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Submission on 'Local government funding and financing draft report'

Thank you for the opportunity to submit regarding the Productivity Commission's draft report on 'Local government funding and financing' dated July 2019.

Through our three membership brands, the Wellington Chamber of Commerce, Business Central and ExportNZ, our organisation represents around 3,000 businesses across the central and lower North Island. Our organisation is one of the four regional organisations that make up the Business New Zealand family and is also accredited through the New Zealand Chambers of Commerce network.

The Wellington Chamber of Commerce has been the voice of business in the Wellington region since 1856 and advocates policies that reflect the interest of Wellington's business community and the development of the Wellington economy as a whole.

Business Central represents employers and provides employment, health and safety, and human resources advice, and advocates policies that reflect the interest of the business community.

As members of both Business New Zealand and the Local Government Business Forum, we support and endorse the submissions they have made. This letter reinforces a few key points of relevance to the broader business community. Our primary concern is with rating systems that target the business community based on a perceived ability to pay rather than actual benefits delivered.

The most pressing issue is the abolishment of rating differentials. Our business members face arbitrary and growing differentials across the city and regional councils. In 2019 we experienced the perverse scenario where the Wellington City Council increased its business differential solely because residential property prices rose faster than commercial property. Another example is the Wellington region's targeted public transport differential, which charges businesses eight times the standard charge without any methodology to justify this difference despite repeated requests.

Local government tends to focus its rates burden on those it perceives as having the ability to pay. The burden should focus more on those who benefit. While a certain proportion of revenue through general rating applies, those receiving the benefit of specific services or facilities should pay a larger share. Any political resistance from beneficiaries to paying more should be encouraged, as it forces the question of whether they value the service rather than receiving a cross-subsidy from other community members.

Related to this is the need for more user charging, especially for items that are 'private goods'. While the need to maintain access to services for all socio-economic groups may restrain the level of user charges, higher uptake of charging by councils should be encouraged. Again, it forces users to decide whether they value the service rather than relying on others. It also provides transparency of costs and allows non-government providers to establish competing services on a level playing field, should they wish to do so.

Councils must restrict their responsibilities to those areas where they deliver the most benefit. New Zealand's system of government contains multiple levels, and there is little benefit from having them overlap and duplicate roles. The arguments against the 'well beings' are well-rehearsed and explained in detail in both the Business NZ and Local Government Business Forum submissions. It is sufficient to add here that advocates for greater local government autonomy to expand into non-core areas cannot then complain about lack of appropriate funding. All organisations must prioritise their efforts within available resources. A desire to do it all results in higher financial burdens falling on those who are deemed able to pay.

It is pleasing to see the Productivity Commission push forward on ideas for how high-growth councils can meet their infrastructure costs. Sustainable funding for growth is essential, but so is a positive attitude that welcomes and facilitates growth. This requires political leadership beyond the remit of this inquiry, and it is a contributing factor worth mentioning here. Especially as the conditions which encourage business growth usually also lead to population growth. Too often councils concentrate on constraining or managing growth rather than harnessing the opportunities it provides.

Finally, asset recycling should be endorsed and recommended by the Productivity Commission. The concept of asset recycling falls within the Commission's terms of reference and therefore deserves coverage in the final report. Only the size and scale of asset recycling would take it into the realm of "substantial privatisation". Recent examples such as the partial sell-down of Napier Port into a mixed ownership asset demonstrate the success of asset recycling without "substantial privatisation". To not consider such asset sales condemns local councils to forever own their current mix of assets, not their optimal mix of assets.

In summary, the Productivity Commission must be congratulated for the scale and depth of work completed so far. The challenges facing local government are essential, and addressing them will contribute to increasing New Zealand's overall productivity. As one layer of government, local government's interactions with other layers must contribute to the overall context considered. This is especially important when considering the same businesses and households are called on to fund all layers of government.

Yours sincerely,

John Milford
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Wellington Chamber of Commerce, Business Central