Submission to the Productivity Commission on its July 2019 draft report on Local Government Funding and Financing

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Introduction

I have slugged my way through the detail of the draft report and want to commend the Commission for a thorough, clearly written and comprehensive job. We have extensive readable explanations, clear findings and recommendations. They all appear sensible and 'doable' to me, many not costly and most money-saving in the long run.

I note that the Shand report on much the same subject completed in 2007 is often cited, and a number of its recommendations meet with the Commission's approval. While I cannot verify it, one account I have read of the Shand report states that not one of the 96 recommendations in it was adopted.

This may be partly why I sense that the Commission has used reasonably forceful language (for an advisory body) in some of its recommendations. Submitters like me are not so constrained. It's absolutely imperative in my view that the Government and local bodies act on the majority of the recommendations in this report and do so with urgency. It's clear from the report that there is a great deal not being done at all well by most local bodies (three waters is an example), risking people's health in this case, and spending too much doing so. Politicians should be called out if they don't act now – residents of Hastings may not have been poisoned by their drinking water if action had been taken on many of the Shand report recommendations.

My submission is made to urge the Commission to specify more clearly in its report what kinds of data it thinks would be more useful for accountability purposes. I agree that much of the financial and other information provided to ratepayers is not much help in analyzing what's going on – I have reviewed Wellington's Annual Plan 2019/20 and the WCC's website and have found little I can use to hold the Council to account. I make one or two suggestions about data I think would help citizens to analyse what's being spent and how it's being funded so that they can better understand what's costing what, and make useful interventions with their councillors.

Getting action on this Report

While I acknowledge this report is a draft, and have said it is well-written, because of its relatively technical nature, I suspect for most people it might be termed 'worthy'. This rather jaundiced impression would be wrong, and let politicians off the hook, but much of Chapter 1 for example is really Appendix material – necessary but a turn-off for most. What would help the Commission to get traction with interested readers on the vital issues is an introductory chapter that took most of the key points and made them comprehensible to all. Maybe a public relations expert could assist, and this chapter could be followed by what is currently the last one, with findings and recommendations.

I say this because as the Commission knows, many of New Zealand's ratepayers seem more than ever before to be alarmed at an acceleration in the rate of growth of their rates in ten year plans – and some have reason based on experience from the past as well. In Carterton, several people are standing for election under the acronym RATH – 'rates are too high'. They say Carterton rates have increased 41 percent since 2012, while the CPI is up 8.3 percent. One Wellington mayoral candidate has calculated that with LGWM and Civic Square costs yet to be factored into the ten year plan, rates over ten years from 2018 are set to rise 70 percent.

These examples illustrate two problems the Commission acknowledges. Rates can't be constrained to CPI pace, as costs for councils are rising faster, and some new infrastructure needs (perhaps long-delayed) are coming to the fore. It's important that Councils spend prudently but adequately, to get efficiencies from investments – sometimes 'spending more to save more'.

In Wellington's case, I am reminded that the draft report says, in effect, that ten year plans (pages 54/55) are projections only, and that "over a long period the ratios of revenue (and rates) to national and household income have remained in relatively narrow bands. These ratios show no evidence of any recent upward trend". This is like saying to Carterton's candidates and Andy Foster "nothing to see here, move on."

Rather than words like 'gross national income' (GNI) and household income, to get buy-in from 'activist' readers of the final report, as opposed to specialists and others paid to read it, it would help to use indicators familiar to everyone. It's the activists who will get on the politicians' case, not the policy analyst. Many ratepayers will surely be puzzled by Figure 3.1 (page 39) appearing to show rates flat since 1993 as a proportion of household income, as it is not what I believe is now termed their 'lived experience'. (I assume you graphed residential rates revenue against household income: there has been an unwinding of reliance on business rates over this period.) Aggregate household income may significantly disguise rates' rising impact on many, particularly in the provinces, as household incomes have skewed since 1993 to the higher end.

NZ superannuation is required to remain in a 65-72.5 percent 'band' as a proportion of the 'net weekly average wage'. This latter figure has relevance to most ratepayers. For recipients of super, it's what has increased their super year after year lately, not the CPI. A graph that showed the Commission's residential ratepayers' rate of growth of aggregate rates since 2001, against growth in the net weekly average wage, might help us understand why it seems relatively sanguine about past, and in some respects, future growth rates of rates.

As an economist myself, I am struggling to square the circle when the Commission talks of per capita rises in rates between 1-2 percent, and that 'rate revenue' has risen around 4 percent and looks to be averaging 5 percent in today's ten year plans. We have had very high net growth in population over the past 20 years at 30 percent (figures neutrally supplied by the Commission).

Apart from putting pressure on local bodies at unusual pace to meet a growing population's needs, are we sure that over this time the number of residential ratepaying properties has remained 'in ratio' with population and hence per capita measures?

The Commission needs in my view to be much clearer about what has happened to residential ratepayers' increases in rates since 2000 (acknowledging things like changing differentials etc) compared to their incomes. It says pressures are coming on to spend more on infrastructure and for climate change reasons in the next decade. If ratepayers have got it all wrong about the past, as the Commission's use of economic aggregates implies, they need to be shown more concretely that they are wrong and yet somehow kept on side to press for the implementation of the report's recommendations, and not simply complain about ivory tower economists!

Next, what can the Commission say about restraint of the rate of growth of residential rates in future, given the increasing spending pressures they see? Five percent per annum over ten years is a rise of over 60 percent in the level of rates paid. I doubt many ratepayers anticipate incomes up that much in that time, nor would they expect or tolerate a 60 percent tax take rise from central government. Clearer statements about how these expenditure pressures might play out would help in a first punchy chapter that integrates the key issues in the others.

Accountability and information

Availability via a council's and regional council's website of data and statistics that enable interested citizens to monitor easily what is driving the level and changes in their residential rates is surely a key to improving accountability, and perhaps voter turnout, for local bodies. In my city of Wellington, the WCC has a large website that does not provide information of real use to me as a ratepayer. Indeed, it doesn't put much information in residential ratepayer terms, but expresses expenditures by category in terms of an individual.

I have read the pre-election report, which is in some respects useful, but figures intended to bring large numbers to down to meaningful scale are expressed per resident. When businesses pay 44% of total rates shown in aggregate, and WCC doesn't even see fit to tell you its population base (and how would you know if the Statistics NZ figures match the admin boundaries?) you can't reconcile this as a ratepayer. The Council tells me we may have 280,000 residents by 2050, but not how many there are now, or the assumed annual growth rate. There is a tendency to talk down to us, rather than just provide some useful information for competent adults.

I have also read the WCC Annual Plan 2019/20. Again, it uses costs per resident to tell me 'how much' the swimming pools are each year for example, when it could more helpfully say they were x percent of (about 73,500, I had to write and ask) residential ratepayers' aggregate share of total WCC rates – and so on. If I were a financial accountant I might get more out of the aggregate financial accounts, but even she should be able to see rates split between residential and the rest.

In my view residential ratepayers should be able to turn most major projects proposed in a city, and categories of expenditure, into a relatable amount in terms of their rates. It would be so useful for accountability purposes to know how many residential properties are paying rates, and perhaps the upper and lower quartile CVs, along with the median. If we were also given the average rate and where that was above the median, a table (spreadsheet) showing us all expenditure categories' share of rates would be a good way for us citizens to think about priorities and levels of spending. The WCC website gave me a page doing just that for cultural matters, but I came across it randomly and could not find any others. So it can be done.

This kind of representation of a spending impact at ratepayer level would also be very valuable at Council meetings that debated and prioritized spending. At the United Nations, no resolution can be voted on without its financial impact being known to government delegates at the meeting. I think the same should apply for Council meetings with the numbers expressed per various kinds of ratepayer (above a non-trivial threshold), in addition to traditional absolutes. I believe, as the Commission implies, that if better information for analytical purposes about a council's functions were freely available on its website, constructive external interventions from old gits like me might multiply, and longer term have the effect of encouraging more able candidates to present for election and deliver better decisions on our behalf.

On my WCC experience, I endorse strongly the Commission's view that far too much effort is put into regulation-driven, largely unhelpful information in reports, and that better information could be delivered, for less money, to achieve greater accountability through transparency. I would like to see less effort in long-term plans and more on delivering better up-to-date data externally. LTPs are rapidly out of date, while from the new circumstances it is impossible to recalculate growth rates, cumulative costs, etc. Efforts you might make to analyse a project's impact will be dismissed immediately by a wily councillor on the grounds you have the wrong figure "it's now $xx million" (and often a lot more) "and we've dropped project Y from our plans" (last week, and failed to show that where you can easily find it on the website).

I think it would be worth exploring whether the 12 city councils, or largest six, might be required to deliver maybe 100 – 200 key data items on a template, allowing comparisons among them. Councils have a massive amount of data accessible to them, which they analyse for strategy purposes. If the WCC is anything to go by, the staff who are quite competent to deliver a useful subset for analysis are not free to do so on their website.

Audit and Risk and Independent Review

I agree with the Commission's insistence that there should be one or two independent members of an audit and risk committee. That is necessary in my view, but not sufficient. On WCC evidence, where there are three (but no independent chair), under the risk parameters the 48% rise in rates in the ten year plan is fine, as are debt intentions. Exactly how does the Commission see them being effective? Could they be required to offer a view on a (findable and dated!) page on a council's website every quarter, on defined issues?

By the way, council reports everywhere bang on about the value of their assets in relation to debt. This is irrelevant in local body context, unless there are assets readily saleable, like Wellington's airport, if things 'go wrong' (like population growth arrested sharply), and in this case no real help, as airport revenue would have to be made up. It is ratepayers who are on the hook for their rates, and why financial markets will lend, and no other reason. It's debt servicing to rates and other revenue that matters – endlessly citing asset values in justifying debt levels is an unprofessional red herring (and risk red flag for me).

Finally, a risk not mentioned is the current reliance in plans like Wellington's on projected population growth. This is not under any council's control, and may well be pulled back from its current gallop if central government reconsiders how its present rate of growth, an extension of 30 years of both major parties' policy, has done nothing for the country's productivity but mostly hammered cities with burgeoning housing and other infrastructure demands at exceptional pace. The Commission has acknowledged it can't find an economic rationale for this level of immigration – one day soon a Government might change tack. For the moment, the main problem is the excuse projections offer councils in LTPs for mitigating the 'existing' residents' forecast rate of rate rise by showing a share to be paid by newcomers. I wouldn't count on all of that by any means.

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