



# **Review of Local Government Funding and Financing**

**Waimate District Council submission to the  
Productivity Commission**

15 February 2019

## Question 1

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

### WDC Response

In addition to the factors identified in Chapter Two greater recognition could be given to the relation of funding and financing pressures and the type of local authority. For example:

- The funding pressure on regional councils, which tend to be related to changing/higher environmental standards and extreme weather events, are broadly different to those of territorial authorities that are more directly related to community expectations, changes in population and the cost of capital works;
- Rural councils will be affected more than urban councils by changes in the cost of infrastructure provision, especially roading due to the length of roads under management, and the high ratio of sealed to unsealed pavements; and the type of regular traffic upon them (heavy farm machinery, milk tankers and forestry vehicles);
- Small to medium councils represent the “heart” of a community and serves to symbolise its character and independence. The abolition or marginalisation of these councils could thus severely damage a “sense of community” built up over the generations. The economic consequences of this loss (should small councils be abolished) may be felt in different retail shopping patterns, altered school enrolment, changed sporting club allegiances, and so forth, which will have ramifications for the composition of economic activity and the strength of the rate base of the former small council areas. Small to medium size councils are more accessible and work more closely with the public they serve when compared to large councils and provide a very broad range of services. Rural council elected members and employees care about their reputations with the people among whom we interact with on a daily basis.

*“The council employee that you meet with to discuss your rates notice or animal control issue will most likely be the same person that is driving the ambulance, in the firefighting truck or heading up the local family fun day.”*

## Question 2

What explains the difference between the amount that councils account for depreciation and the amount spent on renewing assets? Are changes needed to the methods councils use to estimate depreciation? If so, what changes are needed?

### WDC Response

Councils aim to identify and value council-owned assets in accordance with the Finance Standards, using a procedure that ensures the satisfaction of audit review and unqualified reporting of their financial position. Councils aim to monitor the condition and performance of all water supply, sewerage and stormwater infrastructure and to report performance on an annual basis.

WDC aims to develop strategies to minimise the financial impact of asset replacement. Territorial authorities with older assets have found that as assets reach the end of their economic life they suffer from an increasing frequency of failure which impacts on service to the community and requires significant expenditure for repair, renovation and replacement.

WDC undertakes a condition-assessment, replacement and revaluation of its strategic assets every three years using consultants (in our case, Opus or Waugh), we review and adopt the report and rate for the operations, maintenance and replacement values which are subject to audit.

Some improvements could be made around:

- control of the depreciation reserve to discourage the ability of some councils to spend the funds on alternate activities;
- standardisation of the asset condition/valuation approaches across all councils;
- Councils must be able to demonstrate their ability to replace assets as and when they fall due.

### Question 3

[In what ways are population growth and decline affecting funding pressures for local government? How significant are these population trends compared to other funding pressures?](#)

#### WDC Response

Since its establishment local governments have experienced periods of both significant population growth and decline and have had to make difficult trade-offs between the needs of current and future generations. This is simply the nature of government and local government needs to be nimble and adaptable.

Financing growth has resulted in some “growth councils” having reached their prudent debt levels and facing constraints that can undermine their ability to borrow for unforeseen asset failures and/or asset replacement.

The only way to avoid situations where councils face making trade-offs between maintaining and enhancing existing service levels or investing to provide for the needs of future residents is to provide councils with new financing tools that are better able to align the costs of growth with the beneficiaries of that growth. While development contributions go some way to achieving this they have significant limitations:

- Since 2012 development contributions cannot be charged for the cost of the community amenities, such as recreational and cultural facilities, that are essential for new subdivisions (this is expected to be addressed with the enactment of the Local Government (community well-being) Amendment Bill 2018);
- Development contributions are not easily used to fund the impact of new developments on existing infrastructure, such as roading and water services, which may need to be upgraded to cope with extra demands;
- The fact that income from development is not considered “revenue” for the purpose of determining prudent levels of debt.

## Question 4

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

### WDC Response

This is another question where local variation will be significant. Some general points for consideration are:

- As populations age councils could be required to change the way in which services are delivered and in some cases the services themselves. With rural councils like WDC, our experience is somewhat different and we find a number of our aged and/or infirm populations tend to relocate to larger centres to access specialist services or aged care facilities, and the demand for organised sport facilities, such as rugby or soccer fields grows or remains unchanged.
- WDC does acknowledge the need to consider access and transport pathways for motorised disability chairs and those with agility impairments when designing footpaths and road to footpath transitions.
- Waimate is fortunate to have very strong dairy farm and deer farm industries; and two large milk factories in the district and is experiencing steady growth by these foundation employers. These industries assist in attracting young families to our district.
- Some concerns have been expressed at the loss of local volunteers due to population ageing and the fiscal impact that might have on councils (which make use of many volunteers). However, it appears that the opposite is true as people remain active and healthy in their retirement and participate more in community activities.
- One of the indirect challenges for councils when change occurs with volunteer groups is the management and ownership of the assets that have been developed, and as these groups disband or lose volunteers, councils regularly receive requests to take ownership of these assets; and this takes time and may cost money if the assets are not up to standard or comply with council policy at the time of transfer.

## Question 5

To what extent is tourism growth resulting in funding pressures for local government? Which councils are experiencing the greatest pressure, and how is this manifesting?

### WDC Response

The growth in tourism numbers has placed pressure on councils. WDC is no exception to other councils with small populations, huge land areas and limited rating bases. The pressures are experienced as demand for local amenities like toilets and car parking facilities, camping facilities for freedom campers and compliance costs, such as the cost of regulating the camping and non-camping areas and environmental clean-up.

Local tourism income is mostly captured by central government through higher GST receipts and income taxes. Targeted rates cannot be applied to tourists who are mobile and GST is not shared with the regions generating the tax

WDC argues that there are opportunities to fund some of these pressures through user charges, such as “coin operated toilets” and pay as you go camping areas. Technology also opens up new opportunities. The Tourism Infrastructure Fund and the new Tourism Levy will assist, however, they tend to fund capital and totally overlook operational and replacement expenditure.

## Question 6

Is an expansion of local government responsibilities affecting cost pressures for local government? If so, which additional responsibilities are causing the most significant cost pressures and what is the nature of these increased costs? To what extent do these vary across local authorities?

### WDC Response

The impact of changing legislation varies by council and by type of council and, in recent years, led to higher costs on councils. An example of the latter has been the establishment of Fire and Emergency New Zealand which centralised the control and funding of fire services including rural fire services which historically had been funded by rural local authorities.

Recent legislative and/or regulative decisions that have resulted in additional costs beyond the discretion of councils to refuse include:

- Proposed drinking water standards: In the wake of the Havelock North contamination, new standards covering drinking water are under development. The estimated costs for upgrading water treatment plants to meet potential changes to the new drinking water standards has been estimated by Beca for the Government. The report estimates the cost to upgrade council-owned water treatment plants to be \$384 million with an increase in operational costs of \$13 million per annum. Capital costs vary across different regions and these are detailed in the report.
- Impact of new water quality standards: Changes to the NPS for Freshwater Management impose significant costs onto territorial authorities as they prepare to increase the compliance, monitoring and enforcement (CME) of existing and new environmental, infrastructure and building consents. WDC expects this number to climb significantly as for example:
  - tighter restrictions around wastewater ocean outfalls are enforced;
  - higher standards of final effluent release standards are mandated for all types of receiving environments; and
  - the introduction of minimum wastewater network withholding capacity to mitigate environmental overflows during pump-failures of power failures.

## Question 7

How is the implementation of Treaty of Waitangi settlements, including the establishment of ‘co-governance’ and ‘co-management’ arrangements for natural resources, affecting cost pressures for local government? How widespread is this issue?

### WDC Response

As more and more claims are settled we expect the number of co-governance and co-management models to grow and this will be an ongoing administrative cost for more councils than at present. Recent research, led by Waikato Regional Council, made the case for increased financial contribution to local government for implementing treaty settlement arrangements.

Analysis indicates that both establishment and ongoing costs of co-governance and co-management arrangements are far greater than anticipated, and that Crown contributions have been underestimated.

## Question 8

How are local authorities factoring in response and adaptation to climate change and other natural hazards (such as earthquakes) to their infrastructure and financial strategies? What are the cost and funding implications of these requirements?

### WDC Response

WDC anticipates some increase to the adaptation challenges to meet climate change. For example:

- WDC recently worked closely with Environment Canterbury (ECan) to consider a house building consent along the coast (St Andrews). The existing 50m and 100m coastal erosion 'set-back lines' could not be relied upon and due to resource constraints within ECan it is estimated that the scientific investigation and planning data required to reset the new building exclusion lines within the Regional Coastal Environment Plan would not be available until 2022.

The two councils resolved the issue, however, the point is that the additional meetings between ECan and WDC staff, the applicants and various other stakeholders added significant time, and therefore cost. This is just a tiny example of things to come and we can expect major challenges around sustainable development.

Local government has time to adapt or adjust its 'business as usual' approach to incorporate appropriate responses to adverse climate events and assess the risk to its current assets, and plan appropriately for the design and location of new infrastructure and buildings.

## Question 9

Why is the price of goods and services purchased by local government rising faster than the consumer price index? What extent is this contributing to cost pressures for local government?

### WDC Response

Councils are predominantly infrastructure providers and the cost of local government is heavily influenced by the cost of construction, inputs such as fuel, steel, aggregate, skilled labour, most of which are outside the control of local authorities. Factors that drive these costs include:

- International demand, particularly infrastructure investment in countries like China;
- The impact of infrastructural renewal which tends to follow a 25-30 year cycle;
- Competition in the construction sector – while councils undertake competitive tendering for the bulk of their construction, renewal and maintenance work clustering and longer term procurement strategies might have the impact of reducing competition.

## Question 10

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

### WDC Response

The prices of goods and services procured by councils will vary according to the 'supply and demand' environment at the time. For example, it could be argued that cities like Christchurch have a much higher level of competition for work opportunities, therefore prices should be more competitive than areas where this is not the case. We know from experience that this is a "boom and bust economy" and when the peak demand for service falls away, many of the trades return to regional locations and stay, and during the boom phase, prices can be escalated.

WDC has experienced excellent contracting terms for the past three years and can report to the Productivity Commission that prices for goods and services remain very competitive.

National policies like the three waters review that could mandate widespread infrastructure capital upgrades/investment will place resource pressures on the availability of qualified experts (system engineers, water engineers and electrical engineers and operators) and materials, products and inventory (pipes, pumps and the like). This could lead to an artificial escalation in capital works costs as demand outstrips supply across New Zealand.

## Question 11

Is local government expenditure shifting away from traditional core business into activities such as economic development, sport and recreation and community development? If so, what is the rationale for this shift, and could these activities be better provided by other parties?

### WDC Response

As mentioned in our response to Q1 dot-point 3, rural councils like WDC are at the heart of the community and greater public expectation is placed on rural/smaller councils to influence and drive change across all facets of community well-being and economic prosperity.

WDC has not "shifted away from core business" but we need to closely manage the balance of multidisciplinary pressures we demand of our employees and elected members with public expectation and growing service standards.

Councils can only make efficiency gains to a certain point, then need to explore other opportunities to increase income. Efficiencies can be a double-edged-sword, for example, in the digital world councils adopt new apps, programmes and automate more internal function and provide more services online. As we digitise our services this brings an increased high-risk of "hacking" and the cost of cyber security is significant.

## Question 12

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

### WDC Response

The scope of services a council delivers or commissions is determined, in consultation with the public, as appropriate to maintain and/or enhance the overall quality of life of its community. Of perhaps greater importance is the scale (levels of service), rather than scope, for example, swimming pools.

The cost of aquatic recreation will be affected by, for example:

- the number of pools provided;
- size;
- whether they are covered or not;
- level of staffing;
- the range of aquatic services provided in each facility.

Rural councils provide the same scope of services as their urban counterparts, it is only the scale of the activities that differ. Rural council employees and elected members are much closer to “where the rubber hits the road” and, we suspect, provide a greater “unpaid service” when compared to urban councils.

## Question 13

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

### WDC Response

Covered in Q6 and Q10 responses.

## Question 14

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

### WDC Response

Technology has the capacity to both increase and decrease the costs facing local government. New technologies, for example, have enabled councils to develop accurate pictures of the state of their underground infrastructure; and advancements in mobile technology that provide instant reporting platforms for the public (for example, SnapSendSolve) that allows real-time faults to be signalled and acted upon.

## Question 15

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

### WDC Response

The LTP captures data and develops priorities based on essential infrastructure requirements and feedback from public consultation, and ‘signals’ an intention to do something. The effectiveness of the LTP and long-term viability of the council depends more on the functionality and the smooth running of the council.

The most important element in local government sustainability (success) can be demonstrated in cooperative functional elected bodies where “policy gridlock” is avoided and this ‘risk’ is not closely monitored in New Zealand. The administrative and technical ability of council staff forms the second dimension of local government capacity, the importance of this type of council capacity cannot be overstated.

So, it is difficult to answer Q15 as stated. It could be argued that “financial suitability” and “core services” have no ‘agreed meaning’ and a more ‘principle based’ planning framework would be less arduous, costly and have more meaning to the users.

## Question 16

How effective are councils’ Long-term Plan consultation processes in aligning decisions about capital investments and service levels with the preferences, and willingness and ability to pay, of residents, businesses and other local organisations?

### WDC Response

The Consultation Document is primarily designed to explain the governing body’s plans for the coming period, the cost of those plans and provide opportunities for communities to provide their views on those plans and their cost.

One limitation is that the Consultation Document is required to “provide a representation of the matters proposed for the LTP”, that is the document does not include all the matters. The legislation actually makes it unlawful for a council to publish its full LTP which potentially excludes much of the detail that the public need in order to comment.

As indicated in Q15, it is possible that the LTP is too prescriptive and that more flexibility is required. This is one matter that the Productivity Commission might like to consider in more detail.

## Question 17

Is there scope to improve the effectiveness of Long-term Plan processes? If so, what, if any, changes would this require to the current framework for capital expenditure decision making?

### WDC Response

Answered in Q15 and Q16 responses.

## Question 18

How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently?

### WDC Response

Almost all capital expenditure and most maintenance work is market-tested in some way, be it through the pricing procedures required by NZTA or through a local authority’s own procurement processes. The options open to local authorities and other providers are to reduce their consumption of these materials or to investigate alternative design and procurement options.

As mentioned earlier, scoping, design, understanding whole of life costs, procurement and construction of major capital items like potable water treatment plants are only constructed ‘once in a lifetime’ and the Productivity Commission should explore the establishment of a ‘knowledge centre’ to capture and share resources and experience from across the local government sector for major capital builds.

One opportunity to manage costs is to ensure the regulatory framework is fit-for-purpose and we provide the following example:

WDC has responsibility for seven water supply schemes, six of these are rural schemes. Most, if not all, of the rural water supply schemes in New Zealand present similar challenges around the ability of water service providers (now and in the future) to guarantee the safety of drinking water beyond the farm gate. The current Rural Agricultural Drinking-Water Supply Guideline 2015 (RADWS) should be reviewed in detail and legislated.

Appropriate regulation for the classification of rural and self-supply schemes is critical to the safe and affordable supply of remote drinking water schemes throughout New Zealand.

The revised RADWS should cover the installation of 'whole of dwelling water treatment systems' (by approved suppliers), and include a set of "acceptable solutions and verification methods" not totally dissimilar to G12 of the Building Code. This would extend to the on-site reticulation and connection arrangements to the business/farm out-buildings and stock water troughs.

The revised RADWS would also cover the water quality standards to be supplied to the property boundary by the local council

## Question 19

What practices and business models do councils use to improve the way they manage their infrastructure assets and the efficiency of their services over time? How effective are these practices and business models in managing cost pressures? Do councils have adequate capacity and skills to use these practices and business models effectively?

### WDC Response

WDC has heard 'small councils lack the skills and/or the depth of human resources to manage such infrastructure' and maintain a high level of asset management practices, when, in fact, large councils could learn a lot from their smaller counterparts in this area. Councils of all shapes and sizes have the same access to consulting engineers; and have their asset registers and asset management plans audited to the same standards as large councils. We now live in the digital age and suggest it is time to move on from such outdated thinking.

One suggestion for the Productivity Commission to consider is what organisation is suitable to house a repository or knowledge-base of policy, plans, designs and procurement (tender documents and the like). Each time a council wants to develop policy; or scope, design and construct (for example) a wastewater treatment plant, they begin a process that another council has already explored, scoped, tendered and constructed.

An example of this is the Australian Centre of Excellence for Local Government – The Local Government & Municipal Knowledge Base – <http://lgam.wikidot.com/australian-centre-of-excellence-for-local-government>

Asset management 101, if you want to successfully and efficiently operate and maintain your essential infrastructure assets, the opportunity for this is in the scoping and design, get that wrong, and no amount of money or expertise will fix it.

There must be an opportunity for cooperation and sharing. A local example of this is the Canterbury Mayoral Forum Triennial Agreement. The Triennial Agreement mandates the work of the Canterbury Mayoral Forum, Chief Executive Forum, Policy Forum, Corporate and Operations Forums and other regional and sub-regional forums and working groups. Specific commitments in the Triennial Agreement for 2017–19 include:

1. Policy Forum
  - a. Planning and managers group
  - b. Compliance monitoring and enforcement group
  - c. Climate change working group
2. Corporate Forum
  - a. Chief information officers group
  - b. Finance managers group
  - c. Public records Act executive group
  - d. Records information managers group
  - e. Rating officers group
3. Operations Forum
  - a. Engineering managers group
  - b. Drinking water reference group
  - c. Health and safety advisors group
  - d. Regulatory managers group
  - e. Stormwater forum

The above working groups provide a platform for collaborative sharing of planning and problem-solving activities across a very diverse range of key issues. This creates a knowledge base for the member councils.

## Question 20

How do councils identify and employ new technologies to manage their infrastructure assets and produce services more efficiently? How effective are councils in using new technologies to manage cost pressures? Please provide specific examples of the use of new technologies to manage cost pressures.

### WDC Response

Part answered in response to Q20. Specific technologies to WDC are:

- Full function of “AssetFinda” including the mobile app for outdoor staff to complete on-site condition reports and report infrastructure issues in real-time;
- Full function of MagiQ finance management system including the Budget Builder module and electronic purchase orders;
- ‘Go Get’ for building inspections, consent inspections and reporting;
- Supervisory Control and Data Acquisition of essential infrastructure (SCADA);
- InfoCouncil for integrated and evidence-based report writing for all council and committee meetings.

## Question 21

What incentives do councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened?

### WDC Response

Strong and positive reputation, and representing a successful workplace (being an employer of choice), improving productivity enables councils to deliver more services for the same level of taxes or to reduce taxes in a future year, both of which we would expect to be at the forefront of elected members' minds. Other incentives include:

- The requirements of S17A (LGA) that require councils to review how their activities are delivered on a regular basis;
- The regulatory oversight of delegated responsibilities under the Building Act and RMA by the Ministry for the Environment and the Ministry of Business, Innovation and Employment;
- The capacity of the Office of the Auditor General to initiate reports into aspects of local government.

## Question 22

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

### WDC Response

The most damaging barrier is dysfunction. As mentioned in response to Q15 local government cannot command the respect of its constituents or deliver efficient and effective services if it is unable to effectively formulate agreed policy positions and implement these decisions into concrete action.

## Question 23

How does local government measure productivity performance? Are these metrics useful? If not, what metrics would be better?

### WDC Response

One of the key challenges is managing the disproportionate focus on measuring performance, rather than on performing.

As mentioned in response to Q15 "financial suitability" and "core services" have no 'agreed meaning' and a more 'principle based' planning framework would be less arduous, costly and have more meaning to the users (the council). The clear lack of definition around what is 'core service' adds to the difficulty of overall performance measurement.

WDC measures its performance in many ways including:

- customer satisfaction surveys;
- performance measures (132 in the WDC LTP) against the LTP outputs (some of these are mandatory like water, wastewater, stormwater and provision of footpaths and roads);
- Council meeting reports – budget versus actual and traffic light progress reporting against capital works projects;
- Monitoring feedback from social media (Facebook, Council's website);

- Direct community involvement through committees – for example, WDC has established a committee for each of its rural water schemes. The committees are comprised of the water users (mainly local farmers) and council staff whom meet quarterly.
- Internal audit and risk management committee;
- External audits;
- Expert reviews (for example, Beca review the WDC asset management plans).

## Question 24

To what extent, and how, do councils use measures of productivity performance in their decision-making processes?

### WDC Response

- Do councils use measures of productivity? Yes, to measure ‘outcomes’ you must know the ‘inputs’ and ‘outputs’ of the activity being measured (to know the productivity).
- The ‘how’ – Primarily through reports tabled at council irrespective of the report being internal or external (for example, the external audit management report). Council reduces arbitrary judgement and scrutinise performance which helps to improve the quality and reduce the cost of all activities performed; and ‘was the target met efficiently’ or could we achieve the same output with less or modified inputs.

This process also takes account or evaluation of the lack of performance to understand the cause of underperformance and work with the chief executive to agree on an acceptable solution and support what is required to implement it (the efficiency question).

- To what extent? As mentioned in the response to Q15, the productivity performance can only be achieved in cooperative functional elected bodies that prevent “policy gridlock”. Smooth functioning councils will embrace a culture of continual improvement and there will be no limit to the extent that these councils measure productivity performance.

## Question 25

Do councils dedicate sufficient resources and effort toward measuring and improving productivity performance? If not, why not, and how could effort toward measuring and improving productivity performance be increased?

### WDC Response

Yes

## Question 26

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

### WDC Response

Councils have general remission powers and can use uniform annual charges to diminish the impact of property taxes on high value properties. WDC also supports a ‘user-pays’ approach to specific services where possible.

## Question 27

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

### WDC Response

Councils balance the ability to pay and benefit principles through the funding policy process as set out in sections 101, 102 and 103 (LGA 2002). Funding policies are agreed at the beginning of each Long Term Planning process.

## Question 28

Do councils currently distribute costs fairly across different groups of ratepayers? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across ratepayers?

### WDC Response

WDC considers that it does distribute all costs fairly.

## Question 29

Do councils currently distribute the costs of long-lived infrastructure investments fairly across present and future generations? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across generations?

### WDC Response

*Do councils currently distribute the costs of long-lived infrastructure investments fairly across present and future generations?*

A mechanism for distributing the costs of long-lived infrastructure investments (i.e. core infrastructure assets) across generations would be to fund the annual depreciation expense on that asset. Where depreciation rates are set fairly, and where significant assets are revalued regularly (i.e. 3 yearly), then ratepayers could be comfortable that the cost of those assets are fairly distributed across current and future generations. Currently there is no mandate for councils to fund this annual depreciation expense. Therefore, in some instances the distribution between current and future generations may not be fair. Where depreciation is not fully funded, then current ratepayers may not be paying their fair share meaning that future generations will have to pay more when the asset requires replacement.

*If not, what changes to funding and financing practices would achieve a fairer distribution of costs across generations?*

Councils could be required to fully fund depreciation on significant infrastructure assets, unless it is prudent not to do so. For example, if an asset was not required in future, then funding of the depreciation expense on that asset will not be required.

## Question 30

What principles should be used to appraise current and potential new approaches to local government funding and financing, and how should these be applied? What are appropriate trade-offs across these principles?

### WDC Response

The proposed principles are:

- Efficiency
- Equity and fairness
- Revenue integrity
- Compliance and administrative costs
- Fiscal adequacy
- Coherence with the broader (national level) tax system.

WDC believes that a system that incentivises productivity performance for capital items, similar to the NZTA co-funding arrangement is a possible solution. The Australian Local Government Grants Commission is a successful model and could operate under Principle 6.

Information on the Australian model of financial assistance grants can be found here

<https://regional.gov.au/local/assistance/index.aspx>

## Question 31

How effectively is the existing range of local government funding tools being used?

### WDC Response

WDC makes significant use of targeted rates where possible.

## Question 32

Is there a case for greater use of certain funding tools such as targeted rates and user charges? If so, what factors are inhibiting the use of these approaches?

### WDC Response

No response.

## Question 33

What is the rationale underlying councils' approach to levying rates? What are the costs and benefits of shifting from a capital value system to a land value system?

### WDC Response

WDC has considered both the land and capital value system of rating property and note there are pros and cons for each, with WDC for some years applying the Capital Land Value on which the link between CV and the beneficiaries of council services can be identified. We note the claimed benefits

from land value rating, however WDC would need to adjust specific property rates where land value systems are by applying multiple and complex differentials that would ultimately undermine any benefits.

## Question 34

In addition to restrictions on how targeted rates are applied and the types of services where user charges can be levied, do any other restrictions on existing funding tools unduly limit their uptake or usefulness?

### WDC Response

WDC argues that Crown-owned land should be rateable.

## Question 35

How does the timing and risk associated with future funding streams influence local authority decision making about long-term investments? What changes to the current funding and financing system (if any) are needed to address these factors?

### WDC Response

No response.

## Question 36

What are the pros and cons of a funding system where property rates are the dominant source of funding? Does the local government funding system rely too heavily on rates?

### WDC Response

Yes, as mentioned in response to Q30, WDC suggests in addition to property rates councils also need a buoyant tax such as a share of GST distributed to each local government similar to the Australian Local Government Assistance Grants programme.

## Question 37

Under what circumstances (if any) could there be a case for greater central government funding transfers to local government? What are the trade-offs involved?

### WDC Response

Answered in Q36.

## Question 38

Do local authorities have sufficient financial incentives to accommodate economic and population growth? If not, how could the current funding and financing framework be changed to improve incentives?

### WDC Response

This issue has been around for a long time, and with the recent escalation in tourist numbers, the damage caused by the lack of tourist amenities has been elevated within council. WDC recognises the significant concern in areas like the Queenstown Lakes District with the council's call for a bed tax to

assist with the development of tourist amenities. WDC would like to draw the attention of the Productivity Commission to the issues faced by rural councils like WDC that also have major concerns and challenges as a result of the impact of tourism when large numbers of visitors pass through our district. The key issue for WDC is the ability to fund toilets along SH1 and SH82 and other key locations within the district. A large number of freedom campers and other travellers pass through the Waimate District whom, unfortunately, make use of the roadside scrub as a toilet, and due to the inability to record “bed nights” as a key measure of assistance funding, WDC will struggle to fund and provide these amenities.

## Question 39

What funding and financing options would help councils to manage cost pressures associated with population decline? What are the pros and cons of these options?

### WDC Response

Through no fault of their own, medium to small communities can be hit hard by changes or the slowing in international trade like coal, timber and other primary goods. Central government can assist such communities through equalisation programmes and/or some form of transition funding, and in the case of districts like Waimate that are growing, provide some funding assistance to accelerate the prosperity.

## Question 40

Are other options available, such as new delivery models that could help councils respond to funding pressures associated with a declining population? What conditions or oversight would be required to make these tools most effective?

### WDC Response

It is not clear that this is a problem that should concern the Productivity Commission. While the case historically has been for councils with declining populations to be merged with neighbouring councils since local government reform in 1989 New Zealand councils are large by international standards and consequently this approach is unlikely to be necessary. Councils also have the ability to establish a broad range of joined up and shared service delivery models if required to ensure the sustainability of services as well as the ability to contract with national and multi-national providers.

## Question 41

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

### WDC Response

Local income and expenditure taxes will work well with tourist towns and cities where high-growth activities will provide adequate levels of income for targeted expenditure.

WDC argues that councils should have access to a national financial assistance grant scheme made up of a general grant and a roading grant, i.e. an expansion of the existing NZTA co-funding programme to include a component of ‘general co-funding’ on a per-capita basis as mentioned in the response to Q30.

## Question 42

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

### WDC Response

Setting property taxes to meet the balanced budget test on an accrual basis will be more difficult should a property tax be the primary form of income.

Because councils are expected to comply with the 'Golden Rule', that is borrowing is for capital expenditure purposes, councils will be exposed to financial risk when/if property values fall. This would be likely to increase risk and interest rates and lead to a risk averse attitude to future investments.

## Question 43

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

### WDC Response

Yes. LGNZ is looking at a "tax swap" model, involving joint revenue sharing in which local government and central government "swap" a portion of their relative tax bases. This would lead to councils having access to a share of income or goods and services taxes raised in their districts while central government would receive a share of property taxes. As a result, councils would be able to access a floating tax that would increase as local economies thrive.

## Question 44

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

### WDC Response

There have been nine previous reviews of local government funding of local taxes and expenditure taxes without any significant reform. WDC ask that the debate is centred on 'national good' and the relationship divide between central and local government is significantly reduced or closed, so we are better armed to meet the social, environmental and financial challenges before us.

Time needs to be applied to de-bunk the 'unfunded mandate' (or otherwise referred to as cost-shifting) conversation to better understand if a mandate to apply a duty or obligation by a local government set under a piece of central government legislation is fully funded to meet the required obligation.

It is difficult to answer this question when we do not know what the future holds, for example, the impact on renewable energy, and the inevitable reduction of fuel excise due to dual fuel or electric cars. The other end of the scale is the unpredictability of the cost of climate change (we note the SOLGM request for the establishment of a climate change fund) and other goals like swimmable rivers, and of course, revised three waters legislation and the associated costs.

To transition to a new funding model we must focus on rebuilding the capacity of local governments to finance critical infrastructure, attract and retain a skilled labour force, and engage the public in designing innovative solutions to address public problems.

## Question 45

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

### WDC Response

Considerably. Councils represent different communities and many of these communities face quite different and unique challenges. The critical issue is that councils have access to a menu of funding tools (or the authority to develop appropriate tools) so that they can apply the relevant tool to whatever the local issue happens to be.

## Question 46

To what extent are financing barriers an impediment to the effective delivery of local infrastructure and services? What changes are needed to address any financing barriers?

### WDC Response

As noted in the response to Q35 the only constraint is the way in which debt is recorded on a council balance sheet. Some observations are:

- Internationally there are models, such as municipal utility districts (MUDs) where debt raised to undertake a stand-alone development (which will also be paid back by the residents of that development) stays with that development and does not become part of the local authority's total debt;
- While development contributions were designed to "pay for growth" current legislation limits their effect and current accounting rules do not recognise income from development contributions as "revenue", thus the amount collected cannot be used to off-set council debt.

## Question 47

If New Zealand replaces rates on property with a local property tax, should it also adopt tax increment financing as a way to finance growth-related infrastructure investments? What are the advantages and disadvantages of tax increment financing?

### WDC Response

Yes, although tax incremental financing (TIF) is unlikely in the Waimate District due to our size, a property tax regime will enable TIF to work and this would address many of the growth related financing issues faced by councils across New Zealand. TIF has the capacity to promote significant urban regeneration and should be a tool available to all councils to use as appropriate to their circumstances.

## Question 48

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

### WDC Response

Private investor financing of local government infrastructure is constrained by the nature of some of that infrastructure. While finance, build, own and operate schemes are currently used by some councils they can be constrained by the way in which infrastructure is funded.

One constraint is the inability of councils to apply road user charges without the agreement of central government.

## Question 49

How effective are the current oversight arrangements for local government funding and financing? Are any changes required, and if so, what is needed and why?

### WDC Response

The current arrangement works well.

## Contact Details

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