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To: New Zealand Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143

Subject: **LOCAL GOVERNMENT FUNDING AND FINANCING SUBMISSION**

Submission from: Ruapehu District Council
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Council does wish to speak in support of its submission.

1.1 Ruapehu District Council (RDC) would like to thank the New Zealand Productivity Commission for the opportunity to submit on the issues paper. Investigating and responding to current pressure points and ways that Councils can manage cost pressures is critical in delivering for our communities.

1.2 The Ruapehu District is one of New Zealand's largest districts by land area, of which, 36% is Crown owned. It has a small population of approximately 13,000 scattered throughout a wide geographical area of 6,730 square kilometres, of which 40% of residents identify as Māori. Per capita, the Ruapehu District has one of the highest visitor numbers in Aotearoa. The area is predominantly rural and includes the Tongariro and Whanganui National Parks, a large portion of the Whanganui River and many tributaries cementing the District's rich natural environment and history as pivotal in Aotearoa's identity.

1.3 This submission provides feedback on the questions contained in the issues paper and is prefaced by a summary of recommendations. These two sections highlight the unique pressure points that many rural, smaller population Councils, including the Ruapehu District, face.

2.1 SUMMARY OF RECOMMENDATIONS

There are several themes that are of particular importance when it comes to Councils that share similar environments and conditions to that of the Ruapehu District. The environment is one of smaller rural widely dispersed populations, low ratepayer bases, high visitor numbers and demands, ageing infrastructure, and many ageing, low and fixed income residents. The recommendations and challenges faced by some Councils in terms of how Central Government could ensure funding is shared fairly and equitably, and is invested to create meaningful impact for sustainable and prosperous communities can be summarised as:

(a) Given regional variances, ensure that funding is based on equitable, reflective, and robust principles.
(b) Ensure that funding is underpinned by growing sustainable communities and therefore prosperous futures.
(c) Funding based on resident population is not always a fine-tuned enough mechanism upon which to base funding.
(d) Small populations and perceived population decline is not a robust and full spectrum picture of the health and opportunities of many Councils.
(e) Legislative changes and increasing national standards are drivers of change but do not often have the required funding tools.
(f) Utilising models of funding that take in to account the number of visitors / visitor bed-nights measured against the size of the population for each Council could be advantageous.
(g) There is need to balance funding against age of infrastructure, peak infrastructure demands (from visitors for example), Central Government expectations, and ratepayer base.
(h) Consideration should be given to a localised share of visitor GST spend, immigration policies that bolster skills and populations of smaller districts, funding and incentives based on special precinct planning such as tourism, growing employment zones, and commercial investment.
(i) Consider further utilising user pays charges to fund major projects, especially in areas where external / visitor demand outstrips residential ability to meet costs.
(j) Areas with smaller ratepayer bases have the same level of service requirements as higher density urban areas. They require support from Central Government based on equitable principles.

3.1 ISSUES PAPER QUESTIONS

3.1 (1) What other differing circumstances across Councils are relevant for understanding Local Government funding and financing issues?

3.1.1 Though many issues are shared amongst Councils, the manner in which they impact, varies. Variances are based on a scale of issues, climate change for example, or infrastructure upkeep / modernisation intersecting with local challenges such as deprivation, declining population and ageing infrastructure.

3.1.2 All Councils are expected to deliver the same level of services and reporting, yet smaller Councils are faced with these same expectations in the face of less staff, less resourcing and significantly less rateable units measured against the scale of infrastructure requirements. For example, forestry in rural districts such as Ruapehu, has a significant adverse effect on rural roads balanced against a significantly smaller concentration of ratepayers to cover costs in comparison to urban centres. Ruapehu also has one of the highest per capita visitor rates and climbing, yet a low ratepayer base is relied on to fund

the required infrastructure.

3.1.3 The following table highlights the pressure across a sample of New Zealand Councils based on visitor numbers per capita. This demonstrates which areas experience not only one of the highest visitor numbers but the greatest demand on services and infrastructure. This could be a useful tool when looking at how funding could be better and more equitably calculated and allocated.

3.1.4

Council (Descending order highest - lowest)	**Resident population**	**Number of Visitor bed nights** (MBIE data used)	**Number of visitors per capita** (rounded to nearest .5) **Descending order highest-lowest**
Queenstown	28,000	3.6 mill	129
Ruapehu	**13,000**	**500,000**	**38.5**
Taupo	37,000	1.2 mill	32.5
Rotorua	72,000	2.3 mill	31.9
Coromandel	30,000	930,000	31
Waitaki	22,000	428,000	19.5
Far North	151,000	1.9 mill	12.5
Wellington	280,000	2.7 mill	9.5
Southland	93,000	473,000	5
Auckland	1.6 mill	7.4 mill	4.5

3.2 (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?

3.2.1 In order to maintain an asset's level of service, renewal works should equal depreciation – as not doing so implies a loss of service. However, it also assumes a 'like for like' outcome. This is not the case for many assets (e.g. Waters) where plants built 30 years ago do not meet the current regulatory standards. When works are done, renewal works are reclassified and reported under a level of service category. This has the effect of showing less renewals work than depreciation calls for, even if more was spent on the asset than depreciation would dictate.

3.2.2 Secondly, less may be spent on some assets than depreciation because there is not the political or social will to maintain the level of service, or replace the asset in the future. Local Government has turned a non-cash expense into a funding source in funded depreciation. When this expense is not funded, the community is effectively saying the service is surplus to requirement in its current state and less is spent than depreciation rates. There is also a common misconception that funded depreciation creates an 'asset reserve' that will be used to replace the asset on completion of its useful life. This is simply *not* the case, but does influence decision makers in long term planning – particularly around debt management.

3.2.3 Changes may not be needed, but there is room for improvement in the understanding of asset conditions – particularly underground networks – which would in turn deliver a more accurate forecast for some Councils. Also, Council cannot afford to review Long Term Plan depreciation assumptions every three years. Most models will otherwise assume all CAPEX works have been completed in line with the plan and exaggerate the depreciation expense. Improvement must also be made in growing Elected Members' knowledge and

understanding of these concepts so that effective governance can be maintained for all Councils.

3.3 (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?

3.3.1 With less rateable units and the need to maintain or increase service levels (Waters for example,) comes higher rates and levels of burden, increased reluctance of Elected Members to increase debt levels, lower growth levels, less local and social investment and greater deprivation. With an inhibited ability to invest in aging infrastructure this compounds in to a greater postponed burden creating a cyclical dilemma.

3.3.2 Additionally, funding is frequently based on population but this does not always reflect the level of infrastructure required (eg. broadband funding rounds). A more fine-tuned approach is required which balances elements such as age of infrastructure, levels of burden, visitor numbers, deprivation factors and growth potential.

3.3.3 Legislation can also create an additional challenge as it sometimes doesn’t allow for level of service to be altered. This means that the same investment is needed but there are less people to pay for it. The Ohura water treatment in the Ruapehu District is an example of how a decreasing population can influence affordability of funding infrastructure.

3.4 (4) What are the implications of demographic changes such as population ageing for the costs faced by Local Government?

3.4.1 An ageing population and fixed income homes, in rural – low population settings has an even greater impact than in urban – higher population settings. The reason being that the larger a population, at least in the New Zealand context, the more easily it can sustain, absorb and overcome limitations placed on it. The financial impact of an ageing population and those on fixed incomes, resulting in lower community spend and cash flow, in urban settings is more evenly dispersed and dissipated.

3.4.2 Where the ageing, fixed, low income cohort is more numerous, there is increased demand for social housing and services and less investment in the private sector. In turn, this has a flow on impact resulting in less employment, population retention, and increases pressure on services such as access to quality health, education, and vocational opportunities compounding regional and district decline.

3.5 (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?

3.5.1 Visitors and tourists increase the demand on services, infrastructure and the environment from the Waters, Waste Management, Traffic, Waterways, through to Emergency Services. This is exasperated by rising mandatory standards such as footpath, water, and wastewater treatment standards.

3.5.2 Access to quality accommodation and housing is compromising both the rental market and home ownership for permanent populations because of the impact that Airbnb and BookaBach are having on the market.

3.5.3 Additionally, operational expenditure is largely funded by the resident population. In the Ruapehu District when there a nearly forty visitor bed nights per capita, which potentially equates to 80 visitors for every resident, many of whom are on fixed incomes in the case of the Ruapehu District, finding adequate funding through the current models to improve and maintain services and infrastructure is a challenge.

3.6 (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?

3.6.1 Without additional and adequate support, an expansion of responsibilities results in an increased workload for Councils as well as pressure on budgets. Additional responsibilities place particular pressure on those Councils already at capacity in terms of staff budgets. This is especially true for small Councils, as although Councils must perform the same functions, meet the same levels of services, and meet statutory requirements, small authorities do this with less resources both financial and human.

3.6.2 Examples of current pressure points are responding to climate change, four wellbeings, drinking water and quality standards. Currently the cost of adding Hazardous Substances and New Organisms compliant infrastructure in a secure environment is significant for areas without fluoridation as it is not currently funded by the Territorial Authority. Though MOH currently fund the assessment and monitoring, all other costs are not covered.

3.6.3 Though the areas above are of significant importance, to have meaningful impact, Councils need to be equitably supported to achieve what is expected of them.

3.7 (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?

3.7.1 The process of delivering on settlements and co-governance / co-management will likely result in a greater financial investment, allocation of funds and need for more staff resourcing, especially at senior levels in Local Government. Settlements will offer opportunity in respect of transferring responsibilities and management of some assets and natural resources, but will also require adequate resourcing.

3.8 (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?

3.8.1 Climate change and natural hazards are an increasingly important feature in planning and financing realities for local authorities. For example, the Emissions Trading Scheme as a 'climate change tax' has quadrupled for Council in the last four years. Part of the issue is that Local Government is playing catch up. In many instances, infrastructure does not meet today's standards let alone more resilient hazard bearing standards.

3.8.2 Whilst previously planning was more reliably based on population forecasts, local authorities and their communities now need to plan and invest for what is a relative

unknown, in terms of scale and timeframes. Climate change creates a level of additional and new complexity in terms of requiring expert knowledge, planning for the relatively unpredictable and budgeting for that, which as yet is not adequately funded.

3.8.3 Traditionally Councils have been funded for the current period and communities have been supportive of this. Going forward, Councils will need to invest today for the future, something not all communities, Elected Members and funding structures are able to support. There needs to be more incentives at the national level that are based on equitable models of funding.

3.9 (9) Why is the price of goods and services purchased by Local Government rising faster than the consumer price index? To what extent is this contributing to cost pressures for Local Government?

3.9.1 Because of the role of Councils as infrastructure providers, the cost of Local Government is heavily influenced by the cost of construction inputs such as fuel, steel, aggregate, and labour, most of which are outside the control of Local Government. These economic inputs are also subject to higher rigors of competition both internationally, and from large industry sectors such as construction. The comparison to CPI with the costs of foodstuffs for example, is not practicable for Central Government as these markets are considerably different.

3.9.2 Additionally, Local Government potentially faces larger transaction costs than is needful due to the quality of the sector's project management and procurement practices. If certainty cannot be projected and deliverables managed effectively along a timeline, then many of the potential economies of scale and savings due to efficient procurement may potentially be compromised. Uncertainty, red tape, lack of key knowledge and skills sets, especially in planning, can result in uncertainty for contractors and translate in to higher charges. Multiply this by the hundreds of millions in Local Government spend and the loss to the ratepayer compounds.

3.10 (10) Do the prices of goods and services purchased by Local Government vary across Councils? If so, what are the reasons for these differences?

3.10.1 Rural Councils face higher prices for services due to a lack of competition driven by their comparatively small, dispersed populations and somewhat isolated location. In one instance, this resulted in a quote $100k – 300k above the engineering estimate. Even when well-priced services are procured, the bill still falls to a very low ratepayer base and has a real impact on affordability and liveability. This issue is compounded by challenges in attracting quality skilled staff to rural areas.

3.11 (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?

3.11.1 Expenditure is perhaps not 'shifting away' from traditional core business but rather is providing support for other services due to shifting norms and expectations in society. A holistic and wrap around approach to the challenges of society can be transformative and is well recognised. Local Government is seen and expected to be one layer of this process and approach. For example, the Councils involvement and support of attracting and retaining quality staff for both Council and local business to help grow the communities and thus improve measures with linkages to the four wellbeings, is a theme

frequently raised by the local community and businesses.

3.11.2 This 'non-traditional' business can be complimentary to traditional core business. For example Local Government can work to grow the capacity of other groups or agencies, as well as facilitate, lobby and advocate for those groups at Central Government level. This can then result in better levels of affordability, less deprivation and help attract quality staff and new residents to the area.

3.12 (12) Does the scope of activities funded by Local Government have implications for cost pressures? If so, in what ways?

3.12.1 Any activity requires resourcing which in turn needs funding. Where the scope of activity increases, either by mandated direction or by nature, it naturally flows that funding should also increase.

3.12.2 Additionally, in terms of activities associated with grants, although grant funding may be given for 100% of a project's cost, the staff, systems, and time required in order to deliver, are often not seen or captured by the grant. This results in overloaded staff who operate as BAU, but are required to deliver over and above BAU. This can then add to headcount, but more often additional consultant costs to fill the gaps. Effectively, demand or expectation of delivery can outstrip (human) supply.

3.13 (13) What other factors are currently generating Local Government cost pressures? What will be the most significant factors into the future?

3.13.1 As previously referred to, Central Government's expectations, whether direct or through regional directives, especially those without equitable underpinnings, can add to cost pressures. The factors listed earlier such as climate change, four wellbeings, drinking water and quality standards, as well as co-governance shifts and iwi settlements, will be significant factors in the near future. Appropriately and effectively responding to climate change in particular could be the single biggest emerging cost for local authorities.

3.14 (14) How will future trends, for example technological advances and changes in the composition of economic activity, affect Local Government cost pressures?

3.14.1 If well applied, the associated cost of technological improvements for example, could be minimised by sharing the cost and advancements between Councils. This may not be the case in all situations however. Areas with smaller populations but growth opportunities, such as the Ruapehu District, will still likely benefit from targeted funds for areas such as economic growth.

3.15 (15) How effective is the Long Term Plan process in addressing cost pressures and keeping Council services affordable for residents and businesses?

3.15.1 The long term nature of an LTP is beneficial in mitigating reactive approaches to managing resources and assets for example. The process itself however will need to continue to develop to be more functional as a tool for review. As maintaining and developing assets is the single biggest cost to Council, ensuring that long term planning is applied to Asset Management Planning is of vital importance to ensure the life cycle of costs across assets are factored in when assessing affordability. Any unforeseen legislative changes however can stymy aspirations of affordability.

3.16 (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?

3.16.1 Consultation is effective as long as it is used in a holistic way and learnings applied. Consultation however is different from engagement which should occur at the outset. For example, consultation in respect of a LTP may be limited to what is tabled under the LTP. The Consultation Document is required to “provide a representation of the matters proposed for the LTP” and may not include all matters of public interest. Open community lead engagement on the other hand is useful in this regard.

3.17 (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?

3.17.1 Making financial decisions and commitments based on a longer timeframe would mean plans are adhered to and more consistently realised. For example, if there was a requirement to provide a 36 month forecast of CAPEX works that came as an additional result of all the planning that goes into AMPs, then it could provide a more solid basis to measure effectiveness of Council’s work.

3.18 (18) How much scope is there for Local Government to manage cost pressures by managing assets and delivering services more efficiently?

3.18.1 It is an important function of Local Government to manage assets and deliver services more efficiently. However this needs to be balanced against effectiveness and ensuring that local authorities are able to achieve good outcomes for their communities. This is a balancing act and one that checks and balances on Local Government should continue to aim to achieve. Partnerships and contractors play an important role in ensuring Councils, especially smaller ones, can deliver on asset planning and maintenance alongside delivering on community interests including, for example, areas such as the four wellbeings and climate change.

3.19 (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?

3.19.1 Peer review within a similar industry of key strategies, processes, AMPs and policies can be effective. Annual customer satisfaction surveys as well as staff surveys also offer good benchmarking for progress in these areas.

3.19.2 In respect of building knowledge and identifying opportunities to grow skills on new and emerging practices, the networking and education opportunities, bodies such as LGNZ and SOLGM are beneficial and an area that could be further supported and strengthened. In terms of skills, home grown skills and talent is a practice with a multitude of benefits. It bolsters Council capacity, local knowledge, and in a District with limited vocational opportunities, improves community outcomes. Where there is a shortfall, quality contractors are a useful source of support.

3.20 (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.

3.20.1 Councils, through networking, research and development and looking for efficient practices, are continuously discovering new technologies as there is an appetite to deliver improved services whilst at the same time ease pressures on staff.

3.20.2 The use of drone technology in survey and planning work for example, saves a significant amount of money. RDC is currently using SCADA, which is an example of 'live' feed asset management tool / datasets, as well as drone technology, and soon pipe bursting to more efficiently and effectively manage our waters systems.

3.21 (21) What incentives do Councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened?

3.21.1 Achieving more and better for less is an attractive incentive in its own right as well as from the fiscal, political, legislative and social perspectives. For incentives to work, there has to be a recognition of efficiency gained or cost savings measured. Given the breadth, scope, finite resources, and timeframes Councils have to manage day to day responsibilities as it is, incentives and any expectations need to be realistic, taking these factors in to consideration in order to achieve a meaningful, purposeful and useful productivity review programme.

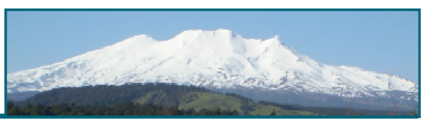
3.22 (22) What are the most important barriers to Local Government achieving higher productivity?

3.22.1 Maintaining the status quo can be a challenge for any institution and Local Government is no exception. Additionally for rural Councils, access to skilled people, and having greater representation at both the Elected Member level and staff level can be a challenge. The average age for example is often representative of an aging community yet planning for future generations is key for more accurate planning, asset management and ensuring communities thrive well in to the future.

3.23 (23) How does Local Government measure productivity performance? Are these metrics useful? If not, what metrics would be better?

3.23.1 This is an area that will always benefit from refinement as better and more reflective measures, complimented by meaningful and realisable outcomes, are identified. This is especially the case in terms of the reintroduction of the Four Wellbeings.

3.23.2 At present, Statements of Service Performance, customer satisfaction surveys, staff surveys, Local Government reputation index, benchmarking statistics such as those produced by MBIE on tourism, and the Local Government Excellence Programme are good examples of what type of productivity measures there currently are. The challenge is how to holistically translate this into benefits for communities. Ruapehu District is currently embarking on a project to gather all available measurables and indicators of the health, wealth and wellbeing of our communities. This type of understanding will help the Ruapehu District monitor progress, and in turn performance across the District more



broadly.

3.24 (24) To what extent and how do Councils use measures of productivity performance in their decision-making processes?

3.24.1 Similar to the question above, this is an area that will always benefit from refinement as better and more reflective measures, complimented by outcomes, are championed.

3.24.2 There are already many measures in place, for example in asset management, to monitor efficiency and productivity. KPIs in general also help in measuring productivity performance. The issue remains that some areas are further ahead in measuring productivity performance than others in this regard and may be due to some results being more easily monitored and measured than others.

3.25 (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?

3.25.1 There are many methods for measuring the productivity of discrete individual projects but cross council improvements can always be made. This is a knowledge, time, and experience rich requirement, one that not all Councils have the full suite of resources for. Encouraging effective processes and a learning culture that encourages, captures, and cultivates efficiency gain thinking would be a positive step towards achieving a better result. It is also important that such processes meaningfully capture the knowledge and expertise of all employees, as it is often those on the coal face that have the greatest insights to practical savings.

3.26 (26) What measures do Councils use to keep services affordable for specific groups, and how effective are they?

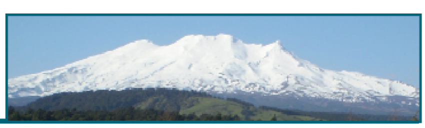
3.26.1 There are numerous measures as the Issues paper itself highlights. Alongside Councils abilities to provide remissions for low value land or Māori land for example, uniform annual charges are employed to even out the impact of property taxes on high value properties as well as low value land. RDC also actively encourages the use of the Rates Rebate scheme, keeping fees and charges as low as possible, and where possible, spread the cost of things such as water / wastewater.

3.27 (27) How do Councils manage trade-offs between the ability to pay and beneficiary pays principles? What changes might support a better balance?

3.27.1 Balancing the trade-off between obligations, political support and community realities is an ever present challenge to Councils. There is a fine balance to providing user pays and spreading the costs.

3.27.2 The many would likely pay for the disadvantaged few, but rules would have to be bent to enable a palatable rating impact. KPIs mandated in a framework could play an important role in ensuring ratepayers continue to receive good value for money. With increasing costs not matched by many household incomes, wider access to the rate rebate scheme would be beneficial to low income ratepayers.

3.28 (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?

3.28.1 There is an impetus and desire to distribute costs as fairly as possible. There is room for improvement for the cost areas Councils are currently trying to find mechanisms for. The infrastructure and financial impact associated with visitors and tourists is a clear example. Ruapehu District alone has around forty visitor bed nights per capita. This is one of the highest in New Zealand, behind Queenstown. Yet the burden of providing the infrastructure required for these visitors sits with less than 9,500 rateable units. Where growth has traditionally been slow, this is a significant area where costs are currently not being equitably recuperated.

3.28.2 Receipt of local / regional GST proceeds, and / or regional entry tollgates could be considered.

3.28.3 Capital Value rating is also problematic, again linked to an aging population, as well as a large rural area. While it is often seen as unfair, rural costs of roading are very high, but benefit a very small group of people. Overall a major benefit to rural areas like Ruapehu, would be better funding of rural roading by Central Government.

3.29 (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?

3.29.1 Long life assets are best funded by debt across generations – provided there is an ongoing commitment by the current generation to ‘pay off’ the debt rather than just maintain a static pile of liability for the next generation. Otherwise, this effectively equates to having the benefits of a new and improved level of service, but only paying the cost of interest for the privilege. Debt may be the only funding available to a small community of the future that have been left no reserves by the generation before, but to consider this positon with a large legacy debt is a challenge.

3.30 (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?

3.30.1 Buoyancy refers to the ability of tax to move as an economy moves. The problem with existing Council revenue sources is their lack of buoyancy meaning that ‘tax buoyancy’ could offer some benefits. Councils would perhaps be more incentivised to invest in growing their local economies if there is an ability to capture some of the fiscal benefit of investments through greater taxation receipts. However, with buoyancy there can also be uncertainty.

3.30.2 When new approaches to Local Government funding are being weighed up it is important to consider who is going to pay, is it affordable, is it fair and is the new funding source sustainable in future years.

3.31 (31) How effectively is the existing range of Local Government funding tools being used?

3.31.1 Whilst Local Government has some of the required funding tools and is using them effectively, the significant factor limiting investment in infrastructure is the ability of ratepayers to pay increasingly higher rates. This is especially the case for fixed or low

income ratepayers

3.32 (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?

3.32.1 In areas with smaller populations, targeted rates are problematic. Councils with larger populations are able to more easily spread costs. Although grant funding means small communities that are required by Central Government to upgrade their waters services for example, are able to do so, without it they would not be able to do so because of competing financial priorities.

3.33 (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?

3.33.1 Rates are an essential funding tool for Local Government to raise funding to carry out its activities. Many Territorial and Regional Councils have moved from land value to the capital value system as it was deemed fairer. The rural sector supported capital value rating as they had the largest land value when compared to urban ratepayers. Land based systems are not particularly fine-tuned and tend to reflect the ability of some people to pay. While land has a value, it is the product of that land that is more important, whether it is businesses, homes, or recreation. Shifting back to a LV system would be a backwards step. It is more likely that the future for funding Local Government is a better mix of ratings, Central Government funds and taxes (eg. visitor bed-night tax).

3.34 (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?

3.34.1 In respect of this, a significant issue is connected to the ability of users to pay. Mechanisms can be put in place and more tools introduced which may contribute to improved distribution. This however will not always address the issues at the individual or household level in terms of affordability as many ratepayers including in the Ruapehu District, are on fixed or low incomes.

3.35 (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?

3.35.1 With any unsecured funding balanced against investment requirements comes a level of uncertainty. The more foresight and stability, the more forward planning and stability. The current funding streams available appear to be adequate and varied enough to cover foreseeable investment considerations in the current environment. Perception to public debt remains sensitive for Elected Members, Council and the community alike. This is qualified and based on the continuation, and even increased accessibility of grant funding by smaller Councils however. The funding applied to one-off projects seems workable, although the ongoing rates impact associated with this will raise affordability issues.

3.35.2 It is also important to acknowledge that debt profiles are based on population, not on environmental effects, impacts and changing national standards, which are in turn

influenced by peak population. In the case of the Ruapehu District, with a smaller population and low ratepayer base but one of the highest visitor rates in the country, raising funds for infrastructure can lead to an unequitable situation.

3.36 (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?

3.36.1 The ability to rate (affordability) can constrict a Local Government's ability to provide services, and while this "forces" Councils to live within their "means", the down side is that it can also restrict investment, which aids development. A strength of Local Government is the ability to facilitate local decision making. The question remains then, what funding should Central Government provide when Central Government's demands (standards) drive costs?

3.37 (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?

3.37.1 Start-up investment costs are often not the same conversation as the ongoing affordability to the ratepayer driven by the step change in level of service. Growth would counter this in part, but small, static, or declining populations would see a 'compound interest' type effect work against them. If Central Government encourages step changes across the board, regardless of an ability to sustain this as a community, then attached funding has to follow.

3.37.2 There would also be a case for GST revenue being returned to the region that raised it through actively marketing and managing 'assets of national significance' since the goods and services are valued by customers in that space. This could be redistributed back into Local Government funding streams based on a percentage of overall GST income. This could have KPIs tagged to it that reflect value back to the local community via Local Government.

3.37.3 An area where there would be a case for greater Central Government funding transfers to Local Government is infrastructure – roading and the waters. This is a significant cost for all Councils but especially those with lower rating bases and extensive territory.

3.38 (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?

3.38.1 Economic and population growth are an incentive in their own right. In terms of adequate funding, support and resourcing available to Councils, from an equitable perspective, there is room for improvement. To respond meaningfully, long term investment is required and the grants available need to reflect this in conjunction with the additional challenges some Councils face. For example taking in to account, visitors numbers (which reflect peak infrastructure demands) alongside population size (which reflects the ratepayer base) and deprivation (which reflects a community's capacity to invest, and ability to leverage opportunities).

3.39 (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?

3.39.1 Areas with declining populations have much to offer in terms of housing affordability at a time when many New Zealanders are being priced out of the property market elsewhere. The quality of life due to no commuter congestion and ease of access to the outdoors, especially in a place like Ruapehu District, is unparalleled. Some options including prioritising Central Government's investment in quality, long term initiatives to aid in vocational training and opportunities for younger generations, incentives for businesses to shift to or start up in these areas, and encouraging new immigrants to move to areas with smaller populations. Sustainable communities can better support and generate their own cost pressures. This needs to become a priority as with the time, these communities could slide further.

3.39.2 Additionally, identifying a clear and effective mechanism for ensuring that the tourist and visitor sector more directly contributes to local infrastructure would have a positive impact on managing cost pressures. Once again, rather than distilling funding based on how many visitors each district receives, this needs to be viewed alongside the per capita count of the area and local ability to independently respond to this challenge such as private investment etc. This highlights where the greater challenges exist in this regard and which areas should be prioritised in respect of funding and financing.

3.40 (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?

3.40.1 For Councils with small populations Central Government funding for infrastructure such as roading and the waters is vital. Many areas with lower resident populations play a key role in attracting visitors to Aotearoa, yet must meet demands for significant peak populations spread over comparatively large areas with small ratepayer bases. Additional Central Government funding would keep Council debt at a more affordable level for ratepayers and provide quality services for all, including the large number of visitors to our regions.

3.40.2 Models that take in to account community level pressures and funding using public private partnerships could be beneficial.

3.41 (41) What are the pros and cons of local income and expenditure taxes?

3.41.1 A benefit of local income and expenditure taxes is their buoyant nature, that is, they reflect local economic activity and may encourage investment. On the other hand, this may be a less stable form of funding and if not managed well, it could lead to accelerated decline. Additionally, it would be a challenge for Councils in New Zealand to institute local taxes on income and expenditure other than rates, as Central Government through the Inland Revenue Department currently administers these taxes. It would require a complete tax restructure by Central Government.

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

3.42.1 There may be an argument around property tax offering increased flexibility. However disadvantages include lacking the certainty that rates provide, for both Councils and

individuals.

3.43 (43) Are there any other changes to the current Local Government funding and financing framework, such as new funding tools, that would be beneficial?

3.43.1 In terms of an equitable approach, there could be scope for a grant based on deprivation for local authorities. This could be geared toward boosting those areas with higher deprivation until such time that these communities become more sustainable and the community profile improves.

3.43.2 In addition, as mentioned earlier, localised GST distribution generated by visitors may help alleviate some of the financial challenges that tourism / visitors mean for infrastructure. In addition, a funding model based on visitor numbers per capita measured against deprivation would better address where there is greater urgency for funding and investment.

3.43.3 An equitable approach to funding would ensure that those communities who struggle the most would have an opportunity to become more sustainable and self-reliant which means less burden for the system as a whole.

3.44 (44) How can the transition to any new funding models be best managed?

3.44.1 Any significant transition attributed to new funding models would, when necessary, require early engagement, consultation and technical support with all effected parties at all levels. A transparent 'no surprises' environment would have to be established that facilitates meaningful communication and feedback.

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

3.45.1 All local authorities face similar challenges in terms of funding and delivering on duties and obligations. The degree to which communities are able to absorb costs associated with this is where variation in capacity occurs. As touched on in previous answers, visitor numbers measured against population size and deprivation may introduce a more equitable tool regarding the funding of infrastructure that adequately serves peak levels. This same equation could be useful in other areas also in terms of growth management, vocational development including recruitment, training and apprenticeship opportunities for example.

3.46 (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?

3.46.1 There are limiting ratios on the maximum Councils will be allowed to borrow through banks and the Local Government Funding Agency for infrastructure funding. The main constricting factor relates to what ratepayers can afford to pay to fund the new infrastructure.

3.47 (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?

3.47.1 Tax Increment Financing (TIF) has been used in the United States for a long time. It has the potential to draw investment into neglected places, but has not accomplished the goal of promoting economic development in most cases. First implemented in the 1950s, TIF funds economic development within a defined district by earmarking increases in future property tax revenues that result from increases in real estate values in the district. The tax revenue can be used for public infrastructure or to compensate private developers for their investments. TIF is prone to several pitfalls however. It often captures some revenues that would have been generated through normal appreciation in property values, and it can make council's financial decisions less transparent by separating them from the normal budget process.

3.47.2 Overseas TIF has been used in large cities, e.g. Chicago, with substantial areas of growth and large projects that it can be applied to. TIF would likely not be practical in a small Council like RDC.

3.48 (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?

3.48.1 It would be a challenge to involve private investors in financing Local Government infrastructure as many of the assets have useful lives of up to 100 years, particularly in the waters and roading activities. Private investors are looking for a return on their investment. Central Government could potentially issue long term infrastructure bonds that give an interest return to private investors, and Central Government would then provide the funding to Local Government to invest in infrastructure.

3.49 (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?

3.49.1 The current system seems sufficient. With the time involved to ensure all requirements are met, as well as evolving audit requirements, ensuring there are enough resources to achieve this is essential.