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Auckland Council submission

New Zealand Productivity Commission Local government funding and financing: draft report

August 2019

Auckland Council's submission on the Productivity Commission's issues paper on its local government funding and financing inquiry

1. Auckland Council welcomes the opportunity to make a submission on the Productivity Commission's draft report.

2. This submission has been approved by the council's Finance and Performance Committee. The address for service is Auckland Council, Private Bag 92300, Victoria Street West, Auckland 1142.

3. Please direct any enquiries to Matthew Walker, Group Chief Financial Officer, at matthew.walker@aucklandcouncil.govt.nz and/or on 021-229-4094.

Introduction

1. This submission sets out the council's response to the recommendations in the Productivity Commission's Local government funding and financing: Draft report. It should be read in conjunction with our submission on the Commission's Local government funding and financing: Issues Paper.
2. This submission focuses on the Commission's recommendations to address the key cost pressures facing local government and on the proposed changes to rating. The council's response to the other questions and recommendations are set out in Attachment One: Response to questions and recommendations. The council has also sought the views of its local boards. Feedback was received from 11 local boards. Their views are reflected in the relevant section of this submission and included in full in Attachment Two: Local board views.

Executive summary

Overall conclusions

3. The council welcomes the Commission's finding that the current funding and financing framework measures up well against the principles of a good system and is broadly sound. The council agrees with the Commission's view that new financing and funding tools are required to address cost pressures to:
   - finance and fund infrastructure to support growth
   - adapt to climate change
   - cope with growth in tourism
   - take on additional responsibilities delegated by central government.
4. The council agrees with the Commission's conclusion that rates affordability has not changed over time but does not support the changes proposed to address equity or to remove the rates rebate scheme.
5. Auckland is New Zealand's largest city and operates at an economic scale beyond our New Zealand counterparts. The Commission's conclusions and recommendations are a good fit for our core responsibilities and the rest of the country. However, they don't accommodate the additional economic, social and environmental burden that rests on our shoulders.
6. With a third of the country's population and 50 per cent of its growth, decision made about Auckland have nationally significant economic, social and environmental impacts. The current situation requires sound central and local government decision making across many different agencies. To date this has resulted in slow decision making and a tendency to underinvest compared to some other international growing cities.
7. The council considers that the government should recognise the additional challenges associated with the governance of the city have more in common with governing an Australian state. The Commission should consider options for the government to devolve other funding sources to the council. Options could include:
   - providing a share of the GST collected in Auckland,
   - returning some or all of the GST collected on Auckland Council rates, around $280 million per year (eliminating the inequity of a tax being set on a tax)
   - making properties used for Crown activities rateable which could yield between $15 million and $40 million per year (depending on which Crown activities this applied to).

   The government could require that this funding be used to fund capital and operating expenditure associated with additional investment in infrastructure. This would better equip Auckland to accommodate investment challenges without the need to for slow interagency decision-making processes.

Financing and funding growth

8. The council supports the recommendation that the government continue work on the development of the Special Purpose Vehicle (SPV) model for third parties to invest in infrastructure and to have a secure mechanism to provide for repayment. The council is working closely with government on this. Access to capital to invest in the infrastructure required to support growth is the key challenge facing the council. The SPV model is the most effective means to address the capital shortfall.

9. The legislation which provides for an SPV to set a levy to repay the capital raised needs to be permissive. This will ensure levy design can be tailored to the individual characteristics of each development area. The national rates postponement scheme noted above could be a useful mechanism to manage the incidence of SPV levies on owner occupiers allowing them to defer payment until development or sale of their property. The legislation should also provide for appropriate democratic oversight of any decisions to apply a compulsory levy.

10. The council also supports in principle the proposal for a growth-related payment from central government. However, the council encourages further investigating the basis for these payments including using forecasts of new building work rather than completed building work. Additional revenue paid after growth has occurred will make a small positive impact on the council's ability to access capital for investment in infrastructure to facilitate that growth. Care will need to be taken in designing the basis for the payment to address measurement issues and avoid creating perverse incentives.

11. The council recommends that the Commission also consider other mechanisms for additional central government funding to support growth. These could include additional investment in regional infrastructure like roading in growth areas. This would directly address the constraints debt limits are placing on capital investment. Our infrastructure planning could also be improved by greater certainty around NZTA funding which could be achieved at no cost to the government.

Adapting to climate change

12. The council agrees that the impacts of climate change will present many councils, businesses, and communities with environmental, social, cultural and economic threats and funding challenges beyond their capacity to manage alone. The council endorses the broad themes of the Commission's recommendations for the government to:
    - set standards for information gathering to ensure decision making is well informed
    - legislate to guide decision making on development and land use in at risk areas
    - provide funding, through NZTA and the proposed Local Government Resilience Fund, to support investment in roading, stormwater and wastewater networks to manage impacts.

13. Without legislative guidance to support decision making local councils will struggle to manage land use in at risk areas to the future detriment of the responsible council and affected communities. Decisions about climate change will also need to consider the impact on communities of the response of the insurance industry to better information about climate risk.

14. Additional central government funding will be essential to manage the impact of climate change on core local government services; transport and three waters as well as to assist with the transition to a low emissions economy. Even large well resourced councils like Auckland will not be able to manage these challenges alone. The council considers that national funding support will be essential but to ensure the best returns from this investment the key decisions will need to be made locally where the knowledge and expertise rests.

15. Climate change is also an important consideration for councils beyond locations directly affected. Auckland Council recognises the need to consider how its decisions on the form and location of development impacts on emissions.

Coping with growth in tourism

16. The council agrees with the recommendation to allow councils that are tourism centres to apply an accommodation levy, or bed tax. Auckland is a key tourism centre for New Zealand, both as the primary gateway to the country and as a destination for its many attractions. Bed taxes are widely used overseas and are superior to a targeted rate The council also supports international visitor levy funding being able to support investment in the smaller tourist hot spots including those in the Auckland region.

Additional local government responsibilities

17. The council has been working closely with central government on several initiatives including the establishment of SPVs and the Auckland Transport Alignment Programme. The council supports the Commission's recommendation that central and local government develop their relationship to ensure the funding implications of decisions that may raise costs for local government are fully assessed.

Equity and affordability

18. The council does not agree with the proposed amendments to legislation that would require a complete review of rating policy based primarily on benefits alongside the removal of all differentials and the UAGC. Section 101(3) of the Local Government Act 2002 already requires councils to consider issues of benefit before weighing affordability. Elected members should make the decisions on the balance between benefits and affordability in striking rates to fund council services.

19. Auckland has already been through a major overhaul of its rating regime following its establishment. Rates standardisation resulted in large shifts in the distribution of the rates burden and the council considers Aucklanders will have little appetite for more of the same. Removing all rates differentials would raise residential rates in Auckland by 22 per cent. Another exercise of this scale would consume the energy of staff and elected members and the goodwill of the community. These resources would be better spent addressing the cost pressures the Commission identifies.

20. The council supports a national approach to rates postponement to assist ratepayers who are asset rich but cash poor. However, we do not see this as a replacement for the rates rebate scheme. The rates rebate scheme is popular among Aucklanders on lower incomes or relying on benefits. The council does not support the removal of the rates rebate scheme unless the same support was replaced with a satisfactory alternative.

Funding the challenges of a supercity

21. Auckland Council differs from the majority of other councils in terms of scale. Auckland is a third of New Zealand's population and economy and 50 per cent of the country's growth is occurring within our boundaries. Auckland is more equivalent to a state in Australia. Internationally local and state governments have wider responsibilities than those in New Zealand but also access to broader funding sources. Only 7 per cent of tax revenue in New Zealand is raised and spent at a local level compared to 20 per cent in Australia and much higher for most other OECD countries.
22. Given our scale, decisions made in Auckland have nationally significant economic, social and environmental impacts compared to other New Zealand councils. At present the council is working through these issues in partnership with a variety of government agencies. Each agency has different priorities and is required to follow their own decision making processes. Inevitably this slows decision making. As a result, investment hasn't kept up with growth with consequent lost economic opportunities and social and environmental impacts remaining unaddressed.
23. Auckland Council merged the former councils into one entity to develop and implement a single integrated vision for the city. This eliminated the friction between the councils, provided for decisions to be taken from a regional perspective and delivering economies of scale in service delivery.
24. The next step to release Auckland's potential is to devolve greater responsibility to the council for key investment decisions along with the necessary funding tools. The council is well placed to take a lead role with government as the council has the local knowledge and the political structure (with our local boards) to govern a broad range of economic and social issues. With our scale we are able to employ this expertise to ensure good decision making.
25. The council considers that the Commission should look at options for the government to devolve other funding sources to the council. The council recognises that without material legislative and administrative changes it isn't practical to introduce a new funding source. Options could include:
    - providing a share of the GST collected in Auckland,
    - returning some or all of the GST collected on Auckland Council rates, around $280 million per year (eliminating the inequity of a tax being set on a tax)
    - making properties used for Crown activities rateable, which could yield between $15 million and $40 million per year (depending on which Crown activities this applied to).
26. While the council is well equipped to make good decisions on the use of additional funding it should come with additional accountability for achieving the intended economic, social and environmental outcomes. Given the pressures identified by the Commission the funding could be statutorily required to be used for the capital and operating expenditure to support further investment in infrastructure required to deliver these outcomes.
27. We recognise this would raise government's costs and present them with decisions on expenditure priorities, raising taxes or expanding the tax base. However, devolving additional funding and decision making to a local level closer to the impacts and solutions would deliver benefits justifying these costs. This would better equip Auckland to accommodate investment challenges without the need for slow interagency decision-making processes.

Financing and funding growth

28. Auckland continues to experience strong population and economic growth. It is estimated that the Auckland region has a current shortfall of around 35,000 dwellings to meet demand for housing. A further 313,000 dwellings and work places to support over 250,000 jobs will be required by 2050 to meet expected growth.

29. The council agrees with the Commission's conclusions that councils require new financing and funding tools to support the demands of growth. The council has long accepted that growth present challenges. Existing residents face increased demand on council services and finances. Both new and current residents face housing affordability issues. The council has responded to this challenge not by stifling growth but by setting out a vision for our growing city in the Auckland Plan 2050 and planning how we will get there through the Unitary Plan, our 30-year Infrastructure Strategy and our Long-term Plan 2018-2028. However, the council's lack of debt headroom has meant that the we have had to prioritise our investment in infrastructure to support growth. The following sections address each of the Commission's recommendations that relate to this challenge.

Special purpose vehicles

30. The council endorses the Commission's support for continuing work on the development of SPVs that would allow capital to be raised off the council's balance sheet for investment in infrastructure. To provide a funding stream with the certainty and security to make SPV financing attractive to lenders will require the legislative ability to set compulsory levies, like rates, on land that is benefiting from investment.

31. Legislation will need to provide for a permissive approach to identifying beneficiaries and allocating costs between beneficiaries. Development is location specific and each SPV will be providing funding for a package of infrastructure projects that may deliver varying benefits in their geographic distribution within the development area and beyond, and between new and existing properties. The legislation should also provide for appropriate democratic oversight of any decisions to apply a compulsory levy.

32. Each package of projects will support development on land:
    - with widely varying development potential and size
    - held by multiple owners (e.g. owner occupiers, landlords, crown, land bankers, developers) with potentially widely divergent:
        - interests and objectives
        - current rateability and liability for DCs
        - levels of equity and cashflows.

33. The key challenge in designing a levy regime is to recognise the need to strike a balance on a case by case basis between:
    - providing for the provision of third-party financing secured by compulsory levies
    - a politically acceptable stream of compulsory charges on land.

    A permissive levy scheme will provide the flexibility to deliver this balance on a case by case basis. To ensure regional consistency it would be desirable for the council to have access to a similar range of tools to those available to an SPV.

34. Most local boards that provided feedback supported SPVs in principle. The Aotea / Great Barrier Local Board did not support this proposal. The Papakura Local Board considered that government should take a greater role in funding infrastructure for growth as these investments have national as well as local benefits.

Incentive payment to territorial authorities for new building work

35. The council agrees with the Commission's recommendation that government provide council with an incentive payment for growth but questions whether building work completed is the best indicator. The council recommends that the Commission should also considered options for additional government investment to support growth.

36. The council's strategies and plans show its commitment to growth. The council's ability to put these plans into action is limited by the debt constraints that cap our access to capital to fund investment in

infrastructure. The provision of additional revenue after development has occurred will make a small positive difference to our ability invest. The council notes that more upfront government support for the investment that will allow development to proceed would have more impact. For example, a forecast view of new development could be used to allocate payments to councils that invest in new infrastructure ahead of the development. Future payments could be adjusted to reflect realisation or otherwise. The council welcomes further investigation and discussion on this.

37. These payments as currently proposed introduce an element of risk for the council as we will have made the capital investments before development occurs. The incentive payments and development contributions are only received if developers undertake construction to the timeframes forecast.

38. Care will be required in determining the growth measure to be used. Some measures of building activity such as the value of consents may not be a suitable approach. Often, the true costs may not be known at the time consents are lodged.

39. The choice of the measure on which the payment would be made also needs to consider any unintended consequences such as incentivising building without provision of adequate supporting infrastructure, e.g. transport, leading to congestion problems.

40. While the council would be able to put any incentive payment received to good use it considers the Commission should also recommend other means for the government to provide additional support for growth.

41. The council would be able to open up more areas of the region for development if the government increased its investment in regional infrastructure such as roading investment to support growth. This would only make a difference provided it wasn't at the expense of existing NZTA commitments in the Auckland Transport Alignment Programme (ATAP).

42. Another target for additional government funding would be to support the success of the SPV model noted above by bearing some of the:

- inevitable cost risk with the associated infrastructure investments
- revenue risk and additional financing costs associated with some of the potential mechanisms for managing the incidence of the compulsory levies.

43. Our infrastructure planning could also be improved by greater certainty around NZTA funding. At present NZTA funding is on a project-by-project basis with long delays until funding certainty is provided. This doesn't help the council increase delivery capability or implement a strategic package of transport initiatives that attempt to address issues based around a network approach. NZTA subsidy level rules should be amended to reflect the agreement on the share of local and central government funding in the Auckland Transport Alignment Project (ATAP).

Value capture rate and road congestion charges

44. The council agrees with the Commission's finding that councils should have the power to levy value capture rates and congestion charges. Making these tools available would give councils more capacity to tailor the funding mix to the individual growth challenges on a case by case basis.

45. The council favours having the ability to set rates based on change in property value in some circumstances. However, while supporting its availability as a tool the council notes that value capture rating cannot solve the issues on its own in the current New Zealand environment. Applying a value capture rate has measurement issues particularly in determining a start and end point and how much of any value change is related to the benefits of services provided and investments made by the council. The use of value capture as a revenue raising tool may also clash with the intent of the investment in the infrastructure it would fund. If the purpose of the investment is to make housing more affordable, then if

successful, land prices are likely to decrease. A revenue tool based on value uplift may not deliver on its revenue expectations in these circumstances.

46. The council supports accelerating investigation of the introduction of new types of charging for roads and in particular congestion charging. The council promoted the introduction of the regional fuel tax to fund additional investment in transport infrastructure and to replace the Interim Transport Levy (a targeted rate set per SUIP). The additional cost of fuel provides incentives to reduce pollution and congestion. However, there are concerns that the higher cost of fuel mostly has the greatest impact on those on lower incomes. Fuel makes up a greater proportion of expenditure for those on lower incomes. They are also are likely to live in areas further from main centres and with less transport options.

47. The next step for the council in terms of revenue raising and demand management is congestion charging. Congestion charges are superior to a fuel tax as they provide a price signal for use of congested traffic corridors thus encouraging better use of public transport. The council is continuing work with central government on road pricing options as part of the Congestion Question project.

48. Some local boards supported value capture funding tools. The Henderson-Massey Local Board noted that it was unclear how it would work in practice. The Maungakiekie-Tāmaki Local Board opposed value capture in principle as it does not consider the impact on residents of the disruption, inconvenience and loss of value during the development of new infrastructure.

Vacant land tax

49. The council agrees in principle with the idea of a charge on vacant land to incentivise better usage of existing infrastructure given the pressures on infrastructure financing and the demand for housing. However, the council considers that there are economic and administrative issues with the application of an additional tax on vacant land or unoccupied dwellings.

50. The council notes that a charge set on this basis would not align well with the Commission's recommendation that rates be set based on the benefits to properties from council services or investments in the first instance. The council considers that compulsory levies set to fund the specific growth investments made by a SPV are a better mechanism to provide the incentive to develop.

51. The council considers a tax on unoccupied dwellings would be difficult to justify as there is no link between the services the council provides and a dwelling being unoccupied. To apply this tax, we would need a clear definition of an unoccupied dwelling which considers issues such as baches and holiday homes and dwellings in areas where there is no demand for housing. We would also need to maintain a database of unoccupied dwellings which could incur significant administrative costs and compliance issues.

52. To be effective, a tax on undeveloped land should only apply where there was a link between undeveloped land and under use of council provided infrastructure. This link can only be made where the undeveloped land has the appropriate zoning, for example, a tax should not apply to land zoned for farming. The land would also need to be serviced by infrastructure that provides sufficient capacity to allow development. This rationale would allow the tax to apply equally to business as well as residential land.

53. A tax on vacant land would require careful consideration of the dividing line between undeveloped and underdeveloped land such as larger urban sections with capacity and lifestyle blocks. The definition of undeveloped land would also need to consider any possible overlaps between an undeveloped land tax and development contributions charged to developers and any thresholds that should be applied such as the size of land parcels, whether land parcels meet feasible development tests and whether the land is infrastructure ready. The consequence of avoidance behaviours such as use of vacant land for car parking or temporary retail spaces would also need to be considered in any definition, as would legitimate land use such as timber yards and car yards, which have low levels of improvements.

54. The level of the tax for vacant dwellings and land would need to be sufficient to incentivise the owners to rent, sell or develop their property. Establishing the optimum level of the tax would likely be difficult, be market specific and require further investigation. If the tax was set too low, it may not be effective while setting the level too high may be seen as excessively punitive. If the holding costs of land are less than 10 per cent at present interest rates, then a vacant land tax would need to be set at 1 per cent of land value in order to make a 10 per cent change.

55. Analysis of the council's rating information database shows that there are around 29,000 urban properties that have an improvement value of less than 5 per cent of the land value. The table below shows the split between residential and business land and the respective land values and assessed rates. For vacant land, we estimate that a rate increase of more than 100 per cent for business and 300 per cent for residential land would be required to increase annual holding costs to around one percent of the value of the land.

Land type	Number of properties	Land value ($m)	Rates $	Rates to land value percentage
Residential	26,303	$30,254	$74,097,969	0.24%
Business	2,856	$9,352	$52,772,566	0.56%

56. Most local boards that made submissions were generally in support of a vacant land tax. The Aotea / Great Barrier Local Board was opposed to the application of a vacant land tax on Great Barrier Island.

Universal DC template

57. The council does not support development of mandatory standardised templates for development contribution policies and assessments. Councils vary in size and the nature of development demands that may not easily fit within a standard template. In addition, a move to a standard template may reduce the scope of local authority decision making. The council does not support a prescriptive approach to standardisation that would preclude us from adjusting our policy to best support growth in our region.

58. The council is continuously improving its development contributions policy, striving for greater policy clarity and transparency in the policy change. We note the findings from the Insight Economics Review of changes to council development contribution policies in four high growth areas. This review finds that the council's Contributions Policy generally reflects development contributions principles and provides a transparent and reliable platform for setting prices.

59. Given these conclusions we don't see the value in putting additional energy into developing a standardised approach. However, the council continues to work closely with other councils throughout New Zealand. The council takes a leading role in the sector-wide Development Contributions Working Group which acts as a forum for sharing best practice and supporting smaller local authorities.

60. Given the important role the development contributions take in funding investment in infrastructure to support growth, the council asks that the Commission support our position on Kāinga Ora, that it should be liable for development contributions. The Kāinga Ora – Homes and Communities Bill transfers the rights and liabilities of Housing New Zealand Corporation, which is exempt from payment of development contributions, and its development subsidiary HLC (2017) Limited, which is liable for development contributions, to Kāinga Ora. This provision creates ambiguity on whether Kāinga Ora is liable or exempt from paying development contributions for its developments. As development contributions revenue is ring-fenced for growth infrastructure, an exemption could have a significant adverse impact on the provision of critical infrastructure to support housing and development.

61. The council also supports the recommendation that council is able to recover development contributions where the infrastructure is provided on land that the local authority does not own or control. This is becoming an increasingly common way of providing community infrastructure in a cost-effective way.

Adapting to climate change

62. The council agrees with the Commission's finding that the cost of adapting communities and infrastructure to mitigate risks and hazards associated with climate change will be a major factor influencing local authority costs. The council endorses the broad themes of the Commission's recommendations for the government to work closely with councils, set a clear direction for action and provides additional funding.

63. The council has recently declared a climate emergency and is currently consulting on the Auckland Climate Action Framework. This lays out our key moves in achieving our climate change goals, including using renewable energy, delivering clean, safe transport systems, and moving to a zero-carbon economy. It also sets out a range of actions for individuals, communities, organisations and businesses to help work toward these goals, including becoming more resilient to climate change.

64. The council's response to the Commission's recommendations are set out in Attachment One. However, there are other observations on climate change that should be considered.

65. The council recommends that local and central government take an integrated approach to climate change adaptation and mitigation. This would ensure that adaptation and mitigation actions are complementary. The council also recommends a six-year refresh of a national climate change risk assessment and adaptation plan, aligned to long-term plans. This would ensure the most significant risks are budgeted for and addressed in responsible timeframes.

66. Councils and government should work together on how to manage the implications of disclosure of climate change risk. Identification of climate risk may lead to some locations facing the risk of being uninsurable in the future.

67. The council recognises that it needs to consider the impact on climate change of other council activities such as development and support for tourism. For example, development of greenfields could have consequences for our emissions profile and therefore the scale of climate adaptation measures that would be needed to offset these emissions. Similarly, the New Zealand tourism sector is reliant on high emissions transport both for international and domestic visitors wishing to see more of our country. There is the potential that increasing climate awareness could have negative impacts on international tourism demand. This could result in 'stranded asset' scenarios where infrastructure investment is significantly above what it needs to be to meet demand.

68. Most of the local boards that provided feedback endorsed the broad themes of the proposals to address climate change. The Waitematā Local Board suggested that funding tools to ensure an appropriate contribution from those bodies that pollute or exacerbate climate change should be developed. The Papakura and Aotea / Great Barrier local boards both noted the impact of climate change in their areas.

69. The Aotea / Great Barrier Local Board noted that their airports and wharves sit beside the coast and are essential transport links for the island. The board is currently looking at their coastal roads and infrastructure and the possibility of a managed retreat. These major long-term infrastructure concerns are beyond local funding capabilities.

Coping with growth in tourism

70. Auckland is both the primary gateway for tourists to New Zealand but also a prime tourist destination. Given its size the Auckland region encompasses attractions at scale like the city centre and but also

features areas like Matakana, Waiheke and Great Barrier Island with strong similarities to many of the smaller tourist hot spots in the regions. In these areas there is a need for tourism infrastructure above and beyond local community needs and is willing to pay for but is generating significant tourism spending. The council therefore supports the Commission's recommendations for new funding tools but argues that to ensure equitable treatment Auckland should also receive an appropriate share of the international visitor levy.

71. The council agrees with the Commission's finding that coping with the growth of tourism is presenting councils with funding challenges. The council supports the Commission's recommendations that the government:
    - legislates to enable councils to implement an accommodation levy to recover the tourism induced costs of providing local mixed-use facilities
    - provide funding from the international visitor levy for councils responsible for small tourist hotspots which cannot reasonably recover all their operating costs of providing mixed-use facilities from tourists through user pays or accommodation levies.

72. Auckland Tourism, Events and Economic Development (ATEED), an Auckland Council controlled organisation, works alongside industry and government at all levels to activate the opportunities and help address the challenges of managing the impact of Auckland's visitor economy. The council's Destination AKL 2025 strategy, is focused on destination management and making Auckland visitor-ready, particularly as we prepare for a strong line-up of events in 2021 including the 36th America's Cup, APEC 2021, the World Softball Championship, and the Women's Rugby World Cup.

73. The council funds 50 per cent of ATEED's visitor attraction and major event expenditure with the accommodation provider targeted rate (APTR). The APTR is set differentially by property type and location and is based on capital value.

74. The council agrees with the Commission's recommendation to implement accommodation levies to meet funding pressures from tourism, which could be used in addition, or as an alternative, to current funding tools. The council considers that the accommodation levy should also be able to fund council expenditure on visitor attraction and major events.

75. An accommodation levy would distribute the costs of responding to tourism demand based on their accommodation revenue and revenue would rise with increases in visitor numbers. Guest nights in Auckland's were 7.46 million for the year to April 2019. In the 2019/20 financial year, the APTR is expected to generate around $14 million in revenue.

76. It is important that funding from the international visitor levy is based on national demand proportionally across the regions and does not focus on supporting small tourist hotspots exclusively. It is also important that funding from the international visitor levy acknowledges and supports New Zealand's main tourism centres such as Auckland and Queenstown, which make a crucial contribution to growing New Zealand's overall tourism value and productivity. As an example, Auckland is a key port of entry to New Zealand for the cruise sector. If Auckland's infrastructure cannot accommodate the larger ships which are replacing older ships, there is a risk of a number of ports in the rest of the country losing revenue from the sector.

77. While Auckland has capacity for more visitors overall, a fundamental principle of Auckland's Destination AKL 2025 strategy is to disperse visitors to areas around the region which are not strongly visited. This supports business growth and communities in regional Auckland through developing sustainable tourism product offerings. ATEED has assisted in the creation of cluster groups in each of the Auckland sub-regions to understand the local communities' needs. The cluster groups include businesses and stakeholders from each local community. These communities require investment to develop attractive

offerings for Aucklanders as well as domestic and international visitors and funding from the international visitor levy should be available.

78. The council believes that the government's investment framework for tourism should be based on a strong case for investment or change, irrespective of regional location. Auckland is a diverse city with diverse needs, and it is therefore important to treat each area depending on the needs of that area rather than as a single region. There is a strong focus on investment in the regions, but consideration needs to be made of the flow-on impacts of not supporting the major centres proportionally.

79. Most of the local boards that provided feedback were in support of the implementation of an accommodation levy and that the government should provide funding to councils from the international visitor levy. The Maungakiekie-Tāmaki Local Board did not support an accommodation levy because of its impact on small local businesses.

Additional local government responsibilities

80. The council agrees with the Commission's recommendation that central and local government work together to achieve a more constructive relationship. This would ensure greater consideration was given to the financial implications of government decisions that add to council's responsibilities and costs.

81. A recent example of regulatory impacts on councils is illustrated in the report Delivering better responses to natural disasters and other emergencies: Government response to the Technical Advisory Group's recommendations (August 2018). Two examples where additional responsibilities have been imposed on councils by central government are the changes in the delivery of welfare services and an increase in the expectation to undertake strategic planning for recovery. The report did not identify the impact of the new regulations to outline how the new requirements will be enabled. This example shows the need to ensure that central government agencies understand the regulatory impact of changes before they are proposed and conduct meaningful consultation with local government before policies are enacted.

82. Another example where government should give further consideration to the financial implications of its decisions is the ongoing costs associated with administration of co-governance arrangements arising from Treaty settlements, see Question 4.1 in Attachment B: Response to questions and recommendations.

83. Most of the local boards that provided feedback were in support of this recommendation. The Whau Local Board considered that mana-whenua should also be included on matters related to delivery of Treaty of Waitangi obligations.

Equity and affordability

84. The council agrees with the Commission's finding that the current rating system is sound and measures up well against a range of criteria. However, the council does not support the key changes the Commission suggests regarding equity and affordability. Implementing the changes proposed to give more weighting to benefits in formulating a rates policy accompanied by the removal of differentials and UAGCs would divert council and community attention away from the priorities the Commission has identified.

Weighing benefits in rates decision making

85. The council agrees that who benefits should be the primary consideration for most funding decisions and for most rates funding decisions. However, the council does not agree with the Commission's recommendation that legislation should be amended to make benefits the primary consideration in rates setting.

86. A requirement to revisit our rating policy giving greater weight to benefits would divert elected member and staff resource, and the attention of the community, away from the key funding pressures the Commission

has identified. The council considers that addressing the key funding pressures is the best use of its resources. The council notes that the Commission has not identified any superior economic or community outcomes from this amendment.

87. The council agrees with the Commission's argument that redistribution is the role of central government and a system in which two levels of government undertook redistribution would lack coherence. However, the council has legislative obligations to consider the four well beings in its decision making inevitably giving rise to considerations of redistribution. As the Commission notes local and central government in general avoid conflicts because of the separation of the taxation tools they use and the different nature of public good services they provide.

88. The council agrees that careful consideration should be given to who the beneficiaries of expenditure are when determining how the burden of funding public and social goods is distributed between ratepayers. We also agree that this analysis, and the weighting of affordability and other dimensions of funding decision making, should be undertaken transparently.

89. The current decision making requirements in section 101(3) of the Local Government Act 2002 require that this analysis is undertaken and fundamentally in the order that the Commission proposes:
    - section 101(3) a) requires an analysis of who the beneficiaries are (and/or who may be imposing the costs that drive expenditure)
    - 101(3) b) then requires an assessment of the "overall impact of any allocation of liability for revenue needs on the community", essentially consideration of affordability.

    These decisions are made transparently as all decisions on rates must be consulted on as part of an annual or long-term plan.

90. Auckland Council has included an analysis of the factors set out in s101(3) in the consultation and decision making materials for all its recent major rating and funding decisions.

91. In order to properly assess benefits council's will require better access to information about how properties are being used. Changes in technology are changing the way in which business is conducted and properties are used. Current rating legislation was designed for a time when it was very clear how properties were being used. At present ratepayers have no obligation to advise the council of how they are using their properties and face no penalty if a use other than that which we have recorded is subsequently discovered. Changes to rating legislation to require ratepayers to advise the council how their property is used would help ensure rates are applied fairly. Legislation should also oblige third parties to share information they hold on a property's use with the council.

92. The council notes that most rates funded services provided by the council are public or merit goods. Over time technology has improved the ability to identify and charge beneficiaries (e.g. water meters) and those who impose costs (e.g. congestion charging for roads). Where these services are charged for consumers make better decisions on how much of a service to consume and superior economic outcomes result.

93. For public goods like parks, stormwater and transport (roading and public transport) an assessment of the benefits is possible but cannot normally accurately identify who benefits and by how much. Even after making the best benefits assessment possible some fundamental questions remain such as should transport costs be allocated to the origin of trips, residential properties, or the destination e.g. employment, retail and entertainment. An assessment can only inform decision making rather than accurately allocate costs.

94. For these public good services, it is not practical to charge users and as result there are no economic benefits from allocating the costs to beneficiaries. Determining how to equitably share the costs of these services, in both benefits and affordability dimensions, remains a subjective decision.

95. The council notes that the challenges discussed above relate to funding the capital and operating cost of existing services. It is easier to identify the beneficiaries of projects to support growth. A charge can be set on land to fund these (like a development contribution or targeted rate). Setting these charges delivers economic benefits by ensuring that development decisions are made based on the underlying costs.

96. Most of the local boards that provided feedback supported the principle that those who benefit from or cause the need for a service should bear the cost. Several local boards noted that the ability to pay should be given equal weighting. Several also noted that benefits are often not contained within an easily defined geographic area e.g. a local board area.

Removal of rates differentials and the UAGC

97. The council also disagrees with the recommendations to remove the ability to set rates differentially and to set uniform annual general charges (UAGCs). Even with the proposed five-year transition period the redistribution of rates arising from the removal of differentials and UAGCs would lead to changes in excess of levels the community is prepared to accept or understand. The Commission suggests that targeted rates provide a better mechanism than differentials to allocate cost to beneficiaries and to make adjustments for affordability. They consider that targeted rates could be used to achieve the same distribution of the rates burden. We consider that this would be difficult for Auckland Council with its largely contiguous urban rating base and interconnected service networks. While we also have many distinct more remote areas these are also inextricably linked to the benefits of the greater region making setting a “fair” targeted rates. It would also deliver a very complicated rating system reducing transparency to all but the most well-resourced ratepayers and ratepayer groups.

98. The council has calculated that a removal of the current general rate differentials on the general rate, water quality targeted rate (WQTR) and natural environment targeted rate (NETR) would cause significant changes in rates incidence. On average, on top of any overall budget increase, residential rates would increase by 22 per cent and farm/lifestyle rates would increase by 50 per cent. Business rates would decrease by 54 per cent.

99. Removing the UAGC (currently set at $424) would shift the rates burden from lower value residential properties to higher value properties. The 20 per cent of properties valued above $1.33 million would have rates increases of 4.5 per cent or more. The 20 per cent of properties valued at $620,000 or less would have a rates decrease by 10 per cent or more. As the UAGC is levied per separately used or inhabited part of a rating unit[1] (SUIP) it would also shift some of the rates burden from the 30,000 multi-SUIP properties to properties with only one SUIP.

100. The council has recently been through an extensive exercise to establish a standardised rating system from the varying approaches used by the seven former councils. This resulted in a significant redistribution of the rates burden. The council worked through these issues over a seven-year period. The debate on these issues consumed substantial staff and elected member time and dominated our consultation with the community. Requiring councils to commit a substantial proportion of their management and political resources to an exercise in rates redistribution would be a waste of these resources given the other challenges the draft report identifies.

[1] A separately used or inhabited part of a rating unit includes both the main house and granny flat and treats each shop in a shopping mall separately.

Introduction of a national rates postponement scheme

101. The council supports the introduction of a national rates postponement scheme as an effective means of allowing those with limited sources of income to make use of the wealth accumulated in their property. A nationally funded and administered rates postponement scheme would not impact on the council's balance sheet. Any postponement scheme should make application easier and seek to reduce administration costs and hence lower administration fees. To reduce any perceived stigma associated with applying to join the scheme it should be open to all ratepayers regardless of their circumstances i.e. not require a hardship test.

102. A scheme of this nature could be used to support the council's proposal to allow owner occupiers to defer payments of levies set to support SPVs financing growth infrastructure, see paragraphs 39-43 below.

103. A national scheme should also allow Auckland residents to fund their water and wastewater charges. This would ensure they are treated fairly relative to other regions where water and wastewater charges are included in rates bill. This should also apply to any other council's that establish separate water authorities in the future.

104. Most of the local boards that provided feedback generally supported a national rates postponement scheme. Comments included**:**

- may assist those on fixed incomes to meet their rates obligations
- effective means of supporting those who are asset rich but income poor
- could increase uptake of the scheme.

The Maungakiekie-Tāmaki and Ōtara- Papatoetoe local boards did not support the proposal as it doesn't reduce the financial burden on ratepayers who are struggling.

Rates Rebate Scheme

105. The council does not agree with the Commission's proposal to phase out the Rates Rebate Scheme over a defined period until a national rates postponement scheme has been implemented. The council does not support the removal of the scheme unless the ratepayers currently receiving a rates rebate were transferred to a scheme with similar benefits. The council agrees that the level of assistance the scheme provides is small, at a maximum of just over $12 per week, and that most recipients wouldn't qualify for the government's accommodation supplement. However, the additional support provided by the Rates Rebate Scheme is popular among Aucklanders on low incomes or relying on benefits such as superannuation or disability. The scheme is also simple to administer and if promoted to increase its uptake, its value could be maximized.

106. The Maungakiekie-Tāmaki and Ōtara- Papatoetoe local boards did not support removing the rates rebate scheme. The Maungakiekie-Tamaki Local Board consider the scheme should be reviewed to ensure it is addressing socioeconomic inequity.

Three waters

107 The Commission suggests a new regulatory regime for three waters which would enforce minimum standards to improve the performance of the three waters sector.

108 The council supports this recommendation in principle and notes that further feedback will be provided as part of the Three Waters Reform programme and central government's Essential freshwater package.

109 As part of the council's 10-year Budget 2018-2028, Aucklanders prioritised spending to improve water quality across the region. The council ring-fenced $452 million raised through a water quality targeted rate for projects that will ensure cleaner beaches, streams and harbours.

110 The council and its CCO, Watercare are working on its Three Waters Strategy to achieve the objectives of adapting to a changing water future, as laid out in the Auckland Plan 2050. The ways in which this will be done include collecting and treating wastewater effectively, and, managing the effects on receiving environments. In its Statement of Intent, Watercare has also undertaken to meet the requirements of the national policy statements on urban development capacity and freshwater management. Watercare is also committed to working with the council to identify additional effective, appropriate and meaningful measures that will arise from the government's review of three waters in New Zealand. This includes working on identifying appropriate climate change measures and targets.

111 The council notes that the government approved a dedicated water regulator and new water regulations in early August. The council looks forward to reviewing the new legislation which is expected to be introduced to parliament by the end of the year.

112. Most of the local boards that provided feedback were in support of this proposal.