

26 August 2019

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Dear Sir

## **Local Government Funding and Financing: Draft report**

The Gore District Council commends the Commission for its draft report on Local Government Funding and Financing. In the main, the report represents a comprehensive body of work that will add appreciably to the thinking and policy development in regard to local government funding, financing and governance. The Council particularly found the statistics provided in the report of considerable interest and assisted in being able to place current pressures being experienced within a national context.

The Council has channelled most of its key comments or concerns through Local Government New Zealand, which is submitting on behalf of all councils in New Zealand. However there are some specific points that the Council feels strongly about which are either not present or not sufficiently emphasised in the Local Government New Zealand submission, which we would like to bring to the Commission's attention. These issues are as follows:

### **1. Funding for 3 Waters**

In the view of the Gore District Council, a funding partnership with central government to supply 3 Waters infrastructure, is the single most important step to be introduced to resolve local government funding challenges. Unfortunately the draft report appears to take a more passive approach in this area, with the suggestion that 3 Waters funding be targeted to areas experiencing tourism growth, communities facing retreat due to climate change or those smaller councils with static or declining populations where special assistance is required.

In our view, these recommendations do not go far enough. For all councils, the need to upgrade aging infrastructure and at the same time make a step change upwards in respect of quality treatment processes both in water and wastewater, is a stiff financial cocktail.

Central government has repeatedly stated that it is concerned about providing a quality infrastructure to enable the economy to grow. For this to occur, a funding partnership

akin to what currently occurs with roading and financial input from the New Zealand Transport Agency, is required.

In our view, if local government had central government funding support for operational and capital expenditure in 3 Waters as currently occurs in land transport, its funding pressures would most likely disappear.

It needs to be borne in mind that the bulk of the 3 Waters infrastructure that has been provided in New Zealand up until the 1980s, was accompanied by central government funding assistance. The removal of general financial assistance in the 1980s accompanied by the sensible obligations of developing asset management plans and infrastructure strategies, together with higher regulation in regard to water and wastewater treatment, has seriously challenged local government. These serious challenges can be seen in the statement made on page 45 of the report that local authority debt has increased from \$2.7 billion in 2000 to \$16.2 billion in 2018 – an increase of 600%. It would be interesting to learn the proportion of this growth in debt that is attributable to 3 Waters projects. We suspect, based on the Council's own experience, that it would be considerable.

## **2. Requirement for independent chair of Audit and Risk Committee – recommendation 5.3**

The Gore District Council does not agree with the Commission's recommendation that the Local Government Act 2002 should be amended to require all local authorities to have an independent chair of an Audit and Risk Committee. With respect, it seems the Commission, like many other commentators within the sector, has been mesmerised by the allure of independent chair without pausing to reflect what actual benefits an independent chair might bring. In our view, the chair of a committee is hamstrung by the need to be objective, neutral and focus on efficiency and fairness issues in respect of managing debate/discussion. These duties stymie and often run direct interference with the ability of the chair to be provocative in questions posed and play "a devil's advocate" role to bring robust thinking to the committee's endeavours.

The Gore District Council believes an independent member should be a mandatory provision of every Audit and Risk Committee but it should not extend to having an independent chair. The Council has its own independent member on its Audit and Risk Committee and has recently extended to this approach to having an independent person on its Capital Works committee. In both cases, the independent members come to meetings unencumbered with the need to be a fair facilitator or unduly concerned about meeting efficiency issues. In our view, such an arrangement is far more conducive to cultivating thought-provoking questions and discussion.

## **3. Abolition of rates differentials and uniform annual general charges – rates recommendation 7.1**

The Council does not support the proposed abolition of rating differentials and removal of the uniform annual general charge. The Commission appears to be very clinical in its thinking in this area without regard for the likely impacts that would occur should the recommendation be implemented. Whilst it is noted that the Commission is recommending a five-year phase-in period, advancing this suggestion without the benefit of any modelling to see what impacts may occur, seems premature.

Rating differentials and the use of the uniform annual general charge are instruments to help spread the rating burden and give elected members the ability to exercise judgement on contentious issues of fairness and affordability. In our view, elected members are expected by the public to respond to affordability and fairness issues rather than sitting back and applying a brutal and simple formula based on property value and allowing costs to fall where they may.

Put simply, without differentials and the use of a uniform annual general charge, it is the Gore District Council's belief that some sectors would be unduly and unfairly financially punished. This comment is offered with the experience that targeted rates, while fine in theory, can be difficult to accurately and convincingly apply with a number of council services. Activities such as 3 Waters and solid waste are relatively easy to accommodate within a targeted rates regime. However the likes of Parks and Reserves, Libraries and swimming pools, where the prevailing national market is that user charges, if applied, should be modest, can mean that applying targeted rates to these type of activities can be a specious and unconvincing exercise. This is where differentials and the use of the uniform annual general charge can assist in softening the blow for some groups of ratepayers.

For these reasons, the proposed removal of these rating instruments is not supported.

#### **4. Proposed phase-out of Rates Rebate Scheme – recommendation 7.6**

The Council opposes the suggested phase-out of the Rates Rebate Scheme. Whilst it is acknowledged that the administration of the scheme is cumbersome, it needs to be borne in mind that the scheme has proved to be very popular with eligible ratepayers. The commission's suggestion of more use of rates postponement schemes is noted but not supported. In our view, rates postponement offers short-term relief in exchange for downstream pain. For a Council it will have more unpaid rates on its books, while for the property owner postponed rates will provide an unwelcome surprise and expected proceeds from the sale do not materialise.

This latter point is particularly the case if a property is sold as a result of a deceased estate. In these circumstances the beneficiaries of the estate may be oblivious to a rates postponement scheme being put in place and the Council stands accused of being "greedy" and having "a hand in the grave" to extract its rating pound.

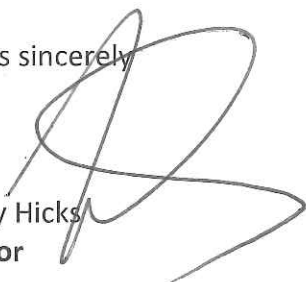
The Council therefore believes that the Rates Rebate Scheme would be better modified and strengthened as opposed to being cast aside.

We hope you find these few comments useful to your deliberations.

Thank you for the opportunity to comment.

Yours sincerely

Tracy Hicks  
Mayor



Stephen Parry  
Chief Executive

