities funded this way to help improve the efficiency in the rating system.
26. The specific recommendations for the development of rating policy (a stepped approach starting with the benefit principle) are supported and are not dissimilar to Council's current approach. Within these recommendations, Council would suggest that the relevance of principles is specific to each Council activity. Council also notes the absence of other funding principles and considerations beyond 'benefit' and 'ability to pay'.
27. The Whakatāne District has a high incidence of rates arrears with a currently outstanding arrears carry-forward of approximately \$6 million (against an annual rates requirement of \$46.5 million in 2019 for example). The Council also receives a relatively high number of rates rebates applications annually. This situation comes with significant administrative requirements. As such the Council does not have a strong view on the specific recommendations for rates postponement schemes and rates rebates schemes, but would welcome any changes that support a reduction in community hardship and in the incidence of unpaid rates.

New funding and financing tools for growth-supporting infrastructure

28. Key funding pressures for infrastructure and facility investment are important factors being considered through the Council's Provincial Growth Fund application, currently being progressed. For our Council the challenges are centred around attracting appropriate co-investment development opportunities while maintaining investment confidence, and while also balancing headroom to manage other key funding pressures such as three-waters investment.
29. Certain recommendations under this category are relevant foremost to those areas with high growth rates and may not be overly applicable to the Whakatāne District Council at this time. In particular, this includes powers to charge for road congestion, and the need for special purpose vehicles for Council nearing their (legislative) debt limits. Unlike high growth areas, the costs of growth-supporting infrastructure in our District tend to have a longer lead in timeframe and longer rate of return, influencing investment confidence.
30. As part of the mix of funding mechanisms, Council would request consideration of a Local/Central Government partnership approach to infrastructure investment to grow the regions, to unlock housing renewal (for existing stock) and new housing, support for key infrastructure like airports,

wharves and ports (key economic infrastructure to support regional development). Further, Council requests that the investment framework provide a longer-term view, beyond political/triennial terms. From an NZ Inc. perspective, providing incentives for investment, and lifting investment confidence in the regions, would help uplift New Zealand together but could also support some redistribution of growth, its benefits and pressures.

31. Volumetric wastewater charging is potentially a useful mechanism to approach the funding of this activity on a user-based approach. While the concept is generally supported, it is not considered by Council to provide a new funding stream – this is a redistribution of cost allocation to users/ ratepayers already paying for the service rather than a new stream of funding. There will also be additional cost implications in metering, monitoring and maintaining wastewater volumes.
32. The value capture tool may be of some benefit to the Whakatāne District Council but we would need to understand how this would work and be administered. The Commissions 2017 “Better Urban Planning” Report, suggests this would be charged as a targeted rate based on land value increases. Council considers this may not be a fair approach as the benefit of value increase is generally only able to be realised at point of sale. In this respect a capital gains tax methodology, with return to local authorities, is more logical. Value increase could also be considered to be already captured through the application of capital value based rating methodologies, and the value capture tool could therefore be interpreted as double dipping. This same interpretation could be made for properties already required to pay development contributions.
33. The Draft Report recommends that the Government should consider implementing a system of payments to local authorities based on new building work put in place in each territory, to incentivise councils to increase the supply of infrastructure-serviced land. Council does not have strong views on this concept noting that it will generally be of benefit to high growth areas. The Council considers that this does not provide a means of addressing the underlying growth constraints such as multiple ownership of land and natural hazards for example. Council also agrees with the assessment by LGNZ that the mechanism may be subject to central government budget constraints and priorities of the day.
34. The Draft Report requests feedback from the Local Government sector on placing a tax on vacant land as a means to incentivise development. The Council would find it difficult to support such a mechanism without further information, and considers that it does warrant further exploration. Careful consideration needs to be given to the balance of the incentive this creates for development versus the burden this creates on those areas that are experiencing low growth, or decline. For example would this be a Central Government administered tax or the establishment of powers for Local Government to apply the tax in relation to local development intentions in specific areas?

Funding for tourism hotspots

35. The Whakatāne District has recently seen strong visitor growth, providing much needed economic impetus to the District. Council’s economic development strategies seek to build on this momentum to the benefit of the local economy and communities. The Draft Report recommends a number of new funding mechanisms to address tourism pressures and the Council welcomes these as a means of capturing a visitor contribution towards local services.
36. The Draft Report recommends local authorities be provided with powers to implement an accommodation levy on commercial and online accommodation. This could be implemented as a per night charge or on a percentage basis of the accommodation cost. This recommendation is supported by the Whakatāne District Council. The Council recognises the criticism by the tourism sector that this levy would target only a subset of businesses that benefit from tourism stands true – over 50% of the visitor spend in the Whakatāne District is in the retail sector, rather than tourism

and accommodation providers for example. However, this consideration needs to be weighed against the efficiency of approach in effectively targeting the visitor sector.

37. The Draft Report suggests greater use of 'user pays' for mixed use (visitor and locals) facilities. User pays methodologies are in place for many Whakatāne District Council services already, and apply equally to visitors as to local users. From time to time Council reviews specific applications of user pays methodology and in some cases has taken the opposite approach - moving away from this methodology (e.g. removal of coin operation system for BBQs, allowing for free use). This has followed analysis that the administration and maintenance of user pays systems can be more costly than the revenue return to Council. Council is open to the concept where a strong business case exists and has recently considered a user fee system for boat ramps. This is likely to be reviewed again in the future. Dual price systems that have separate fee structures for visitors versus residents are also generally inefficient at the scale of operation undertaken by Whakatāne District Council. Generally speaking, Councils consider an increase in user pays methodology as a much less efficient and appropriate funding tool for tourism than others discussed in this section.
38. The Whakatāne District Council benefits from national level support in relation to tourism funding pressures through the Tourism Infrastructure Fund and the Responsible Camping Fund. The Council appreciates these grants and they have proved extremely beneficial, but they are contestable. The International Visitor Levy is not currently made directly available to Local Government. The Draft Report suggests that Central Government should use part of the revenues from the International Visitor Levy for small tourism hotspots that cannot reasonably recover costs. Council is supportive of this recommendation but would seek broader allocation of the International Visitor Levy directly to the local level. The Council also requests that more consideration be given to the funding of cycling, walkway and track upgrades through these funding mechanisms.

Adapting to Climate Change

39. The Council agrees with the recommendation that Central Government should take the lead on "providing high quality and consistent science and data, standard setting and decision making guidance." This is logical - to not do so would result in inconsistency and duplication of costs. Particularly if there are fund(s) set up to deal with Climate Change mitigation and adaptation then it will be important that the framework everyone is working to is the same.
40. Similarly the recommendation is supported which seeks a review by Central Government of existing legislation and policy, to ensure alignment and integration with climate change adaptation considerations. In the context of funding and financing, to do so will help reduce future legal compliance costs.
41. The Draft Report recommends creating a climate resilience agency and associated fund to help at-risk councils redesign, and possibly relocate and rebuild, critical three-waters infrastructure threatened by sea level rise and more intense flooding due to climate change. The Draft Report also discusses extending the mandate of NZTA's co-funding model to help councils with land-transport infrastructure at serious risk of climate change. The Council is supportive of efforts to support significant infrastructure investment that councils need to make to respond to climate change. While these costs have not yet been assessed in any depth, the costs may be extremely significant and beyond the ability of smaller communities to fund for themselves. The Council does query whether climate change funding support should perhaps be allocated according to greatest risk and need, rather than compartmentalised by infrastructure classification. This concept could also extend to infrastructure located in areas of high risk from natural hazards and not necessarily influenced by climate change.

42. The Council are particularly aware of timeframes associated with the implementation of the recommendations related to climate change. It is suggested that these be actioned as soon as possible. For our communities and for infrastructure, the process of adaptation will take time to get right. The earlier funding mechanisms and guidance/support from Central Government are confirmed, the greater confidence councils and, more generally communities, will have in developing and implementing a response.

Funding for three waters

43. Alongside the costs of climate change, which are currently unquantified, the largest funding pressure on the Whakatāne District Council beyond status quo service delivery, is the upgrade of three waters infrastructure to meet enhanced (minimum) service standards. As articulated in the Whakatāne District Council submission to the Issues Paper, in particular, the renewal of wastewater and water take consents by 2026, and the correlated need to upgrade infrastructure to meet increased standards presents the biggest challenge. Even with the application of intergenerational funding principles, this represents a significant cost burden for the Council. We also have challenges in meeting current consent conditions especially in regard to stormwater entering wastewater schemes during periods of high rainfall.
44. The Draft Report suggests Central Government should favour models capable of applying efficient scale and specialisation to help small communities to meet the challenges of maintaining and upgrading three waters infrastructure. Whakatāne District Council suggests that the institutional arrangement of aggregation is of lesser relevance than the financial aggregation. The amalgamation of water providers into larger organisations (not necessarily Councils) may have some benefits in terms of economies of scale, including technical knowledge and management experience. However, if the funding model continues to allocate costs of each network individually or to the specific communities they serve, affordability will continue to be a challenge. In the Whakatāne District, water schemes (of which there are 12) have nearly all been equalised for funding purposes so that all users pay the same. This tends to favour smaller schemes with higher costs per connection but also generally smooths the funding curve when compared to the unequalised model. Wastewater schemes in the Whakatāne District are similarly equalised.
45. We are also looking to provide a wastewater reticulation scheme for the community of Matatā, currently experiencing public health and environmental issues with aged septic tanks. A proposed reticulated scheme was declined by the Environment Court, and we are struggling to find a credible option for the treatment and disposal of wastewater. An integrated scheme with the communities of Edgecumbe and Whakatāne (and other settlements) may be a worthwhile option but is too expensive for the residents of Whakatāne District.
46. The Whakatāne District Council is only able to achieve funding equalisation within the parameters of its own District and schemes. The Whakatāne District Council recommends that Central Government apply the concept of funding equalisation across a broader catchment, perhaps even nationally. This is considered appropriate given that minimum standards are set nationally (not locally decided) and that the equality of outcome (access to clean safe drinking water) is a necessity for all New Zealanders.

Conclusion

47. The Commission is thanked for a thorough review. The enquiry continues to progress a very important discussion between Local Government, Central Government and the wider community. The Council appreciates the opportunity to provide feedback on the Draft Report and consider it

very important that the review process continues to be conducted in a collaborative manner including where appropriate, a co-design approach that involves the Local Government sector.

48. Whakatāne District Council strongly supports the continued strengthening of the partnership between local and Central Government. A growing partnership recognises that central and Local Government ultimately work side-by-side for the same intentions of progressing wellbeing for our communities.
49. The Council appreciates recognition of diversity within the review, in terms of both funding pressures, and context across New Zealand. This must be reflected in the flexibility of the tools available and continue to support the autonomy of Local Government to determine and progress local priorities.
50. The Council's submission also recognises that the framework for resourcing can play a large role in dictating the direction of investment, both geographically and topically. Any review therefore needs to consider very carefully in its principles and intended outcomes - where funding is most needed, for what purpose, and how this supports equality in the uplifting of community wellbeing.
51. The review suggests some very useful funding mechanisms and other recommendations that will help to improve outcomes in light of the key pressures that have been identified.
52. Council's submission discusses an NZ Inc. approach. This suggests investment into wellbeing in a way that brings all of New Zealand up together. With this concept in mind, the Council suggests greater consideration by Central Government of how to support the regions in a way that provides longer-term certainty and confidence to the significant investment decisions that need to be made.
53. The Council looks forward to the implementation of recommendations.