

29 August 2019

Mr Murray Sherwin
Chair
Productivity Commission
PO Box 8036
The Terrace
WELLINGTON

Dear Mr Sherwin,

1. Selwyn District Council thanks the Productivity Commission for the opportunity to comment on its draft report into Local Authority Funding and Financing.
2. Council believes this is a very timely review given a number of pressures that are falling on the Local Government sector at the moment through changing land use, population and demographic changes, community expectations, and the required future investment in response to significant national issues such as climate change and three waters.
3. Selwyn District Council has been the fastest growing district in New Zealand for the past ten years. In 2013, our population was 44,595 with an average of 37 years – our population six years on is 63,500, with an average age of 35 years. More importantly our population will continue to grow very strongly. We are projecting 80,000 residents in Selwyn District by 2028, growing to 100,000 by 2040.
4. The focus for our response to the Productivity Commission draft report is on the manner that high growth Councils are being impacted on financially at the moment, and more importantly, how the proposed changes within the Productivity Commission's report could impact on high growth Councils.
5. We are supportive of the Local Government New Zealand initial response to the Productivity Commission's draft recommendations and findings. We are particularly supportive of those references to the reporting framework and the need for community understanding of the content of reports to be enhanced to allow better understanding of the impact of Local Authority proposals on behalf of their community.
6. The findings in the summary report regarding high growth Councils is incorrect. Selwyn has been the fastest growing district in the country over the last ten years, and has adequately funded infrastructure to date.
7. Whilst many of the recommendations are procedural with respect to process enhancement, we believe there is significant advantage in the suggestion that DIA, LGNZ and SOLGM officials work together to improve basic governance, financial governance, and skill base. The outcome to these discussions should be centred on understanding – in simple terms – both financial impact of decision-making and non-financial measurement of the effectiveness of decisions. The success or otherwise of investment by a Local Authority into a project or activity is often reflected in community support for those decision-makers through the electoral process.

8. Selwyn District Council is happy to make itself available for any pilot schemes to trial new funding proposals for the wider benefit of Local Government across New Zealand.
9. Rates are becoming increasingly unaffordable for community members on fixed incomes. We would like to have seen additional tools identified within the Productivity Commission's draft report that the Local Government sector could debate further with their communities to assess benefit to those who have rating affordability issues.
10. Selwyn District Council strongly supports the proposal for a more constructive relationship between central and local government into policy making processes and the early engagement into the development of new regulations. This will enable proposed legislation, and its administration, to be more proactively articulated to communities of interest whilst at the same time, removing any areas of doubt that may exist within proposed or newly enacted legislation.
11. Whilst the Productivity Commission report is clear on a number of procedural matters, it doesn't articulate additional funding tools that will particularly help growth Councils, particularly as they are investing in infrastructure ahead of strong growth patterns. Council would be interested in exploring current international models that may be used by high growth Councils globally reflecting growth areas and acknowledging pressures to meet growth communities' expectations for social and infrastructure investment.
12. We strongly urge the removal of the UAGC statutory cap of 30%. We do not see this limit having any value to our communities whatsoever, particularly as variations to funding at a more localized level are contemplated.
13. As noted earlier, the Selwyn district has undergone a period of rapid population growth over the past ten years. It has managed to accommodate this growth without incurring substantial debt. We have been able to achieve this because of a long history of prudent financial management, judicious investment and a capacity to increase the level of rates. Our ability to absorb the costs without high debt is coming to an end and our forecast is for a rapid increase in debt over the coming years. Selwyn has contributed hugely to the Canterbury rebuild without Central Government funding. Access to funding to support growth would be a substantial help to Selwyn ratepayers and land developers.
14. Selwyn District Council receives a greater proportion of its revenue from Development Contributions than other territorial authorities. It has been fundamental to supporting the provision of new infrastructure in the district and support the Canterbury rebuild. New housing is serviced by high quality infrastructure and remains affordable in Selwyn.
15. However, the current system for charging development contributions is complex and is subject to judgement, assumption and interpretation. This results in volatility and inconsistency in the quantum of charges over time and geographically. The aim should be to simplify the system and increase the level of certainty and consistency for developers and councils, for example through a broader charging model that allows for averaging of the cost of infrastructure provision over a long timeframe.
16. Selwyn District Council supports a system of payments to territorial authorities based on the value of new building – particularly new housing – put in place. At present too much of the cost burden of supporting population and economic growth is falling on the growth councils whilst this growth is supporting national economic growth.

17. Selwyn District Council does not support the creation of Special Purpose Vehicles to finance growth infrastructure. These vehicles essentially represent creative off balance sheet financing. The debt may be off balance sheet but the liability falls on the same rating base.
18. The analysis that is used to support recommendations 7.1 and 7.2 is not helpful as it does not distinguish between targeted rates set on the basis of capital value with targeted rates set on another basis. This flaw is evident when comparing Selwyn District Council with Waimakariri District Council at the foot of page 189. Selwyn actually raises a similar portion of its revenue based on capital value as Waimakariri. (Selwyn includes roading within its general rate, whereas Waimakariri sets a targeted rate for roading, but it is set in the same way as the general rate.)
19. Selwyn District Council does not use differentials other than for land drainage. However, in concept differentials can be an appropriate way of fairly allocating cost. To remove this power without a full understanding of the possible impact on ratepayers seems an unnecessarily risky step, even if phased over a five year period. Selwyn District Council does not support R7.1.
20. Recommendation 7.2 does not seem to be based on a full understanding of the complexity and feasibility of what is being recommended. To move from a broad judgement and policy based assessment of how to allocate costs to a technical assessment of benefits is no easy step. The nature of local government services means that an assessment of how benefit falls is, in essence, a judgement. And for tax raising entities affordability must always be a primary consideration.
21. The recommendations on the National rates postponement scheme need to be aligned to affordability, albeit we accept measurement of affordability and the factors to be taken into account are subject to further discussion. We are however supportive of the proposal and would be interested to know whether it is the Productivity Commission's view that the principal funder would be local government; central government; or an external funder.
22. Like many New Zealand Local authorities, we are currently engaged in expanding conversations on the impact of climate change. We implore central government to take a lead role and provide a national voice on this matter, including the provision of funding for Local Authorities to be able to assess potential impact based on certain sea level rise assumptions.
23. We are also mindful of the potential cost of transitioning our communities to a broader three waters governance model. We are proud of the fact that we currently have well-maintained, low cost infrastructure and water supplied to our communities. There is potential for the current affordable cost of water and wastewater supply to the ratepayers of Selwyn District, to increase as a result of the need for us to engage in an integrated ownership process with fellow Councils who are not in the same fortunate position as we currently are.
24. Selwyn District Council believes that we need to develop a mechanism that allows us to either borrow for longer periods to meet this forward infrastructure investment or to develop policies that allow a delay in matching revenue against cost incurred in anticipation of future projected growth. Council would welcome the opportunity to work further with the Productivity Commission and other growth Councils in New Zealand to consider how successful international models could be incorporated into New Zealand legislation.

25. In conclusion, we commend the Productivity Commission for the work that it has undertaken, but we ask that further consideration be given to the specific issues of high growth Councils such as Selwyn, and the need to protect current ratepayers against the cost of investment specifically made for future ratepayers, and to promote further simplification of reporting requirements to enable greater engagement and understanding of our respective communities.
26. We are very happy to meet with the Productivity Commission to further discuss any of the issues raised within this response or indeed other matters of a general nature specific to growth Councils.

Kind regards,

A handwritten signature in black ink, appearing to read 'D Ward', with a long horizontal stroke extending to the right.

David Ward
Chief Executive

A handwritten signature in blue ink, appearing to read 'S Broughton', with a long horizontal stroke extending to the right.

Sam Broughton
Mayor, Selwyn District