

27 August 2019

Mr Steven Bailey
Inquiry Director
NZ Productivity Commission
PO Box 8036
WELLINGTON 6143

Dear Mr Bailey

SUBMISSION ON THE LOCAL GOVERNMENT FUNDING AND FINANCING DRAFT REPORT

The Palmerston North City Council (PNCC) thanks the Productivity Commission for the opportunity to make a submission on your Local Government Funding and Financing Draft Report.

Local government is a very diverse sector and we applaud the work you have done to capture the wide range of circumstances, needs and funding pressures that Councils around the country face.

We agree that high-performing local government is vital for community wellbeing. Our community has set out what is important for its wellbeing through the Vision and Goals from our 2018 LTP:

Vision: Small city benefits, Big city ambition

- Goal 1: An innovative and growing city
- Goal 2: A creative and exciting city
- Goal 3: A connected and safe community
- Goal 4: An eco city
- Goal 5: A driven and enabling Council

Our fifth goal is about us constantly improving our performance and building the leadership, culture, capability and capacity to efficiently and effectively deliver, alongside our community, the outcomes in the other four goals. This is a priority for me and my organisation. So, while we do not need “the funding and financing framework to *incentivise* good performance”, we are very happy for the framework to *reinforce and reward* it.

Our submission has three main parts – in the first we comment on your discussion of funding tools. In the second we discuss streamlining LTPs and accountability frameworks. In the third we cover funding for climate change responses. We then conclude with brief comments on some of the other issues you raise in your report.

Funding Tools

In our submission on your issues paper we said that we are concerned about local government's ability to meet the escalating costs of providing infrastructure to support growth and meet increasing community and central government expectations. We said that this means there is a need to identify alternative funding mechanisms that fund infrastructure, particularly in a way that that removes the debt burden from local government books. This is critical if local government is to effectively provide for growth and address the constraints associated with borrowing limits.

Hence, we welcome your support for new funding tools like Special Purpose Vehicles. The off-balance sheet nature of an SPV makes it attractive as a means of funding large capital projects without them impacting on a Council's debt levels.

We also support your suggestions for other tools like value capture and payment from central government for new building work. We would also reinforce our recommendation to the commission in our submission dated 1 March 2019 that central government paying rates for Crown land and paying development contributions for Crown developments also be considerations. We endorse SOLGM's point that development contributions are a targeted charge for service. Crown developments will benefit from the service and should not be exempt from the charge.

In general, we support an approach that allocates local government costs primarily on the basis of beneficiary pays and then modifying this according to their ability to pay.

However, we do not support the removal of Uniform Annual General Charges. Our Council does use UAGCs. For our Elected Members the balance of rates and UAGC is a matter of fairness. Different people see this balance in different ways – for some it is fair for all people who use a service to pay the same amount for it. For others, it is fair for those with more financial means to pay more. Of course, there is no black and white in these judgements so at the end of the day it is a collective political decision by Elected Members. UAGS should remain as a tool Elected Members can use when making decisions about who pays for what.

If UAGCs were removed from the suite of funding tools then we could use targeted rates to achieve the same result. However, UAGCs seem to us to be more appropriate and are more transparent. We do find that if people do not understand the rationale for these decisions then it makes then it makes it harder for us to explain the value for money proposition in our services.

For similar reasons, we do not support the removal of differentials. For us this would result in a significant rates transfer from commercial industrial to residential and rural properties.

Streamlining Long-Term Plans and Accountability Frameworks

We support streamlining the requirements of Long-Term Plans (LTPs) and performance frameworks. In particular we support streamlined, non-prescriptive requirements for the Consultation Document.

In the LTP process there is often a tension between taking a strategic approach and meeting the requirements of the Local Government Act. At other times this emerges as a tension between providing residents with straightforward engaging information versus providing the detailed information required by legislation. For example, as we were preparing our 2018 LTP we were at the early stage of reviewing our wastewater treatment and disposal options. We were also in discussions with NZTA about a regional ring road around

Palmerston North, but the closure of the Manawatu Gorge meant we had no specific options we could put before people.

For both of these developments the key issue was ensuring we could meet our funding responsibilities to these projects. As outlined, at that point we had no options to discuss. However, to meet LG Act requirements our Consultation Document had to somewhat clumsily explain the lack of specific options. This made it hard to communicate the much simpler funding message.

In 2018 we found that the most useful (from a public point of view) LTP consultation tool was a simple interactive map where people could see how Council's major projects would affect them and leave online post-it note comments.

Hence we support the streamlining of LTPs, especially the Consultation Documents (CD), however this must be done in a non-prescriptive way allowing for more flexibility in the way we communicate with our ratepayers. We understand Audit New Zealand's very important role in reviewing the CD to ensure that its underlying information is accurate and that it fairly reflects that information. However, we believe commenting on the quality of the CD as a communication tool is outside their scope or indeed expertise.

And for similar reasons we support the Productivity Commission's call for a fundamental first principles review of the performance and reporting framework. Complicated prescriptive frameworks do not show how what we do is important and relevant to people. Hence people do not always link the payment of their rates to the services they get from Council. This makes it harder to illustrate the real value for money proposition.

Like SOLGM, we do not see many advantages in developing an LTP once every five years, rather than once every three years.

Funding Climate Change Initiatives

Climate change is a national and international issue that will have very local impacts. Hence addressing it will require national leadership and funding.

We support the Commission's call for Government funding assistance to address the major infrastructural issues arising from climate change. We also fully support the Commission's call for central government to take the lead on providing high-quality and consistent science and data, standard setting and legal and decision-making guidance.

Within this we strongly support the comments by SOLGM and LGNZ that Central Government's approach to climate change leadership, research and funding should not mean the proliferation of different organisations and agencies. We do not need duplication of effort and confusion of roles in this extremely important issue for our country.

Other points

Here we comment briefly to some of the other points raised in your report:

- We support the development of more constructive relationships between central and local government. In particular, we are seeking more input into the setting of new regulations and standards that will have cost and resource impacts on local government. The National Policy

Statement on Urban Development Capacity (NPS) is an example of government policy that has set stringent reporting deadlines for Councils. For example, preparing the development capacity assessment requires significant senior staff involvement and will cost over \$100,000.

- We are already working hard to improve our knowledge of the condition and performance of our assets. These improvements are an ongoing aspect of our asset management improvement plans.
- We support the use of external performance review systems such as CouncilMARK – and have set ourselves the goal of being an LGNZ A rated Council.
- We are opposed to a standardised approach to development contributions policies if that approach is then binding on all Councils. This is because a prescriptive approach is not suitable for the wide range of Councils and communities they serve. Growth rates and profiles, past infrastructure investments, financial strategies, geography and urban growth locations all heavily influence the way Councils approach their Development Contribution Policies - and all these variables differ quite markedly across Councils.
- Although the Rates Rebate system does have some flaws we do not support its removal as it is important to some people. We do support SOLGM's call for streamlined process to administer the scheme.
- Councils in the Manawatu-Whanganui Region have been working together on a study of three waters in the Region. The findings of the study are still being finalised, but it is clear that greater regional collaboration in the three waters is required.
- The Audit Committee needs to comprise members with appropriate skills and, if necessary, include an external member. However, that is a decision that lies with our Mayor and Councillors, as is who should chair the Committee.

Thank you for your thoughtful report and for giving us the opportunity to comment on it. If you would like to discuss any of the points raised or have questions about them then please contact Sheryl Bryant, General Manager – Strategy and Planning on 06 356 8199 or sheryl.bryant@pncc.govt.nz or myself at 06 356 8199, heather.shotter@pncc.govt.nz.

Yours sincerely



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CHIEF EXECUTIVE