Local Government Funding & Financing
Productivity Commission Issues Paper, November 2018

Submission by: **Mackenzie District Council**
PO Box 52
Fairlie 7949

Email: toni@mackenzie.govt.nz

Phone: (03) 685 9010

Submission:

The Mackenzie District Council welcomes the government's inquiry in to local government funding and financing, and thanks the Commission for the opportunity to make a submission.

We support the government's commitment to an agenda of wellbeing for our communities, and we believe that local government is a key partner in working with central government to deliver this agenda.

However there are a number of challenges being faced by Councils, which are varied in nature and depend on local circumstances. Councils must have the flexibility to be able to respond to their particular challenges. We also strongly support funding and financing mechanisms that leave decision-making in the hands of those most affected, our local communities. We submit that empowerment of communities must also be a central feature.

While we acknowledge this can be a difficult balance to strike for government, when we look overseas we see a number of examples where local and central government work together to fund local services. We consider these examples should be fully considered.

We support the submissions by LGNZ and SOLGM on the Issues Paper. Our specific responses to a number of questions from the Issues Paper are set out below.

Local Government in New Zealand

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

   Mackenzie has a large area of non-rateable Crown land including conservation land which attracts large numbers of visitors to our district. We acknowledge this is outside the scope of the inquiry but it is an important dynamic in terms of funding issues for Councils such as ours. We are disappointed the Commission is not able to look in to mechanisms for rating Crown land.

   In recent years, our district has experienced rapid growth in properties being let for short term accommodation (e.g. AirBnB) in which the owner is not present. Rather than the use of the properties for accommodation being secondary to a residential activity, the properties are primarily used for commercial accommodation. This places significant burden on the residents of the district and services. The primary pressure experienced is not from resident population growth, rather the strain is being placed on infrastructure and services to support tourism. Services and infrastructure are required to be developed for the peak periods, and supported by a small residential population during the remainder of the year.

Key Funding and Financing Trends

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?**

   Depreciation is determined by an Optimised Depreciated Replacement Cost (ODRC) which should take into account asset condition and remaining useful life. The longevity of the asset may impact the gap between capex and depreciation. In addition, Council chooses not to fund depreciation of all assets where a decision has been made to run down the asset or alternatives will be pursued for future replacement, such as the case with rural halls in Mackenzie district. In other instances, the depreciation of an asset may not be fully funded as with roading, on presumption of future subsidy or share of costs. Other contributing factors include the non-linear relationship of capex improvements made throughout the life of an asset, and subsequent increases to the longevity of the asset. There may also be delays in completing projects, or a ''bow-wave'' of renewal capex, caused by factors such as regulatory processes such as resource consents.

Where are the Pressure Points?

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?**

   A large proportion of costs for local government is fixed, and not all costs are relative to population. However both increases and decreases in population size can impact on expenditure. A declining population requires the same costs to be spread across a smaller number of ratepayers (increasing per-person costs), while those experiencing high growth are often required to fund infrastructure and development as a catch-up.

   Whilst Council acknowledges that population growth rates affect funding pressures, the Mackenzie experiences considerable pressure from tourism growth (refer response to question 5 below). This growth is not matched by population changes. The inability to levy money directly from tourists results in the burden of costs associated with tourism resting on the ratepayers of the district.

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

   We agree with the matters raised in the issues paper regarding demographic changes. We note that an aging population is often associated with lower income which affects the rates affordability for a community.

   A significant demographic change which places pressure on the Mackenzie District is the dynamic between relatively stable residential population growth and the significant increase of nonresidential activity, most notably the use of residential properties for short term accommodation (e.g. AirBnB).

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?

Tourism is extremely important to the Mackenzie. It plays a vital role in our district's economy and supports our businesses and services. However the rapid increase in visitor numbers has had significant impacts for our district.

The Council has a usually resident population of 4,300 (2013 census). As of January 2019 the Council has 4685 ratepayers.

Statistics for Mackenzie show that we have approximately 1 million guest nights per year. These figures are for commercial accommodation only and do not include figures for hosted and private accommodation such as Air BnB, which would add a further 20-30% to this figure. It is estimated overall that the Mackenzie has 2 million visitors per year, made up of day visitors and those who stay overnight.

The district continues to show unprecedented tourism growth, with 23% growth in guest nights year ending April 2018 (commercial guests only) compared to 1.3% in permanent residential growth. These growth figures do not include private accommodation providers, freedom campers and Airbnb, all of which are growing significantly in the district.

Tourism spend in the Mackenzie region was $313 million in the year ending October 2018.

The Council is concerned that there appears to be no recognition in the Issues paper that tourism revenue is largely received by central government while expenses associated with tourism are borne by local government (ratepayers and communities).

The government's own draft *Aotearoa New Zealand Government Tourism Strategy* (October 2018) identifies the following at page 11-12:

> *Challenges in the tourism system that have been exacerbated or created by recent growth include:*
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> - *enduring seasonal and regional travel patterns that exacerbate the pressures caused by visitor numbers, meaning that the gains from tourism are not spread evenly across regional New Zealand. These patterns can lead to congestion, adverse environmental impacts at specific places at specific times and loss of community support for tourism*
> - *a fragmented regional picture, with some regions competing rather than cooperating, and some more focused on attracting visitors rather than managing destinations in line with the expectations of both local communities and visitors*
> - ***funding arrangements that do not quickly respond to significant and rapid shifts in visitor volumes. This contributes to some less-than-optimal investment in maintaining and building the infrastructure, amenities and attractions necessary to support quality visitor experiences***
> - *some policy settings and institutional arrangements – which were established at a time when government was focused on increasing visitor numbers – that are not always fit-for-purpose for a high-growth environment.*

> ***These challenges predominantly manifest themselves at a local government level. Local government provides much of the infrastructure needed to support tourism. However, funding arrangements for some infrastructure have not been able to cope with the rapid growth in tourism volumes. For example, some funding arrangements do not ensure that visitors pay for what they use, nor meet the costs of externalities they generate. This has meant that ratepayers fund any shortfall, which is not always affordable (or equitable, as local ratepayers are not always the main economic beneficiaries of tourism activity), or that investments are not made.***
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> ***This can be particularly challenging for towns with small ratepayer bases but large tourist throughput (for example Franz Josef or Hanmer Springs). Visitors can also place a load on the infrastructure services in these towns, such as pressure to upgrade drinking water and wastewater systems to cope for tourist demand at peak times.*** *(emphasis added)*

We agree with this assessment. Our Council has incurred increased costs in capital expenditure such as public toilets (the district has gone from having 6 public toilets in 2015 to now having 15 as at January 2019), and increases in operational expenditure such as cleaning and maintenance, increased rubbish volumes, and additional enforcement of bylaws and regulations. The Council will need to consult on and process changes to its District Plan, to ensure the effects of visitor growth on our environment and communities are appropriately managed. The costs of plan change processes and appeals are often significant and are borne by the ratepayer.

The Council will also face increased expenditure on infrastructure renewals as usage increases and capacity is more quickly taken up. Additional requirements for roading improvements to cater for visitors such as extra car parking and intersection safety measures are also being experienced.

While some capex may be co-funded (for example through the Tourism Infrastructure Fund or the NZTA subsidy), there is still a ratepayer contribution for those capital works, as well as ongoing operational costs that must be fully funded by the ratepayer.

There are also ''secondary'' costs to Council from growth associated with tourism. Some of these come from central government regulation which imposes barriers on local authorities. An example is legislative regime in the Resource Management Act providing for challenges to financial contributions. Where a council has imposed a financial contribution to assist it in recovering costs associated with development, developers are able to object to those levies through a complicated process which is time consuming and costly for Councils to administer, and to defend their decisions. Another example is the Local Government Act limitation on development contributions, and the large administrative costs of developing and administering development contribution policies and defending decisions on those. These barriers make Councils much less able to be responsive to growth.

Other central government policy decisions around tourism and visitor growth also cause cost pressures that impact on our ratepayers. For example, the Department of Conservation in its draft Aoraki Mt Cook National Park Management Plan recently announced a new proposal to require visitors to pack out their rubbish from the park, to reduce their own litter collection and disposal, and to encourage refuse disposal at ''suitable sites'' outside park boundaries (Policy 6, page 55, September 2018). This will mean that the Department will no longer be responsible for disposing of waste and litter from the visitors it is encouraging to visit the national park. Council therefore expects to have to manage additional collection and disposal of this waste, the costs of which will now be ratepayer rather than taxpayer funded.

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 agree with the three forms of cost pressures identified. The effects of some of these are disproportionate for a Council such as ours. For example, Mackenzie is a small Council with a large land area of significant biodiversity and landscape value. As a result the Council has significant responsibilities in protection and management of these values, but has less resource to provide the required regulatory standard of service as other Councils who act under the same national instruments. Collaborative approaches with agencies and stakeholders have been successfully established and these are considered essential to effective management and protection of our significant areas. However these all come at a cost which at present is borne by ratepayers. As well as these non-regulatory approaches, increased regulatory standards around biodiversity and landscape are likely to increase compliance costs further.

   Other examples of regulatory creep or the expansion of local government responsibilities include increasing standards for Environmental Health, building inspections and processes (for example, Earthquake Prone Buildings) (partially offset by increase in user charges), and increased national policy statements and standards under the Resource Management Act. We are also aware that the One Network Road Classification System (ONRC) may impose additional costs but as yet this has not been defined.

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?**

   The Council has a positive relationship with Te Rūnanga o Ngāi Tahu, and has worked in accordance with the outcomes of that settlement for a considerable period. The Council places significant value on its relationships with ngā papatipu rūnanga. This is an area of development for the organisation, and the Council recognises it needs to do more. To do this will require increased resourcing and this may result in cost pressures. We understand that resourcing may also be a struggle for some rūnanga as we seek to more actively engage with them.

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?**

   We agree with the issues identified in this section relating to disaster related funding and the lack of a coordinated framework for risk reduction and adaptation costs.

   Response and adaptation to climate change are not strongly featured as yet in this Council’s strategies, although there is clear recognition that more work is needed. The Council has a representative on the Canterbury Regional Climate Change Working Group which is made up of all Canterbury Councils. The working group is developing an education programme for elected members and the general public.

It is recognised that the costs of climate change are largely unknown, but could be very significant. Cost and funding implications for Mackenzie include:

- Council's own insurance costs may rise over time depending on the worldwide insurance market.
- Council has moved to create a reserve for roading reinstatement and repair after extreme events, and this will be added to annually.
- As with all Councils there is the potential for liability for land use decisions (zoning, resource consents, building consents) if the land or site is subject to hazards.
- There are likely to be increased costs for District Plan hazard assessments and court defence of those decisions and land use decisions.
- There will be increased costs associated with assessment and future proofing of our infrastructure e.g. bridges, culverts, including resilience in terms of lifelines.
- There will be increased costs for Civil Defence and Emergency Management preparedness, response costs, and possible community expectation of Council around post-disaster costs.
- Mackenzie has a dry climate, and is considering measures for water conservation in relation to its water supplies. Increased costs are likely to include obtaining resource consents for community water takes, and education, measuring and management of usage such as water metering which has significant set-up costs.

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?

Consumer price index measures a basket of **consumer** related goods and services which is different from the goods and services used by Local Government and measured by the LGCI. The CPI also factors in innovation as products are developed and refined which tend to keep prices level or reducing.

Competition also factors into the prices for consumer goods which tend to keep prices/increases lower. Suppliers to Local government tend to be more specialised in nature and may not face the same level of competition. The lack of competition may have a negative impact as market forces don't tend to exist to the same extent in a LGCI which means the impact can be more marked.

They are also more raw material based, so the impact of (for example) oil price rises will flow through to the LGCI more quickly with more of an impact than the CPI, via increased pipe (PVC) costs and roading (seal) costs at a higher rate. There is also less diversified goods measured to offset it. Our Council experienced this during its last LTP when oil prices were high, and AuditNZ questioned whether Council had allowed enough in its roading budget.

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

Demographics can alter on the type of demand for particular services in different communities and between Councils. This may result in different costs across Councils.

Price can depend on location, supply and type of development. The size of Councils may also affect price, for example the ability to bulk-buy goods and services may be available to larger Councils. However some of the costs are All-of-Government (AOG) costs so are consistent across the country. Collaboration between Councils, such as our Council's roading collaboration with Ashburton, Timaru and Waimate, can also help to reduce costs.

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?

Our Council has received a number of requests for it to consider providing worker accommodation in Tekapo and Twizel. There is a significant lack of affordable long term rental accommodation for workers in these towns, as owners of rental properties are responding to the market for short term visitor accommodation. There are very few affordable long term rental properties available and house prices are rapidly becoming unaffordable, which causes impacts on businesses and results in changes to our community structure. The facilitation or provision of worker accommodation is not a core statutory activity, but is a real issue for our communities.

In terms of Councils undertaking activities that are not traditional core business, this is often done because there is usually a lack of willingness or ability from other organisations to provide these services. The market may not support private investment in these activities. For example, Council has supported the medical centres in Twizel and Fairlie through provision of land. Without Council involvement and support they would simply not be available in our townships, and yet they are crucial to our communities.

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

Yes it does. The more that Councils provide, the more it will cost, and once activities are funded it can be difficult to cease providing those services.

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

The factors currently generating cost pressures for our Council are:

(1) Tourism and visitor numbers – indirect cost pressures as outlined above, for example the 9 additional public toilets, rubbish removal, and enforcement.

(2) Roading network infrastructure – reduction in the FAR (funding assistance rate) and uncertainty around the ONRC (One Network Road Classification system); carparking.

(3) Planning – updating and enforcing the District Plan.

(4) Compliance costs – for example audit fees. Council's audit costs for the 2018-28 LTP were $84,760. This represents approximately 1% of Council's total rates, which for a small Council is not affordable.

(5) Capacity and capability in New Zealand – it requires significant resources to train and educate staff.

The Tourism Infrastructure Fund and similar government subsidies, while welcome, are not a sustainable source of funding and do not assist with ongoing costs following the initial capex subsidy. There must be a sustainable source of funding for Councils which adequately recognises and addresses these costs. We are pleased to see that the government's draft Tourism Strategy recognises this as a real issue that needs to be addressed.

Significant factors in to the future are likely to include investments in new technology (CAPEX), as well as associated maintenance costs. This will incur costs and the benefits may be unclear, but may be significant. Technological changes will also impact on revenue – we have already seen changes in the demand for services in the Council's Twizel Information Centre. The income from the services it provides is reducing, as direct online services become more available to visitors.

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

Changes in the composition of economic activity will impact rates affordability. One example is another global financial crisis or pandemic which affects tourism. Climate change will affect different sectors in different ways, for example prolonged dry periods at a time where environmental protections for water are increasing, may impact farming. These are the two most significant economic activities in our district. Changes in technological advances may result in reduced costs.

Managing Cost Pressures

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

The process of developing a Long Term Plan (LTP) is effective in mandating a discipline of considering cost pressures and providing for addressing those. With this focus, there is value in the collaborative and collective nature of the LTP process between elected members and staff.

However LTPs are also costly, resource intensive, and cumbersome. They have many complex parts, such as associated/embedded policies requiring their own consultation. All of this takes time and resource.

The LTP is out of date the day it is adopted. The required ten-year timeframe is too long in an ever changing world, and locks Councils in to a set direction. A more flexible approach is needed.

The process to develop LTPs is also very resource hungry. An example of significant cost in the process is the cost of the mandatory audit. As outlined above, this Council's audit costs for the 2018-28 LTP were $84,760, which represents approximately 1% of Council's total rates.

The effectiveness of the LTP itself in addressing cost pressures depends on what the key consultation issues become, and the effect of the submissions on Council decisions. The process works satisfactorily where Council is consulting on levels of service changes, but otherwise business-as-usual is not consulted on. One other dynamic is that the community largely does not read the full LTP and supporting documents. The statutory requirements for the content of the document and the supporting strategies and information can result in repetition or a level of detail that is off-putting for readers.

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?

MDC feels the process is ineffective and does not add value to operational planning. The process makes it difficult if not impossible to adapt quickly to changes such as those directed by central government, for example in 3 waters or climate change.

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?

Consideration should be given to replacing it with a three-year strategic plan specific to local government, without unnecessary compliance costs such as audit. The process and outcome needs to have a truly local flavour, and not one influenced or constrained by audit views/approaches.

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

We consider that the four barriers identified in relation to state sector productivity on page 43 are also relevant to local government, with restrictive rules and funding models as probably the most important of these for Councils.

The cost of new technologies can also be prohibitive or a barrier for smaller Councils who may not have scale with which to mitigate cost factors or achieve significant benefits.

Future Funding & Financing

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?

Council agrees with the recommendation to broaden the scope of some existing funding tools as outlined on page 50. In particular it supports the 'value capture' option on page 51 and seeks that this is further explored by government.

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?

Reliance on rates generates discipline, but it also has the potential to cause risk-averse behaviour in council's spending decisions. This may result in some activities not being resourced to be fully effective. We agree in particular with the LGNZ submission on this point and that Councils should have access to additional funding sources.

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 with and support the issues identified in the Issues document and the example given on Box 5 on page 52-53 of the paper. Where local investment provides regional and national benefits, that should be recognised.

Examples to further consider might include:

- 3 waters capex/opex, similar to the current approach to roading, especially where central government imposes standards on 3 waters;
- Liquor licensing;
- Cost of planning (infrastructure planning, District Plan) where there are national benefits (e.g. risk reduction, protection of nationally significant landscapes);
- CDEM – training, buildings, readiness, reduction;
- Climate change responses/adaptation.

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?

The Council would like to see further development of the value sharing/uplift recommendations outlined in this section. This may be of significant benefit to a Council such as ours with costs associated with development and growth, and a small ratepayer base.

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

We note that the inquiry relates only to Councils' current range of activities, and therefore necessarily will not provide for consideration of key questions for local government services in to the future. These fundamental questions include – is local government doing the right things/involved in the right areas? Should central government deliver some services, and/or should local government take on others? These considerations may result in new approaches or innovative thinking in funding arrangements. The limited nature of this inquiry may also reduce the effectiveness and relevance of recommendations in to the future.

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

As noted above, Councils are facing a variety of challenges. Variations may be dependent on size, demographics, tourism numbers and impacts, existing rates mechanisms, and so on. We consider flexibility is needed in available tools if these challenges are to be addressed.

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

The Council is supportive of further consideration of options for private financing such as those outlined. We would also support the proposal for central government to take on debt for local government infrastructure investments and issuing bonds for that work.

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?

The Council would not support further oversight arrangements on local government funding and financing. Council is wary of the risks of further cost to ratepayers and additional cumbersome process being imposed. Central government has intervention mechanisms in place which it can exercise if Councils are unable to perform to required standards.

Rates capping, such as that presently available to the Commerce Commission for the electricity industry, is not supported as this would detrimentally affect the Council's ability to deliver services. The setting of rates must remain a local decision, especially given wide range in the need for, and type of, services that communities seek.

Thank you for the opportunity to make this submission. Please contact me if you require clarification of any matters raised or require further information.   We look forward to continuing to work with government on identifying and implementing improvements to funding and financing arrangements, to ensure we as Councils can continue to deliver sustainable, efficient and affordable services to our communities.

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Graham Smith
Mayor, Mackenzie District

12 February 2019