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Local Government Funding Inquiry
Productivity Commission
P O Box 8036
The Terrace
WELLINGTON 6143

Dear Sir/Madam

Draft Local Government Funding and Financing Report

Foodstuffs welcome the opportunity to provide feedback on the Productivity Commission's draft report.

General Comments

Foodstuffs agrees with the Commission that the current funding framework is broadly sound, that the current rating system is a simple and efficient means to derive base revenue for core local government expenditure and wholesale change to the funding model would be costly, disruptive and create uncertainty. However, we also agree there is opportunity to improve local government funding systems.

We agree with the Commission that a "benefit principle" should be adopted as the primary basis for decisions about who should pay for specific local government services. Applying the benefit principle, those that benefit from, cause, or need a service, should pay for its cost in first instance and to the extent that beneficiaries can be identified and efficiently charged. The benefit principle implies user-charges (where feasible), development contributions (where justified), and targeted rates (reflecting local service provision) are most appropriate in the given circumstance.

On this basis, we also support that Commission's recommendation that councils' power to set general rating differentials e.g. business rates, and uniform charges is removed. We agree that targeted rates which reflect genuine differences in the services different ratepayers receive, are a better alternative.

Where local investment in assets supports a national interest or objective, we agree with the Commission's recommendation that a co-funding arrangement should apply, and that central government should make contributions commensurate with the level of national interest/benefit.

Replacing the rates rebate scheme with a rates postponement scheme is supported as a fairer way to address rates affordability for asset rich, income poor, individuals.

We generally support the funding model set out in Figure 0.3, with qualifications around the value capture and vacant land tax proposals, which we comment on separately below.

To improve the consistency and quality of local decision-making, at lowest possible cost, we support the Commission's recommendation that central government takes the lead on providing high quality science and data for national policy priorities, undertake standard-setting, and provide advice on best practice approaches to local decision-making. The proposals in relation to co-design and funding of regulatory regimes, and the "Partners in Regulation Protocol" appear to have considerable merit.

Foodstuffs supports the concept of central and local government and the New Zealand Society of Local Government Managers working together to develop standardised templates for both development contribution (DC) policies and council assessments of DC charges for individual property developments. Ideally, this would be accompanied by training for officials and elected representatives. Business sector input to the development of the templates and guidelines is highly desirable.

Foodstuffs supports the proposal that all councils have an assurance committee, independently chaired. Assurance committees are a commendable idea to improve the quality of decision-making and introduce more independent oversight of officers' decisions. There needs to be a robust framework for their operation, together with best practice guidance. We note however that some smaller councils might struggle to meet the requirements due to the limited pool of skilled persons available to sit on this committee. For this reason, training will also be an important element of the policy.

Transparency and the quality of decision-making are areas were improvements are required and so we also support the recommended review of the statutory performance reporting system.

<u>Value Capture Targeted Rates</u>

While the concept has some intrinsic appeal, and aligns with the benefit principle, implementation is likely to encounter significant practical difficulties resulting in unintended effects. The concept raises a host of questions that need to be further explored before this proposal is taken forward:

- How would the value capture mechanism be triggered? Is this simply about location relative to the council infrastructure? How would councils define the geographic scope of interest?

- At what point in time would value uplift be assessed? At consenting, code compliance, or later? Outcomes would vary. Would there be a requirement for on-going assessments?

- How would "value capture be calculated? There are already significant difficulties establishing a causal nexus between infrastructure spend and development activity when infrastructure costs can be easily quantified. With value capture we move into the realm of speculation. Developers need certainty about costs up-front and before investing to support business cases.

- How would double dipping be avoided? Developers would have to pay on value uplift and higher rates as a result of asset value appreciation.

- Is value capture rating simply another form of capital gains taxation? Capital gains taxation has been ruled out by the current central government.

- Value capture would only apply to private developers, while civic developments also benefit from infrastructure investment? This raises important questions about equity and fairness.

- Individual councils are at different starting points with the state of their infrastructure, with some needing to invest heavily to "catch-up" on deferred investment. This means that developers making similar investments will be faced with inconsistent outcomes, which also raises fairness and equity issues.

Vacant Land Tax

Further consultation is required before this recommendation goes forward.

In first instance, there are significant issues around definition of vacant land. Further, while the proposal is specifically targeted at residential-zoned land we are concerned that this concept, if adopted, could end up being extended to non-residential land.

The underlying premise is that a tax is needed to discourage developers holding back on developing land with the specific objective of making a capital gain. This premise is unlikely to be true for non-residential developments other than in a small minority of cases. In relation to non-residential developments, other factors drive development timeframes.

In our situation, as a developer of supermarket properties, we need to take a long-term view and often need to acquire separate adjacent parcels of land, over time, to have enough property/land to undertake a development of the scale of a supermarket. We often need to acquire land from multiple owners, each with different appetites to sell. In this context, some amount of land-banking is inevitable. In other circumstances we may be able to acquire land, but development is delayed by resource planning or consenting processes, which can take years, or by the need to ensure the local catchment is sufficiently developed to make a supermarket investment viable. Supermarket developments in new residential sub-developments are a case in point.

Aside from clarifying the definition of the term, any regulatory proposals need to be correctly targeted to achieve the policy intent and avoid unintended consequences.

Your sincerely

Melissa Hodd

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