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In reply please quote WDC Submission on Local Government Funding and Financing

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Tēnā koe

Whangarei District Council Submission to the Productivity Commission Draft Report on Local Government Funding and Financing

Introduction

Whangarei District Council (WDC) welcomes the opportunity to provide feedback on the draft report on Local Government Funding and Financing prepared by the Productivity Commission (draft report). In general, WDC is supportive of the comprehensive way the Productivity Commission has conducted this inquiry.

WDC endorses the submissions made by Local Government New Zealand (LGNZ), the Society for Local Government Managers (SOLGM) and the Upper North Island Strategic Alliance (UNISA). We consider that these submissions accurately and appropriately represent our views on the matters raised in the draft report.

WDC wishes to highlight several points in addition to the submissions by LGNZ, SOLGM and UNISA. These points are outlined in three sections:

1. Summary of Whangarei District Councils Submission
2. Additional submission points
3. Response to Productivity Commissions questions

1. Whangarei District Councils submission

WDC supports the high-level findings of the report, including:

- The current funding and financing framework (based on property rates) is generally sound.

- Better use could be made of existing tools (through better local government decision-making and operational performance, and through rejigging the criteria for funding decisions).

- New tools are required for the specific cost pressures of:
  - Supplying enough infrastructure to support rapid urban growth;

- Adapting to climate change
- Coping with the growth of tourism;
- The accumulation of responsibilities placed on local government by central government.

Additional points to Whangarei District Councils Submission

Powers to Rate

We support the Productivity Commissions conclusion to keep the current system of general rating powers.

Development contributions

We acknowledge how important development contributions are in funding infrastructure, particularly as our District is rapidly growing. We support that the Crown should pay development contributions, noting that in smaller Districts, Crown can be responsible for significant scale of development with corresponding demands on infrastructure.

In light of the proposed review and changes to the Resource Management Act, we recommend this report also identifies the reinstatement of financial contributions as another funding tool available to Councils.

Rates rebates

We note that the report recommends that the Rates Rebate Scheme is considered inequitable and needs replacing.

We strongly consider that the Rates Rebate approach should be retained and that greater rates assistance is required for low income households.

Whangarei District has some of the most deprived communities in New Zealand (based on median income levels and deprivation index indicators) and therefore we have a relatively large number of households which struggle with the ongoing affordability of rates. This has been further exacerbated through ongoing increases in living costs which generally have not been matched by corresponding increase in household income.

The proposal to postpone rates payments does not adequately address our concerns. It merely defers the payment of rates, rather than our preferred approach of alleviating the burden of rates on low income households through a rebate.

Therefore, we strongly recommend that the rebates scheme should remain and be supported with greater funding to assist low income households.

Local government performance reporting

We acknowledge that the current approach to performance reporting is problematic, and we welcome the points raised in relation to this issue. However, we would recommend that the existing mandatory measures which relate to performance relating to transport, water, waste water and stormwater be removed, in favour of Councils being able to set their own measures which better reflect our communities priorities.

We would welcome greater guidance around setting effective and meaningful levels of service and measures, and we note that SOLGM is in the process of developing such guidance.

Tourism levy

We support the Productivity Commissions findings that responding to tourism is presenting councils with funding challenges. We support the reports finding which includes:

- councils can implement an accommodation levy to recover the tourism induced costs of providing local mixed-use facilities

- the crown should provide funding from the international visitor levy for councils responsible for small tourist hotspots which cannot reasonably recover all their operating costs.

We consider that it is important that councils have a degree of discretion to determine how best to use any funding from a levy as we are best placed to respond to local needs and the impact tourism is having on our communities. The primary focus for our District will be to fund expenditure on tourism related infrastructure. However, the levy could also be used to support events and attractions.

We consider that any funding from a national visitor levy must be managed in such a way that funding is fairly distributed to hotspot areas such as Whangarei, rather than be focused on the major destinations such as Auckland.

Certainty of funding

Certainty of funding is an issue raised in our submission to the Productivity Commissions issues paper. Although the issue has been looked at in the draft report, we feel the need to again stress its importance.

Local government provides long term infrastructure with long term planning and implementation timeframes.

Stable long term policy and funding is a crucial aspect of the efficient and effective provision of infrastructure. Unfortunately, there seems to be no system in Central Government which aligns to long-term planning of local government (although the New Zealand Infrastructure Commission has been established to address this). Consequently, long-term programmes can be cancelled or re-prioritised by an incoming Government with little awareness of the damage caused by those decisions.

The election of a new Government has resulted in several changes to nation-wide funding priorities, to which Council is required to adapt. In some cases, (mainly in transport) previously programmed projects have lost funding at short notice and in other cases (e.g. tourism facilities) additional Central Government funding has become available for new projects, with an expectation that local government will make a significant and ongoing financial contribution.

Because of the strict planning and budgetary processes set out in the Local Government Act, it can be difficult to respond to these rapid changes in Government priorities. Councils need to work with the Government to achieve more flexible planning and budgeting processes for local government or to obtain longer implementation times for Government changes. The suitability of local government financing and funding is currently being looked at by the Productivity Commission and the outcomes of that review may assist in future.

Climate change

We welcome the focus from the Productivity Commission on the issues relating to climate change, and Councils ability respond.

We support the draft reports commentary that the impacts of climate change will be beyond our capacity to manage alone. Therefore, we support the draft reports recommendations to:

- set standards for information gathering to ensure decision making is well informed
- legislate to guide decision making on development and land use in at risk areas
- provide funding to support investment in roading, stormwater and wastewater investment to manage impacts.

Without legislative guidance councils, will find it challenging to address the impacts of climate change in a robust manner. Decision making for issues such as managed retreat will need a strong legislative framework beyond just funding and financing.

We consider that central government funding will be essential to manage the impact of climate change on our communities. The challenges of climate change will likely need significant investment and funding, which Councils will struggle to deliver within existing funding frameworks. Central government funding will be essential but to ensure the best returns from this investment the key decisions will need to be made locally where the knowledge and expertise rests.

We also consider that there may be fluctuations in the relative value of coastal properties (compared to inland, as well as specific coastal locations) in the future which may not correlate with funding needs for adaptive approaches to managed retreat or infrastructure relocation. This has the potential to lead to inequitable rates apportionments (based directly on value), and the tools and processes Councils have to adjust are inadequate. For example, through defining an area of benefit for a targeted rate, and then consulting and getting adequate support from those required to pay which may include property owners at sea level (inhabitable in the future) and those on land at lower risk (the new beachfront).

2. Whangarei District Council response to the questions outlined in the Productivity Commissions draft report

Q3.1 Is the current methodology for preparing the Local Government Cost Index sufficient for forecasting the prices that local authorities are likely to face? If not, should the methodology be improved, such as by one or more of:

- **carrying out more frequent reweighting;**
- **including output indices;**
- **and disaggregating by council type?**

WDC response:

We consider that there is merit in investigating improvements to the methodology for preparing the Local Government Cost Index. As noted in our feedback to the Productivity Commissions issues paper, we recognise the challenges in this area. We consider that there may be merit in exploring the three options of more frequent reweighting, output indices and disaggregation by council type.

Q4.1 To what extent are the Treaty-related costs associated with fulfilling the obligations and requirements under local government statutes “business as usual” for councils? And to what extent should they be considered costs incurred to fulfil obligations on behalf of the Crown under the Treaty of Waitangi?

WDC response:

We are currently supporting ongoing treaty settlement negotiations within our District, which may result in a form of co-governance and environmental remediation.

The single biggest issue for our Council is the insufficiency of current Crown policy for the funding of co-governance, which is limited to initial set-up costs, and operational funding for a maximum of 3 years, this is partly predicated on the that the Crown position is that this is business as usual for Council.

We support Treaty settlements as a way for the Crown to address past injustices and breaches by the Crown of Te Tiriti o Waitangi / the Treaty of Waitangi. We are also committed to implementing, in a fair manner, Treaty settlement redress involving councils.

Co-governance bodies, however, are provided by the Crown as redress to settle long-standing historical grievances of Māori, including grievances relating to the loss and degradation of natural resources over 152 years. Local body authorities are not the Crown and we undertake these arrangements on the Crown's behalf. Co-governance bodies also create an additional layer to the already complex process councils must follow under the Resource Management Act 1991.

In this way, Treaty settlement co-governance bodies are not 'business as usual' for local government, and costs associated with them should not be borne alone by local government and current local ratepayers, including participating iwi and hapū.

Therefore, our view is that the current approach of the Crown to treaty settlement funding for co-governance will:

- will fail to achieve the sustainable and enduring long-term outcomes sought by a Treaty process
- be unaffordable for local government and ratepayers, particularly for smaller authorities.

Q5.1 The Commission is seeking more information on the advantages and disadvantages of reducing the frequency of Long-Term Plan (LTP) reviews, while retaining the requirement for annual plans. What would be the benefits, costs and risks of reducing the frequency of LTPs, from every three years to every five? What if five years were a minimum, and local authorities were free to prepare LTPs more frequently if they wished?

WDC response:

The advantages of reducing the frequency of the LTP could relate to reduced need of resources (going from every 3 years to every 5 years). The LTP processes, such as consultation and engagement could be improved through the additional available resources. The 5-year approach may also help to minimise consultation fatigue with our communities.

The disadvantages are that an incoming Council may want to change the direction of the LTP and would have limited opportunity to do so as the 5 years would extend beyond the election cycles. With the Local Government environment under constant change, both from central government decisions and changes within our district, budgeting assumptions can quickly become redundant. We consider that extending LTP review timeframes would put greater emphasis on the Annual Plan processes and therefore may not deliver any meaningful efficiencies or gains. Furthermore, Annual Plans in years 4 and 5 may vary significantly from the LTP.

In addition to this, if the frequency was pushed out to 5 years, there could be an increased pressure for LTP amendments. LTP amendments are audited which would add to inefficiencies. It would disadvantageous for the frequency of LTPs to extended if it deterred council from making changes to avoid LTP amendments.

Currently all councils embark on an LTP process at the same time. This assists in the sharing of information, provision of guidance to the sector and ability to address cross-boundary issues. If Councils had the flexibility to choose when to undertake an LTP process, these advantages would be lost.

Any changes would need to consider the level of detail an LTP provides. Currently the detail is focused on the LTP years 1 – 3, with the remaining years being indicative only because this will be reviewed through the next LTP.

We support a review of the Local Government Act to reduce the complexity, duplication and detail of the LTP process. The aim of such a review would need to strike a balance between ensuring that LTP is strategic but also usefully communicates what a Council will do over the next 10 years and how it means to fund it.

Q5.3 Would establishing a capital charge for local authorities be an effective way of incentivising good asset management? What would be the advantages and disadvantages? Are there other, more effective ways of encouraging better asset management practices in local government?

WDC response:

We suggest that further discussion and information is required on this issue. Application of capital charge may be beneficial for decision making and asset management, but we foresee difficulty in applying such an approach beyond smaller scale decisions such as ownership and management of community facilities.

Application to the entirety of an infrastructure network or asset base could be overly complex without necessarily incentivising improved asset management.

Improvements could be achieved through the development of more consistent methodologies and content for asset planning. This should be developed with the aim to improve the robustness and clarity of asset management plans for both our communities and elected members.

A key part of asset planning is around business cases for capital works. This is an area where we feel there is lack of consistency, largely due to the resources needed to carry out such assessments. There may also be a case to better align the parameters of the business cases with other bodies, particularly if there is an opportunity for co-funding or subsidy (e.g. NZTA)

Q6.1 How desirable and useful would a tax on vacant residential land be as a mechanism to improve the supply of housing for New Zealanders? How would such a tax measure up against the principles of a good system of local government funding and financing?

WDC response:

We support that vacant land has been identified as an issue in the draft report. However, we are cautious about the complexity of addressing the issue and the ability for local government (particularly smaller authorities) to administer a differential rate base on whether land is vacant or not.

In particular, the potential legal challenges and administrative costs may be prohibitive for smaller councils to take action in this area. These issues may be alleviated to a certain extent through a clear legislative framework and central government support for the process.

A tax on undeveloped land maybe more practicable where there is relationship between the vacant land and the under use of public infrastructure provided by Council. This would be on the provision that the land is zoned and has the infrastructure needed to enable development.

We would also note that tax on vacant land may be a dis-incentive to staged development. For smaller authorities, which can struggle to deliver infrastructure at scale to support large development, staging is a useful tool to manage our infrastructure capital works programme.

Q6.2 What would be the advantages and disadvantages of a system of payments to territorial authorities based on new building work put in place in each territorial local authority? What would be the best design for such a mechanism? Would it be effective in

incentivising councils to keep the supply of consented land (greenfield and brownfield) and local infrastructure responsive to growth pressures?

WDC response:

In principal, we support this idea of payments from central government to territorial authorities based on new building work. This could be an effective way address funding challenges of councils who experience a high level of growth. It could also be a useful incentive to ensure that land supply is appropriately serviced in a timely manner to respond to the needs of the development sector. We would want to see more detail about such a proposal such as:

- Ensuring that it will be available to Councils, such as WDC, which are a good financial situation but are experiencing high levels of growth. Such a fund should not just be reserved for the larger metropolitan councils or councils in financial difficulty. This could be problematic if the fund is purely allocated based on a quantum of development, which would see most the funds going to councils such as Auckland.
- The amount of payments would need to be of level that is commensurate to the costs of infrastructure provisions, in order for this to have a meaningful impact.
- Consideration as to how the fund can be integrated in to decision making in LTPs and annual plans. If there an uncertainty as to how much a Council is likely to receive, this will make planning difficult.
- We do not consider that payments based on completed building work is the best way to achieve this. Additional revenue paid after growth has occurred will not effectively address the council's ability to access capital for investment in infrastructure to facilitate that growth.
- We would want to consider how this could align with Development Contribution in terms of collection and as a direct correlation to the infrastructure needed to support development.

Q8.1 What legal options exist for placing a condition on land-use consents that would make a voluntary assumption of risk by a current owner (and any person or entity who later becomes the owner) enforceable in all future circumstances?

WDC response:

The ability for a council to impose conditions on a land-use consent outlined in sections 108 and 108AA of the Resource Management Act.

We consider that the application of conditions of this nature on land-use consents could be problematic because:

- It will likely need agreement with the applicant, which may not be forthcoming if, for example, the identification of risk impacts on the value of the land or development.
- To be effective a condition could require a covenant on the title outlining the hazard risk. However, such a condition is open to challenge and therefore maybe costly for councils if challenged and may not give long term certainty.
- The type of risk and its frequency and severity may change over time. This can be because of new information informing the identification of risk, or interventions which may reduce or exacerbate risk. Conditions which are put in place at the time a consent is granted will not be able to incorporate new risk information as it becomes available.

This submission was endorsed by Whangarei District Council at the Council Meeting on the 29 August 2019. Whangarei District Council welcomes further opportunity to provide feedback on the draft report and its recommendations. If there are any questions or points of clarification needed on our submission please contact Tony Horton, Manager - Strategy

Nāku noa, nā

Tony Horton
Manager – Strategy
Whangarei District Council

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