SUBMISSION TO THE INQUIRY INTO LOCAL GOVERNMENT FINANCE AND FUNDING

Prepared on behalf of
Economic Development NZ
17 February 2019

1. About EDNZ

Economic Development NZ (EDNZ) is a national not for profit designed to “support economic development practitioners and NZ Inc by providing quality professional services that are inspiring, trusted, valued and bespoke”.

Membership of EDNZ is the hallmark of professional expertise and integrity within the economic development profession and is open to any individual or organisation working in, or associated with economic development.

Our members include regional and local economic development agencies (EDAs), councils, central government departments such as MBIE, NZTE and MSD, and consultancies working in the economic development space.

EDNZ supports its members through a number of professional services including a comprehensive capability building programme that includes certification, a Graduate Diploma and Masters; an economic development jobs board, the latest domestic and international ED news, policy and research, a best practice resource; an annual conference; the Mahi Tahi Journal and annual awards.

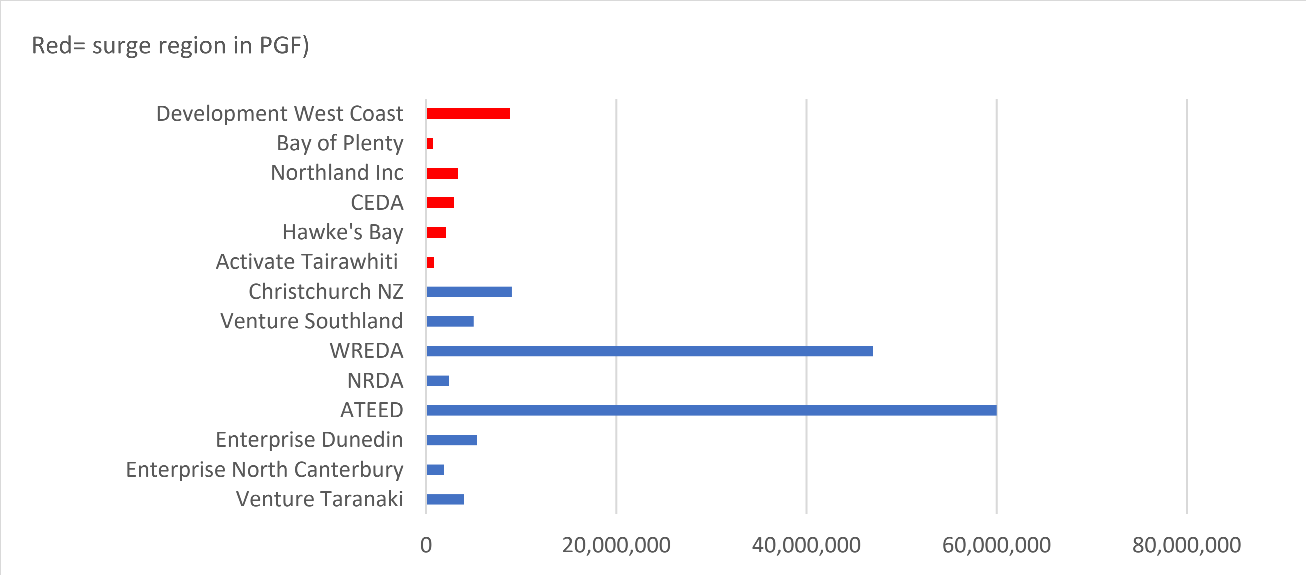
2. Our members

At the heart of our membership are the fourteen regional economic development agencies (RDAs) which represent many of the local EDAs within their respective regions. The RDAs are predominantly created and funded by local government in an effort to maintain and grow local economies. Like local government, our RDA’s have very diverse budgets.

3. Funding of RDAs

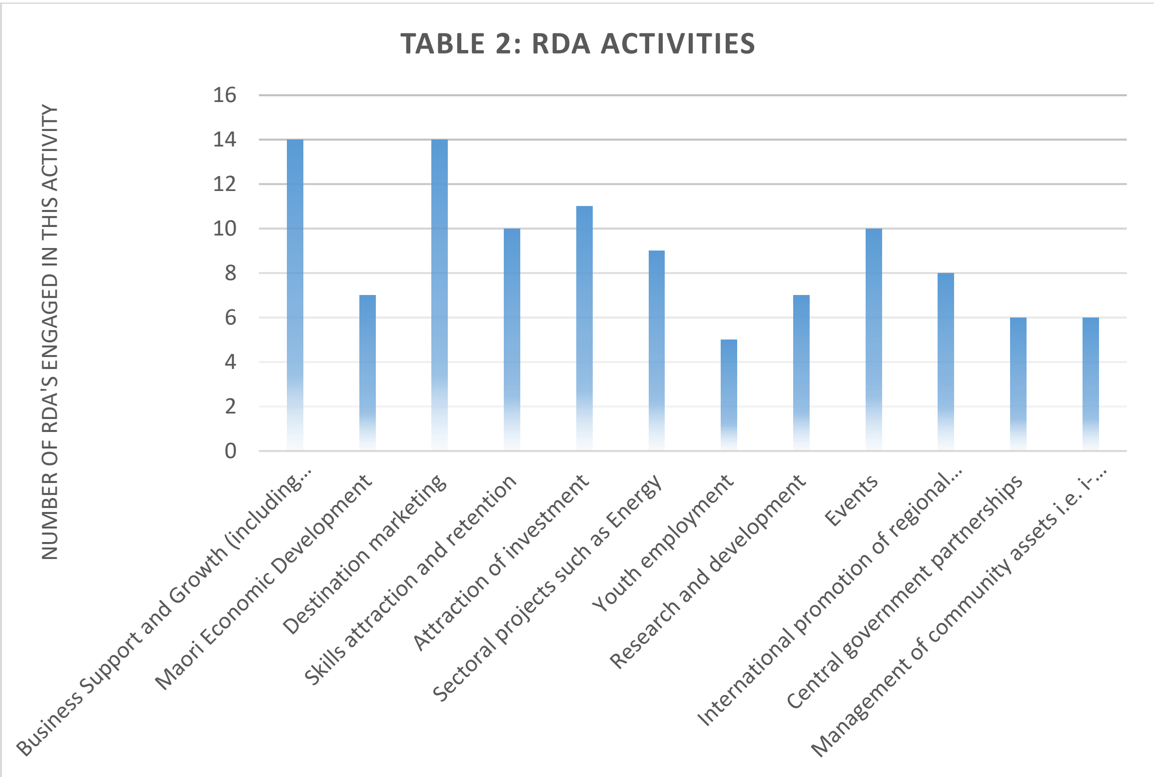
RDA funding is largely sourced from local government with a significantly lesser contribution hailing from central government and self-generated revenue raising activities. Please see Table 1 below for details of RDA budgets.

Table 1: RDA budgets EoY 2016



4. Activities of the RDA's

The following graph indicates the functions of the RDAs. Please note that seven of the RDAs have responsibility for growth in many sectors; including tourism.



5. The magnitude of the RDAs reach and responsibilities

In addition to the normal business as usual activities highlighted in Table 2, RDAs currently have responsibility for advancing a large number of provincial growth fund (PGF) projects, EDNZ research shows that those funding applications are valued at $340,122,000 for years 1 and 2 of the PGF. This represents an unprecedented increase in workload for the RDAs.

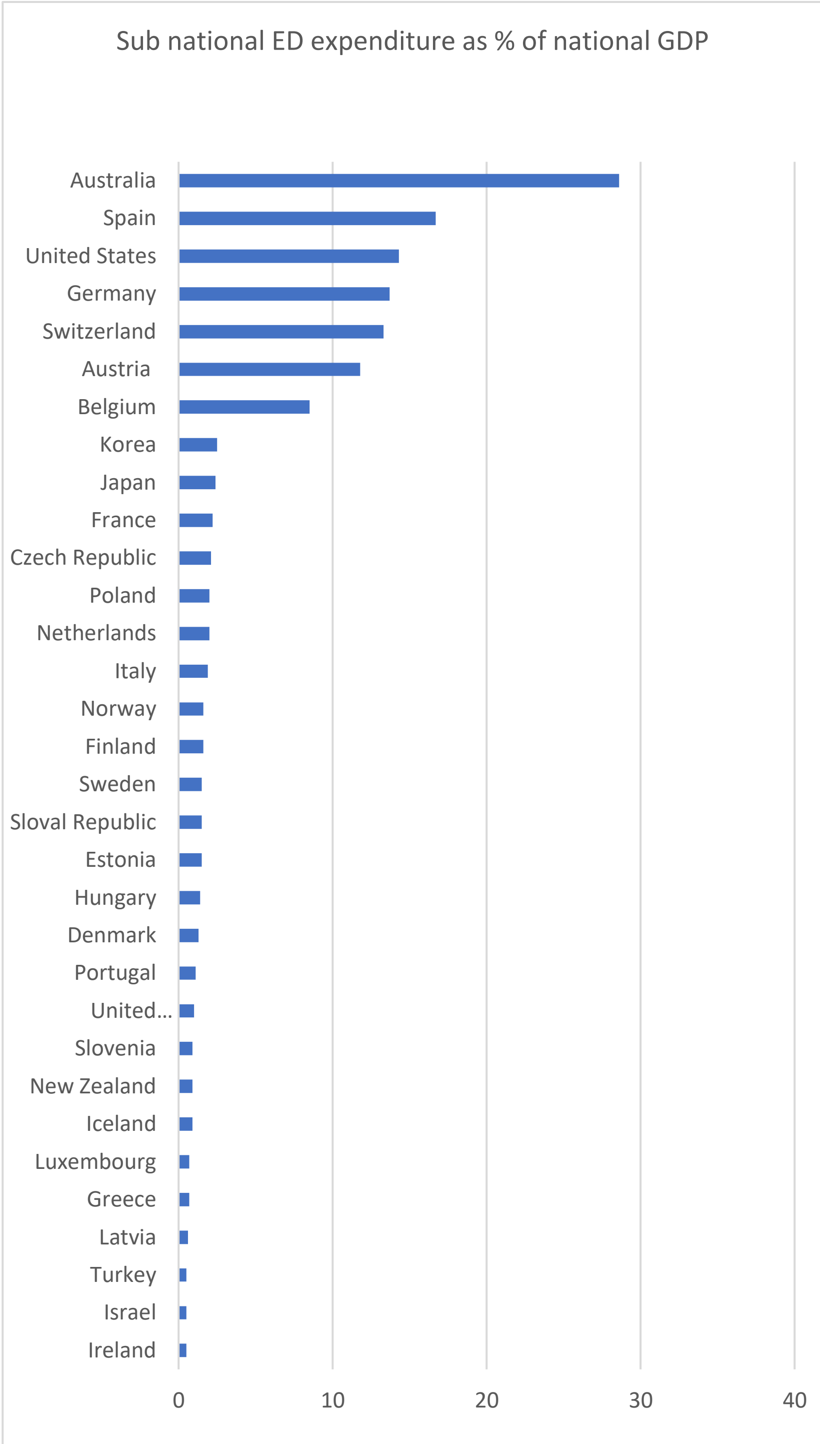
6. Employees

There are circa 750 employees across the RDA network, most of whom sit within local government owned entities i.e. council controlled organisations or councils. The issue of capacity has been a constant for the RDAs and EDAs for decades.

7. Capacity Issues

The lack of funding in many RDAs, especially from central government; the pressures of the Provincial Growth Fund and the increasing pressures on local government has meant that the budgets of RDAs are either flat lining or in some instances decreasing. This in turn exacerbates existing capacity issues.

EDNZ therefore values the inquiry into the funding and financing of LG by the Productivity Commission and makes the following submission in response to the issues paper.



8. The NZ Context

EDNZ appreciates that NZ is one of the most centralised countries in the world, with a marked lack of sub-national expenditure on economic development. This OECD graph shows NZ as having the eighth lowest sub-national expenditure on economic development throughout the OECD member states.

EDNZ recognises that the cost and responsibility shifting that has occurred since the introduction of the 2002 Local Government Act, combined with a marked increase in natural hazard events across NZ; the distinct lack of investment in local infrastructure, (by either central or local government) for decades within NZ and a rise in resident expectations has served to worsen the plight of local government.

EDNZ would also suggest that the re-introduction of the four well-beings into the LG Act, whilst applauded by EDNZ, will only make a bad situation worse unless its re-enactment is accompanied by commensurate additional funding for local government.

Bearing in mind that

- RDAs are predominantly funded by local government
- Statistics NZ has identified the total local government contribution to economic development activities as just 2.2% of the entire local government budget within New Zealand i.e. $223,594 in 2017,
- That both RDAs and their local government funders are under severe pressure

EDNZ has a strong interest in this inquiry and its findings.

9. Options for raising additional revenue or lowering costs

EDNZ recognises that local government is confronted with the need to either decrease expenditure through a diminished quality and/or quantity of services or alternatively to make efforts to grow its revenue.

EDNZ believes there is an argument for both approaches.

Local councils, many of them with large geographical regions and small populations (therefore small rate bases) to service are struggling with the costs of local infrastructure. A review of all infrastructure responsibilities and their costs held by councils should serve to highlight where those responsibilities are untenable without central government funding, or where the responsibility would be better served as a responsibility of central government. For example, it is a cause of great concern that many New Zealanders are consuming sub-standard water because local councils who have responsibility for drinking water cannot bear the financial burden of upgrading.

There are a number of ways in which local government revenue can be increased:

- Sharing Government Revenue
- Local income tax
- User Charges
- Poll Tax
- Local expenditure tax
- Selective taxes
- Regional fuel taxes
- Transaction taxes

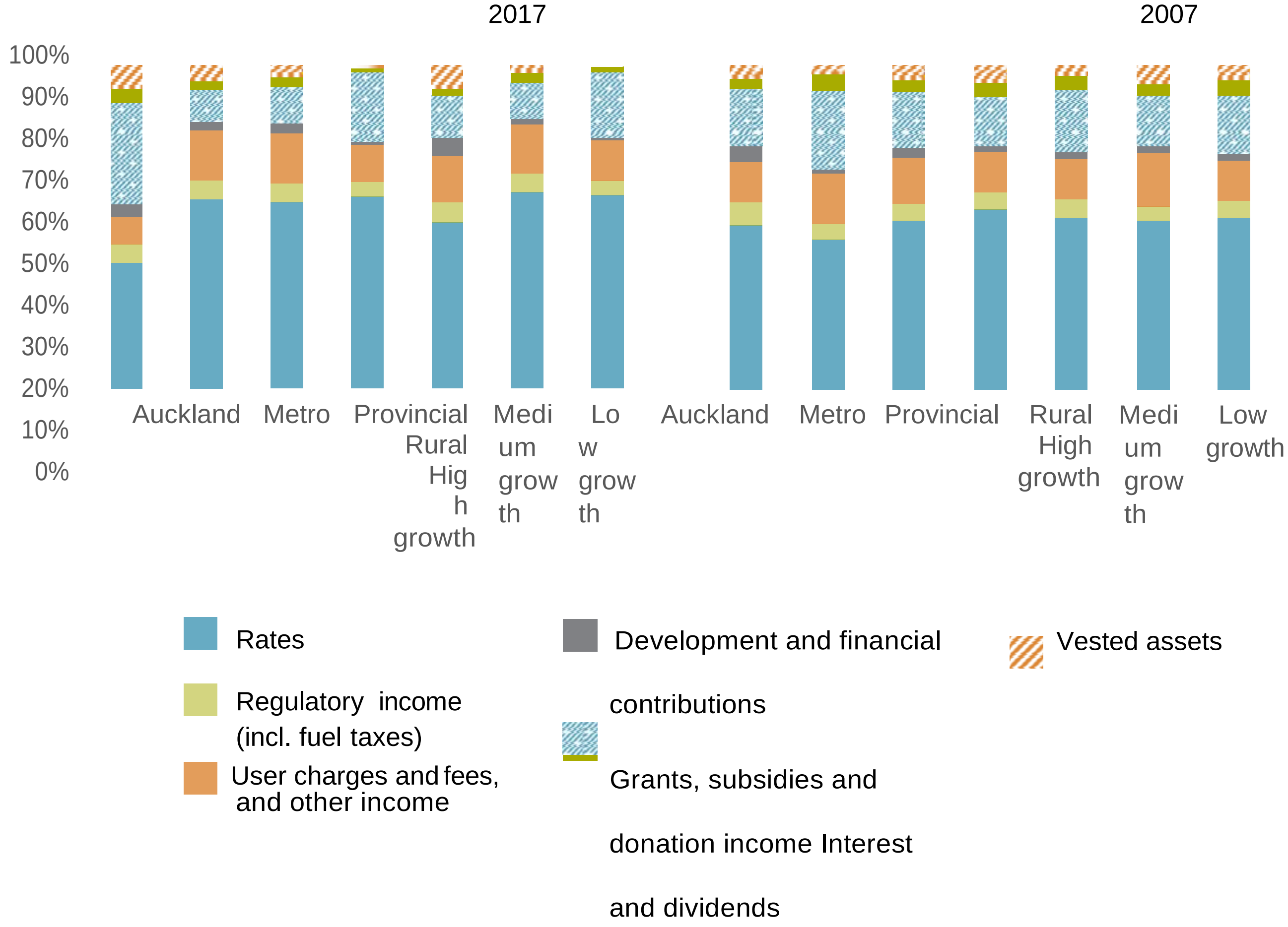
EDNZ would lend its support to the introduction of any or all of the following revenue raising mechanisms:

- Sharing of government revenue
- User charges
- Local expenditure tax

10. Sharing of government revenue

The graph below has been taken from the Productivity Commissions Issues Paper (p26) and suggests that despite the growing financial pressures on local government, most councils (the exception being Auckland), have seen either a decrease or flat lining of government revenue sharing between 2007 and 2017. Please note, the transfer of monies from central to local is reflected in the 'grants, subsidies and donation income' data in the graph below.

Figure 4.6 Average composition of revenue across different councils, 2007/2017



Given that the 2017 national accounts reflected an $8.3b surplus, EDNZ encourages the Productivity Commission to explore opportunities for greater alignment and sharing of funding and policy between local and central government.

EDNZ supports the following views of LGNZ, Infrastructure NZ and the New Zealand Initiative.

LGNZ has found that the funding arrangements of local government mean that it can be less than welcoming of economic opportunities and facilitating development of new housing. It has recommended that:

Councils should be able to retain a share of any value uplift arising from additional economic activity related to local intervention and investment: we need to provide additional incentives that will encourage councils to invest in growth, whether through investment in new infrastructure and amenities or different planning rules.

Infrastructure New Zealand also notes that councils require greater incentives to increase housing supply:

Councils need to be rewarded for increasing housing and development supply by:

- Enabling councils to share in taxes that the Government receives from growth through
- city or regional deals.
- Greater use of competitive grants and transfers to councils, like the Provincial Growth
- Fund, to encourage city-regions to compete for growth and invest in their future.

Similar proposals have also been put forward by the New Zealand Initiative, who recommend introducing financial incentives to encourage alignment between local and central government priorities. For example, Krupp (2016) suggests that central government should pay local councils for every new house constructed in a specified period, and that councils should be allowed to share in the economic growth that occurs in their region via a tax-sharing arrangement should growth exceed central government projections.

11. Other tools to diminish cost and function shifting

Whilst the PC appears to be focussed on exploring financial tools in this enquiry, EDNZ would also make a plea that the PC considers other tools that may be of help to local government in addressing its financial pressures in the long term.

There are precedents in other countries (Australia is a case in point) for partnership agreements between tiers of government that allow for:

- A no surprise policy in terms of cost or function shifting
- An in-principle recognition of local government as an equal governance partner
- Government revenue sharing

Another tool that would bear investigation is ‘participatory budgetting’, an increasing method used by councils in the United Kingdom to make financial decisions.

In terms of natural hazards and the costs to local government that arise as a result, EDNZ submits that NZ’s lack of a national resilience strategy (quite different from a disaster and recovery plan) that can be cascaded down to local planning instruments is encouraging displacement of peoples and costs that NZ cannot afford. A resilience strategy, informed by accurate data in terms of natural hazards; floods, fires for example, would do much to avoid development occurring in inappropriate areas or at the very least ensure that appropriate mitigation was in place.

Thank you

EDNZ thanks the Productivity Commission for this opportunity to respond to its inquiry into the finances and funding of local government and advises of its readiness to discuss any or all of the submission above should it be of help.

Warmest regards

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