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Enquiries to: Alejandro Cifuentes



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Private Bag 3038
Waikato Mail Centre
Hamilton 3240, NZ

New Zealand Productivity Commission
P O Box 8036
The Terrace
Wellington 6143

waikatoregion.govt.nz
0800 800 401

info@productivity.govt.nz

Dear Sir/Madam

Waikato Regional Council Submission to the Productivity Commission's draft report on local government funding and financing

Thank you for the opportunity to submit on the Productivity Commission's draft report on local government funding and financing. Please find attached the Waikato Regional Council's submission. The submission was formally endorsed at Council's Submissions Subcommittee meeting on 27 August 2019.

Should you have any queries regarding the content of this document please contact Alejandro Cifuentes, Policy Advisor, Policy Implementation directly on (07) 859 2786 or by email Alejandro.Cifuentes@waikatoregion.govt.nz.

Regards,

A handwritten signature in black ink, appearing to read "Tracey May". The signature is fluid and cursive, with a large loop at the end.

Tracey May
Director Science and Strategy

Submission from Waikato Regional Council on the Productivity Commission's draft report on local government funding and financing

Introduction

1. Waikato Regional Council (the Council) appreciates the opportunity to make a submission on the Productivity Commission's draft report on local government funding and financing.
2. The council wishes to highlight the importance of the work done to enhance our knowledge and understanding of the existing funding and financing arrangements for local government. Research and consultation are key in assessing the suitability of funding mechanisms to enable local government meet its current and future cost pressures.
3. Our submission focuses on:
 - a. The benefit principle and central government contributions
We agree that the “benefit principle” should be key in determining who should pay for local government services.
 - b. Ability to pay
We note that the benefit principle is, in some instances, limited by the ability of users to pay.
 - c. New funding tools
We agree that new funding tools will be important to support infrastructure, and to deal with new roles and responsibilities that are placed on local government without corresponding decision-making powers.
 - d. Climate change and natural hazards
The recognition of the implications of climate change for local government, and for funding adaptation and mitigation activities in particular, is welcome.
 - e. Impacts of afforestation
The impact from increased forestry goes beyond the impact on infrastructure and is of particular concern to our Council.
 - f. Good governance principles and resetting the central-local government relationship
We agree with the Commission’s view that there needs to be a ‘reset’ in the relationship between central and local government.
 - g. Treaty of Waitangi and other Treaty obligations
We agree with the Commission’s finding that Treaty settlement agreements can impose considerable costs on local authorities, often not having comprehensive and independent in-depth analysis of costs associated with implementing Treaty settlement arrangements.
4. We ask that our comments also be considered in support of the overall intent of the sector submission prepared by Local Government New Zealand; specifically their comments on development contributions, local authorities’ general approach to infrastructure asset depreciation, special purpose vehicles and long-term plans.
5. We look forward to the future consultation process to incorporate the final report findings into relevant statutes and would welcome the opportunity to comment on any issues explored during their development.

Submitter details

Waikato Regional Council
Private Bag 3038
Waikato Mail Centre
Hamilton 3240

Contact person:

Alejandro Cifuentes
Policy Advisor, Policy Implementation
Email: Alejandro.Cifuentes@waikatoregion.govt.nz
Phone: (07) 859 2786

The benefit principle and central government contributions

6. We agree that the “benefit principle” should be key in determining who should pay for local government services, albeit not the only guiding principle. We support the Productivity Commission’s (the Commission) view that central government should contribute funding where there is a national benefit arising from the provision of local government services. In the case of the council, we note that, because it is exempt from local authority rates, central government is not required to contribute to the funding of flood schemes. Nevertheless, taxpayers generally derive significant benefit from these schemes – not least because they reduce the expected costs of disruption to key transport corridors (including State Highways and the rail corridors). This essentially means that Waikato regional ratepayers are currently providing a significant subsidy to national taxpayers.
7. Under the Commission’s ‘benefit principle’ we consider there is a strong case that central government should contribute to the funding of flood schemes that reduce expected damage to nationally important infrastructure. An August 2019 report prepared for Local Government New Zealand (LGNZ) by regional river control managers proposes a partnership funding model between central and local government to help provide for better river management and a higher level of flood protection¹. The report also highlights that “in the three decades since the central government stopped funding flood protection works, the Crown’s assets have received flood protection at a cost to regional and targeted local ratepayers, with no contribution from the Crown. These protected assets include rail and road infrastructure, some airports, education facilities, Crown land and health facilities and more broadly, the efficient functioning of the economy and communities.”

Ability to pay

8. While we acknowledge the merit of the benefit principle, in some instances the ability to apply it strictly is limited by the ability of users to pay. We acknowledge the Commission’s view that there is little evidence that rates have become less affordable over time. However, we consider that it is clear that some ratepayers are under financial stress, with rates being a part of this issue and this is an issue that local government in general feels it important to respond to.
9. Council requests that the Commission’s final report acknowledges the direct impact that people’s ability to pay has on local government decision making which limits the ability to adhere strictly to the benefit principle. Governance structures have to make decisions that take into account the financial capacity of each rating base to meet the capital costs of building, maintaining and enhancing infrastructure.
10. In many cases, rising rates reflect decisions made decades ago, dictated by central government or driven by growth in specific areas. Shrinking populations in some districts or decline in economic growth resulted in infrastructure costs having to be spread over fewer rate payers. Conversely, some councils are now having to ‘catch up’ – meaning current ratepayers are effectively subsidising previous generations – as decisions made in the past did not account appropriately for changes in land use and increase in population density in certain areas, thus having to upgrade infrastructure that is no longer fit for purpose .
11. We welcome the recognition of this issue and will support the creation of effective and equitable mechanisms to address it.

¹ Central Government Co-investment in River Management for Flood Protection Critical Adaptation to Climate Change for a More Resilient New Zealand August 2019. Retrieved from: <https://www.trc.govt.nz/assets/Documents/Research-reviews/hazards/FloodControlCoInvestment2019.pdf>

12. We support the Commission's finding that the current rates rebate scheme (RRS) is no longer fit for purpose. We consider the government should use the Commission's report findings to explore effective and equitable options, including those that address affordability, to either review the scheme to make it more current and useful or to replace it with a more suitable system.
13. The Commission suggests the use of a revamped national rates postponement scheme to better fulfil the purposes the RRS was designed to address. We note that further policy work is necessary to determine if this or any other proposed alternative is to be considered suitable to address the policy issue.

New funding tools

14. We agree that new funding tools will be important to support infrastructure, and to deal with new roles and responsibilities that are placed on local government without corresponding decision-making powers. The recognition of the implications of climate change for local government, particularly for funding adaptation and mitigation activities is welcome.
15. We support the Commission's recommendation to consider better suited funding tools for councils, and note:
 - Value capture: we consider it would be difficult to implement in the New Zealand context. International examples show that value capture works very similarly to a property tax. The most recent national discussion on capital gains tax highlights the difficulty to use such a tool.
 - Special purpose vehicles: we consider these to be sensible tools but note that more details are needed before further comments can be made.
 - New funding stream: we support this tool to be used for district level expenditure on infrastructure to support growth, and suggest it be extended to include funding to regional councils for regional flood risk reduction assets.
 - Vacant land tax: we support using this tool only in relation to urban fringes or hinterlands of high growth centres, as long as it was subject to well-specified rules about when it could be used. This tool would also be useful in mitigating land bankers extracting economic rents from ratepayers or developers.

Climate change and natural hazards

16. The recognition of the implications of climate change for local government, and for funding adaptation and mitigation activities in particular, is welcome.
17. We note the varied nature of natural hazards and the fact that some impacts are more predictable than others. This means that a significant amount of funding may be required to cover any contingencies linked to climate change related events.
18. We would also like to reiterate our concerns in regard to costs that will fall to regional and local ratepayers. Whilst the current government efforts to set emissions reduction targets and deal with climate change are commendable, any impost on communities need to be affordable, and ensure a fair and just transition.
19. We acknowledge that affordability is not a hard and fast concept and relies upon individual council's circumstances, related to debt levels and the time over which the transition to a lower emissions economy occurs. We also suggest considering the affordability of future assets. Not acting or investing in new infrastructure may be the most suitable option in some cases, as affordability in the short term may potentially create additional assets that are not sustainable in the long term and could end up being stranded, thus resulting in maladaptation.

20. There is potential for an increase of local government expenditure stemming from the way implementation of laws and policies create new priorities for regional and district councils. As the draft report mentions, significant investment may be required from regional and district councils in order to provide fit-for-purpose infrastructure to encourage the uptake of public transport use and the shift in modes of transportation from cars to cycling and walking. Current data on climate change suggests that there is an immediate need for these policy solutions to be developed.
21. The government is currently consulting on several proposed changes to legislation and policy to address climate change. Some of the new legislative frameworks and policies will impose pressures on local government's capacity. We support and support the Commission's assessment on the impacts that climate change adaptation and mitigation have for local government.
22. We consider an appropriate funding allocation and prioritisation national framework should be developed by the government to avoid a potential for maladaptation, or investment in works (infrastructure) and services that may seem appropriate for a local situation, yet be poorly targeted in terms of national outcomes and may even result in a long-term increase in national risks. Such as the case of three waters infrastructure in some coastal communities, where expensive upgrades and/or maintenance of aging infrastructural elements may no longer be needed before their design life is reached, because the activity or community they support is no longer viable due to climate or other factors.

Impacts of afforestation

23. Council works to ensure that it has a healthy environment, a strong economy and vibrant communities. We consider that any action to address the adverse effects of climate change ought to be an integrated response where potential unintended consequences are minimised. We advocate for a pragmatic approach that enables our region's continued contribution to overall social, economic, and environmental wellbeing.
24. The Commission's report states that a low emissions economy will require a significant amount of land use change. We support the Commission's finding that the country's transition to a low-emissions economy will lead to an increase in forested land, which will, in turn, lead to a bigger need for frequent maintenance and replacement of local roads.
25. Council suggests that the Commission further investigates the way in which rates are collected and then distributed where land is used for an activity like forestry which is considered a crop. In this case rates are paid over a considerable period of time, though the demand on infrastructure is intensive, but only periodic. This has raised questions about the practicality of strictly adhering to the benefit principle.
26. Although we recognise that there will be a change in land use, we wish to highlight the key role of agriculture and forestry sectors in our region. Council would like to see the development of appropriate funding mechanisms to ensure these sectors continue to have flexibility in their day to day operations so that one land use is not directed over another.
27. Council does not advocate one land use activity over another, such as the wholesale replacement of agricultural activities with forestry, rather we are supportive of farming and forestry both continuing in a sustainable manner where appropriate land is used for adjustment to climate change impact.
28. Furthermore, we invite the Commission to consider land use based on land suitability and not just limit it to two options (farming or forestry). This might involve retirements, which should be identified as potentially including protection forests to adapt to intense rainfall events and creation and restoration (i.e. stop draining wetlands) to adapt to projected drought conditions.

29. Land use change of the type mentioned to adapt to a changing climate will need to occur on a landscape/catchment scale. This would generally mean funding such use is beyond individuals. If funded by individuals, there will need to be a collective cost co-ordination over and above the need for individuals to self-fund their own transitions, from which they would benefit. Finally we note that in many areas land use change will need landscape scale transformations hence it cannot just rely on opportunistic individual action.

Good governance principles and resetting the central-local government relationship

30. We agree with the Commission's view that there needs to be a 'reset' in the relationship between central and local government. Central government agencies have increasingly seen local government as agents to deliver national policy, without any recognition of councils' accountability through their primary legislation (the Local Government Act) to their communities.

31. If decisions about activities and service levels are to be taken at a national level, and local authorities become accountable to central government for these activities, then funding must also change commensurately.

Treaty of Waitangi and other Treaty obligations

32. We agree with the Commission's finding that Treaty settlement agreements can impose considerable costs on local authorities, often not having comprehensive and independent in-depth analysis of costs associate with implementing Treaty settlement arrangements.

33. As the draft report points out some councils are struggling to meet the costs of implementing Treaty settlement arrangements. This puts the durability and effectiveness of some Treaty settlement arrangements at risk. We concur in assessing the central government support as ad hoc, and falling short of covering the initial and ongoing costs to councils.

34. We suggest the Commission recommends government carries out a comprehensive and independent in-depth analysis of costs associated with implementing Treaty settlement arrangements, for both councils and iwi. In line with the draft report findings, we consider such analysis would be valuable to clearly identify the additional resources councils must deploy to carry out this role.