Response from Rangitikei District Council to the Productivity Commission's Issues Paper on local funding and financing

Q1	What other differing circumstances across councils are relevant for understanding local government funding and financing issues?	Other significant differences are physical terrain, proximity to state highways, accessibility of rail and the extent of (non-rated) Crown land. Some councils (particularly regional councils) have substantial investment funds. Several councils (including Rangitikei) have substantial areas of Maori land which are land-locked, which severely limits their use.
Q2	What explains the difference between the amount that councils account for depreciation and the amount spent on renewing assets? Are changes needed to the methods councils use to estimate depreciation? If so, what changes are needed?	Rangitīkei has found that the projected time for wastewater projects is regularly underestimated when a variation or a new resource consent is needed. So there have been substantial carry-forwards of unspent capital budget. As there is no rating impact from projected capital expended until used, this approach makes explicit Council's commitment to these projects. We see no reason to change the depreciation requirements. In some areas, Rangitīkei has chosen to part-fund depreciation only or (in the case of rural water supplies) not to fund it at all.
Q3	In what ways are population growth and decline affecting funding pressures for local government? How significant are these population trends compared with other funding pressures?	A declining population means a lower rating base to fund existing infrastructure which is not readily reduced in scale. Lower demand for commercial/retail activity means the value of those properties drops and the rating burden increases on other properties. Such communities resist initiatives by council to invest ratepayer funds in ways to attract more employment and people to the area.
Q4	What are the implications of demographic changes such as population ageing for the costs faced by local government?	The proportion of people in employment is likely to fall, meaning a decreased ability to pay rates. However, this trend may increase the number of people who are able to volunteer their time to assist in managing community facilities and delivering community service – hence reducing the costs to council. An aging population will mean an increasing number of residents with disabilities and health issues. This has implications for street design and accessibility to public transport.

Q5	To what extent is tourism growth resulting in funding pressures for local government? Which councils are experiencing the greatest pressure and how is this manifesting?	Rangitīkei is a low-growth tourism area, but has appreciated financial assistance from MBIE administered funds to increase availability of public toilets and rubbish disposal facilities.
Q6	Is an expansion of local government responsibilities affecting cost pressures for local government? If so, which additional responsibilities are causing the most significant cost pressures and what is the nature of these increased costs? To what extent do these vary across local authorities	This is most noticeable with regulatory functions, where local government has been required to do more, in monitoring and inspecting. Councils vary in how such activities are funded because of their different views (in their respective revenue and financing policies) on the extent of 'public good' and the contribution to costs from rates. Requirements under the Building (Earthquake-prone buildings) Amendment Act and the Health and Safety at Work Act (and the asbestos regulations) are instances of this. The case study from Waimakariri District Council provided by SOLGM (impact of the National Policy Statement for Freshwater Management on local government rates) is instructive in showing how changes in central government policy can lead to significant additional costs to councils.
Q7	How is the implementation of Treaty of Waitangi settlements, including the establishment of 'co-governance' and 'co-management' arrangements for natural resources, affecting cost pressures for local government? How widespread is this issue?	This has not been an issue for Rangitīkei so far as the first example of such an arrangement, over the Whangaehu River, is only just being established. However, we suggest the Commission give specific consideration to the costs for councils arising from the Mana Whakahono a Rohe process.
Q8	How are local authorities factoring in response and adaptation to climate change and other natural hazards (such as earthquakes) to their infrastructure and financial strategies? What are the cost and funding implications of these requirements?	Rangitīkei initiated a research study over the Whangaehu River which regularly has large floods, resulting in risk to human life and extensive property damage – notably dwellings and community facilities. The summary findings are attached. However, progress has been much slower than envisaged because of the inability to convince the stakeholders that this is a priority. The frequency of intense rainfall events is creating additional cost – the existing drainage system is unable to cope. This means additional cost. Between 2006 and 2016 the annual average of emergency reinstatement in Rangitīkei was $3.4 million and is trending

		towards $3.9 million. We think it would be a prudent investment from central government (potentially through NZTA) to undertake detailed identification of the risks posed by the land which surrounds state highways and local roads so that preventative action can be taken to minimize the number and extent of slips onto roads (and into rivers and stream). More generally, we think central government needs clearer policies on addressing climate change and, in partnership with local government, develop and fund priority programmes. We noted above (Q6) costs arising from the Building (Earthquake-prone buildings) Amendment Act. This is a significant factor in the Council's decision to erect new community buildings in Bulls, Marton and Taihape. These will replace current earthquake-prone buildings and act as a catalyst for other building owners to invest in upgrading rather than demolish or abandon. The latter would accelerate depopulation of those towns, making the provision of infrastructure more costly (and possibly unaffordable) for those properties remaining used.
Q9	Why is the price of goods and services purchased by local government rising faster than the consumer price index? To what extent is this contributing to cost pressures for local government?	Infrastructure materials and services. There is a risk, highlighted by SOLGM, that long-term contracts lead to market concentration, reducing competition and thus potentially increasing prices.
Q10	Do the prices of goods and services purchased by local government vary across councils? If so, what are the reasons for these differences?	All-of-Government purchasing cannot cover all goods and services. Prices will vary through the supply contracts which councils negotiate. An example of variability is relative proximity to road metal. In rural districts there are fewer contractors than in more densely populated urban centres so less competition for work. Rangitikei sometimes is forced to negotiate with the sole contractor who has tendered for the work.
Q11	Is local government expenditure shifting away from traditional core business into activities such as economic development, sport and	The traditional core activities dominate local government expenditure, especially for smaller, predominantly rural councils.

	recreation and community development? If so, what is the rationale for this shift, and could these activities be better provided by other parties?	
Q12	Does the scope of activities funded by local government have implications for cost pressures? If so, in what ways?	Not necessarily. When functions are associated with full cost-recovery or government funding, there would be no additional cost pressures.
Q13	What other factors are currently generating local government cost pressures? What will be the most significant factors into the future?	The administration of the rates system is a cost pressure in itself for the whole sector. We suggest that the Commission specifically consider this when evaluating other funding mechanisms.
Q14	How will future trends, for example technological advances and changes in the composition of economic activity, affect local government cost pressures?	Changes in technology typically require investment to modify or replace systems. This may mean increasing costs to people using services. In addition, technological changes increases public desire for a wider range of online services and information. Gaining consistency across local government would be promoted if incentivised by central government funding.
Q15	How effective is the Long-term Plan process in addressing cost pressures and keeping council services affordable to residents and businesses?	The requirements for the consultation document for the Long-term Plan includes showing rates impacts on key choices. But the determination of what is a 'key choice' is left to each council to decide. The requirement to show impact on rates over a range of sample properties provides clarity over what the costs of council services will mean – but this requirement is limited to the first year of the Long-term Plan. There is no requirement (or suggested mechanism) for councils to show the impact of their fees and charges on the services they provide.
Q16	How effective are councils' Long-term Plan consultation processes in aligning decisions about capital investments and service levels with the preferences, and willingness and ability to pay, of residents, businesses and other local organisations?	The consultation processes for the Long-term Plan require the community to engage, and that occurs at a very low level: Rangitīkei's was 0.82%. None of the councils so far in CouncilMARK achieved more than 1.6%. A likely reason for this low community engagement is that much of a council's infrastructure investment is viewed as determined by technical experts, both within councils and external agencies – the New

		Zealand Transport Agency in the case of roading co-funding requirement) , regional councils in the case of the 3 waters (consenting requirements).
Q17	Is there scope to improve the effectiveness of Long-term Plan processes? If so, what, if any changes would this require to the current framework for capital decision-making?	Yes. Capital projects over a specified size (having regard to each council's budget) could be specified in the consultation document as key choices (so options and the rating impacts were explicit) and prioritised. The council would be expected to take the priority ranking from submitters into account in its decision-making.
Q18	How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently?	The Commission noted Rangitikei's intention (in its 2015-25 Long Term Plan) to shrink its built infrastructure and adjust service levels in response to funding challenges and declining population. However, this proposal was strongly rejected by Mangaweka residents (which was identified as an example of where this reduction would occur), who saw it as downgrading their town. Ruapehu has a similar experience. Unlike delivery of many services, where online accessibility can provide a reasonable substitute, infrastructure is essentially a community rather than an individual resource.
Q19	What practices and business models do councils use to improve their infrastructure assets and 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?	Roading practices and business models are largely driven by the policies and practices of the New Zealand Transport Agency. There is no similar body for utilities (or recreational assets) so practices and models depend on networking by individual councils and the relevant professional bodies. Rangitīkei and Manawatū Districts have a shared service for infrastructure (led by Manawatū) which provides an increased capacity to respond to such change opportunities.
Q20	How do councils identify and employ new technologies to manage their infrastructure assets and produce services more efficiently? How effective are councils in using new technologies to manage cost pressures? Please provide specific examples of the use of new technologies to manage cost pressures.	Councils learn from each other and through initiatives from vendors. In upgrading the Marton water treatment plant, the Rangitīkei District Council incorporated testing equipment which would monitor the changing characteristics of the water coming from the dams and adjust chemical treatment accordingly.

Q21	What incentives do councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened?	Where a new technology is viewed as beneficial it would be appropriate for central government to promote its implementation throughout the local government sector, through a high level of subsidy, as was done with LED street-lighting.
Q22	What are the most important barriers to local government achieving higher productivity?	Cost, lack of knowledge, risk to service delivery.
Q23	How does local government measure productivity performance? Are these metrics useful? If not, what metrics would be better?	Productivity performance is not part of the mandatory measures prescribed by central government for local government in roading and the 3 waters. Instead, they focus on aspects of service quality (e.g. road condition, compliance with the drinking-water standards and wastewater discharge compliance) and customer satisfaction (timeliness of response to reported faults and the number of complaints). Each council sets its own targets – it is only the measures which are prescribed. These are all sensitive aspects of service delivery for the community, and Rangitīkei largely mirrors the approach in measuring performance in other activities.
Q24	To what extent and how do councils use measures of productivity performance in their decision-making processes?	Not at Rangitīkei. The focus for decision-making is on the cost of different options (including doing nothing) and community preferences.
Q25	Do councils dedicate sufficient resources and effort toward measuring and improving productivity performance? If not, why not, and how could effort toward measuring and improving productivity performance be increased?	Considerable effort is given to performance and cost, but not to the relationship between them. Relating quality measures (as noted above, Q23) to cost could increase understanding of where delivery had improved/declined and the comparative investment required. However, it would probably require some reconfiguration of budgets to align with the services being measured. If supported by the sector, it would be preferable for Internal Affairs to amend the rules for mandatory measures accordingly. Rangitīkei's assessment in CouncilMARK noted the lack of value for money measures. We included in the 2017/18 Annual Residents' Survey a question asking whether the Council delivered value for money. That impressionistic view would be enhanced over time if there were productivity measures.

Q26	What measures do councils use to keep services affordable for specific groups, and how effective are they	In its revenue and financing policy, Rangitīkei has determined that 20-25% of the costs for urban reticulated water, wastewater and stormwater will be borne by all ratepayers. The balance is paid by those properties which are connected, each paying the same irrespective of the supply. This approach keeps costs down for those communities on the smaller schemes. Rangitīkei's rates remission policies include one to address disproportionate rates - which is defined as where the rates are 10% (or more) of the property's rateable value. The remission is not automatic (i.e. the property owner must apply for it) and Council typically remits rates entirely for two years to give time to allow disposal to a neighbor. Rangitīkei has a specific committee (comprising members of Council and Te Roopu Ahi Kaa – Councils standing iwi advisory committee) to determine applications under the Māori Land Rates Remission Policy.
Q27	How do councils manage trade-offs between the ability to pay and beneficiary pay principles? What changes might support a better balance?	The required reviews of the revenue and financing policy for each *activity* requires councils to consider that balance. An example of a worksheet used by Rangitīkei is attached. There is no requirement for councils to achieve consistency with each other on these reviews. Rangitikei has taken a 'swings and roundabouts' approach – notably with roading and footpaths, where the roading rate makes no differentiation between rural and urban ratepayers. We wonder whether a set of model revenue and financing policies might be developed for the sector (metro, rural, regional), not necessarily mandatory, but the foundation for each council. A difficulty for councils is the lack of knowledge of the income of individual ratepayers, hence their ability to pay. This is compounded by the increasing incidence of people living in rented properties, where the rates are factored into the rent.
Q28	Do councils currently distribute costs fairly across different groups of ratepayers? If not, what changes to finding and financing practices would	Rangitīkei has chosen not to use differential rates for operating costs on the basis that they add complexity and lack demonstrable objectivity. (However, differentials have been

	achieve a fairer distribution of costs across ratepayers?	used to fund projects: for example, in 2010/11, Council funded the sealing of the District's portion of the Taihape-Napier Road: one third from properties along the road, one third from properties in the Taihape Ward and one third District-wide.)
Q29	Do councils currently distribute the costs of long-lived infrastructure investments fairly across present and future generations? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across generations?	Rangitīkei does this.
Q30	What principles should be used to appraise current and potential new approaches to local government funding and financing, and how should these be applied? What are appropriate trade-offs across these principles?	Rangitīkei agrees with the Tax Working Group's 6 principles – efficiency, equity, revenue integrity, costs, fiscal adequacy and coherence with the national-level tax system – but suggests a further two – flexibility and consistency. Central government approach to roading ensures consistency of standards across the country (as well as equity in recognising differences in physical terrain and density of population) and efficiency in having the standards developed and monitored nationally. The trade-off to these advantages is the substantial reduction in local decision-making about particular roads. If the Government wants a certain level of compliance over the three waters, funding will be critical, particularly for smaller councils. However, replicating the One Network Road Classification process approach may be unrealistic because of the variable nature water supplies and treatment, wastewater disposal and stormwater systems.
Q31	How effectively is the existing range of local government funding tools being used?	Rangitīkei is aware of the range of funding tools. However, this can result in a complex proposal for ratepayers. Council found it useful to be able to set rates on properties which opted to be connected to Taihape's Ruru Road sewer extension, apart from those rating units which made a voluntary contribution). .
Q32	Is there a case for greater use of certain funding tools such as targeted	The case for greater use of targeted rates and user charges is that the overall rates

	rates and user charges? If so, what factors are inhibiting the use of these approaches?	requirement could be reduced. However, this approach runs the risk of reducing the availability of a council's services – and thus compromising the purpose of local government. Rangitīkei has no borrowing or overdue charges at its libraries: the Council came to understand these were a barrier for some people in the community.
Q33	What is the rationale underlying councils' approach to levying rates? What are the costs and benefits of shifting from a capital value system to a land value system?	All Council services benefit – directly or indirectly – every ratepayer, so all ratepayers should pay a contribution to the costs, whether or not the ratepayer directly receives the service or chooses not to take advantage of it. A land value system would be problematic for a rural council: it would require the use of differentials to ensure a fair division of costs between urban and rural properties.
Q34	In addition to restrictions on how targeted rates are applied and the types of services where user charges can be levied, do any other restrictions on existing funding tools unduly limit their uptake or usefulness?	If the rating system is to continue as the principal funding mechanism for local government, the cap on the Uniform Annual General Charge should be removed. We agree with the SOLGM perspective that this devalues the accountabilities prescribed for making the revenue and financing policy (which, as noted in Q27, determines the balance between affordability and beneficiary pays).
Q35	How does the timing and risk associated with future funding streams influence local authority decision-making about long-term investments? What changes to the current funding and financial system (if any) are needed to address these factors?	Rangitīkei has two parcels of surplus land in Bulls, suitable for housing, which will help fund the new community centre. The yield from Council developing these subdivisions is potentially considerably larger than if the land is sold as is – but the earning would come later meaning Council would have to borrow or use rates funding to cover the timing gap. Stronger partnership with central government might mean that the risk in such developments could (at least) be shared, thus making such developments (and increased housing) more likely.
Q36	What are the pros and cons of a funding system where property rates are the dominant source of funding? Does the local government funding system rely too heavily on rates?	In a general sense, the property rates system is well-known and property owners factor in the rating requirements when purchasing or upgrading properties. It enables councils to be confident they will have sufficient revenue. However, it is based on an assumption that

		those with more valuable properties are better placed to pay higher rates, which can generate hardship for some property owners particularly in retirement. In addition, there is uncertainty for property owners about the rates requirements in any year because councils are able to change the assessments and there is no uniformity across the country. Councils are expected to engage with the whole community about their proposals (including rating proposals) but the direct rating impact on those who rent properties is generally not stated in rental prices.
Q37	Under what circumstances (if any) could there be a case for greater central government funding transfers to local government? What are the trade-offs involved?	The Financial Assistance Rate system administered by the New Zealand Transport Agency is an example of significant central government funding. This eases the costs of roading on councils and enables central government to set consistent standards which apply across the country. Variable rates take into account factors unique to each council. While it means that councils have less choice in determining what their roading programme will be, a council is still able to decide roading improvements outside what NZTA has approved on the basis that they are entirely funded by the council. This model would be suitable for ensuring consistent standards for drinking water and wastewater treatment and disposal. It would also be the appropriate basis for funding activities transferred from central government to local government.
Q38	Do local authorities have sufficient financial incentives to accommodate economic and population growth? If not, how could the current funding and financial framework be changed to improve incentives?	Rangitīkei supports allowing councils to charge volumetrically for wastewater and to allow local road tolling.
Q39	What funding and financing options would help councils to manage cost pressures associated with population decline? What are the pros and cons of these options?	The approach noted in Q37 can be used to assist councils with declining population. That means the standard of infrastructure could be maintained so that remaining residents are not affected and population decline is not exacerbated by poorer roads etc. However, this will mean, over time, an increasing degree of

		subsidising such communities without considering alternatives. Alternatively, this approach could be used to fund options which are more sustainable for smaller communities, taking advantage of modern technology so that the change is seen as positive rather than negative.
Q40	Are other options available, such as new delivery models, that could help councils respond to funding pressures associates with a declining population? What conditions or oversight would be required to make these tools most effective?	Central government funding studies of alternatives to maintaining existing infrastructure in councils facing declining population.
Q41	What are the pros and cons of local income and expenditure taxes?	Such taxes mean everyone in the community funds council expenditure, which aligns better with the accountabilities councils have. However, the administrative costs would be considerable. Rates in small rural councils are typically higher on a property basis than in the large metros: local property taxes would be likely to intensify that difference.
Q42	What are the advantages and disadvantages of a local property tax as an alternative to rates?	A local property tax would seem simpler to administer. However, to be effective in rural councils, it would need to be varied between rural and urban properties (otherwise the former would carry a disproportionate share of costs). The current rating system, by targeted rates and uniform annual general charge, and differentials provides for a more even apportionment.
Q43	Are there any other changes to the current local government funding and financing framework, such as new funding tools, that would be beneficial?	We support the recommendation from SOLGM that the rates exemptions given to the Crown are removed, and that the Crown pay development contributions on its new developments. It should be left to each council to determine what exemptions or remissions of rates should apply. An extension of the thinking behind the Provincial Growth Fund would be beneficial. An increase in GST could be the basis for doing this. We suggest this is the time to consider removing GST from rates: most people regard this as a tax on a tax, and unfair.
Q44	How can the transition to any new funding models be best managed?	One key element is developing and publicising guidance to local government about the changes.

Q45	To what extent does the need for particular funding tools vary across local authorities?	While there are considerable differences between councils in terms of population, terrain, transport links etc., the need for particular funding tools is similar. We suggest flexibility is the key consideration. Councils are allowed to charge parking fees, although some choose not to do so (Rangitīkei is one of these). The same consideration should apply to local bed taxes or road tolling.
Q46	To what extent are financing barriers an impediment to the effective delivery of local infrastructure and services? What changes are needed to address any financing barriers?	The cost of debt is increasingly significant. We understand why central government prefers fee setting so that the cost does not vary across the country. However, if that is the case, the fee should reflect the actual administrative cost to councils and set after consultation with the sector, potentially through LGNZ.
Q47	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?	Private investors would reduce the debt burden on councils, thus enabling some infrastructure to proceed at a lower cost to ratepayers. The return on investment would be through charges such tolling (for roads) or property levies (for new residential subdivisions) for a specified period of time. Such arrangements would need to be legislated.
Q48	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?	-
Q49	How effective are the current oversight arrangements for local government funding and financing? Are any change required, and if so, what is needed and why?	Current oversight arrangements are generally effective in ensuring councils manage their finances prudently and have sufficient funding for their programmes. It is less obvious whether the oversight ensures that councils take up opportunities for improvements in service delivery and infrastructure. Section 17A reviews do not achieve that.