

Timaru District Council

Submission on the Productivity Commission's Funding and Financial – Draft Report

To the Productivity Commission

Introduction

1. This submission is made by the Timaru District Council, 2 King George Place, Timaru. The contact person is Damon Odey, Mayor of the Timaru District. I can be contacted at Timaru District Council, phone (03) 687 7200 or PO Box 522, Timaru 7940.
2. The Timaru District Council thanks the Productivity Commission for the opportunity to comment on the Local Government Funding and Financing – Draft Report. Council supports the intent of the Commission’s inquiry and appreciates the thoroughness of the work done to date.
3. The findings and recommendations discussed in the Draft Report are largely sound. Council believes that many of the recommendations, if applied by central and local government, will genuinely advance the funding and financing arrangements of local government and ultimately improve outcomes for councils and communities across New Zealand.
4. The report also provides some valuable insights into the application of current and potential funding options. Council anticipates this will create ongoing and robust discussion with the sector about the benefits of alternative funding mechanisms and will consider possible options during the review of our Revenue and Financing Policy ahead of the 2021-31 Long Term Plan.
5. The Commission’s assessment of the current planning and reporting framework is appropriately critical. Council looks forward to the Commission’s findings being incorporated into the Government’s current local government work programme.
6. Council would like to refer the Commission to the SOLGM and LGNZ submissions, acknowledging the experience and expertise represented in both these submissions. In general, Council supports both organisations’ submissions.
7. Council’s approach to this submission is not to respond to each finding, recommendation and question. Council provides comment on issues raised that specifically impact the Timaru District, or where Council strongly agrees or disagrees with the Commission.

Funding and Financing Framework

8. Council’s submission to the Commission’s Issues Paper asserted that, in the face of so many cost pressures, the funding and financing system for local government is fundamentally broken and unsustainable. Having closely examined the Draft Report, and in spite of the Commission’s main finding that

the current funding and financing framework is broadly sound, Council remains convinced the system itself is broken.

9. Under the current system, the pressure to achieve the almost mythical status of affordability will, all too often, win out over the desire to sustainably fund activities and services that will promote and enhance community wellbeing.
10. Council accepts that a system based on rating properties is simple and comparatively efficient, and that the current funding and financing tools provide considerable flexibility to local government. However, it seems this is as far as the soundness of the framework extends.
11. The Commission has identified four key areas where this existing funding model is insufficient to address cost pressures; supplying growth infrastructure; climate change adaptation; supporting tourism growth; and the accumulation of responsibilities placed on local government by central government. The Commission also points out that councils with small, static, or falling populations will need support from central government; that high-growth councils nearing their debt limits need further financing options; that the rates rebate system is ineffective. This is a long list of exceptions, to an otherwise 'sound' framework.
12. The assertion then, that when using an aggregated data set, the current funding and financing framework measures up well, is cold comfort for those councils facing any number of these cost pressures identified by the Commission.

Recommendation: The Commission strengthen the report to make it clear that without considerable funding assistance from central government; the introduction of new funding tools; the review of a number of local government funding, financing and planning processes; and a complete reset of the relationship between central and local government, the current local government funding and financing system is unsustainable.

Rates Affordability

13. While we accept that the aggregated data for the whole of New Zealand shows that over long periods of time, and with some variation, that increases in local government revenue and rates have roughly matched increases in national and household income, we would urge the Commission to consider that local ratepayers, and some individual councils, do not see the benefits of this aggregation. This generalised conclusion does little to minimise the impact of rates increases for those who are the variants.

Central Government Funding

14. Council welcomes the Commission's recommendation 6.9, that the benefit principle and maintaining the integrity of local government autonomy, responsibility and accountability should guide central government funding of local government activities.
15. Council believes that when applying the benefit principle, if it is determined that there is significant national benefit from the delivery of a certain service, then there needs to be an avenue for councils to collect this revenue, and the

government needs to recognise this. Examples of such services include:

- a. Climate change initiatives;
- b. Drinking water and wastewater scheme upgrades;
- c. Regional destination marketing (including cruise ship facilities);
- d. Tourism infrastructure including freedom camping facilities;
- e. Recycling programmes and education; and
- f. Public and active transport services/infrastructure

16. There are number of findings in the Draft Report that tentatively suggest central government itself is an active driver of increasing costs to local government, yet these findings are not supported by any specific recommendations for a funding remedy. Examples include:

- a) *Finding 4.6*: the cumulative effect of central government’s unfunded mandates becoming increasingly difficult for some councils to manage;
- b) *Finding 4.8*: central government support for Treaty settlement arrangements has fallen short of covering initial and ongoing costs to councils; and
- c) *Finding 5.5*: Successive legislative reforms aimed at increasing the transparency of council performance through prescriptive reporting requirements have been counterproductive.

17. Further, the Draft Report includes a well-considered discussion on the increasing responsibilities and unfunded mandates passed down from central government. The discussion concludes two things:

- a) The default in the event of central government assigning a regulatory role to local authorities is that the regulator should be given the means to adequately fund its operations – either from the regulated parties, or through government payments; and
- b) If significant national benefits are involved, then there is a good case for a contribution from national funds.¹

18. Yet the Report fails to translate these conclusions into recommendations. This needs to be strengthened in the final report.

19. We would also like to highlight the Commission’s previous recommendations in favour of rating crown land. We acknowledge that the Terms of Reference for the inquiry directs the Commission to make no recommendations on this topic, however, it is clear from submissions to the Issues Paper, that the inability for Councils to rate crown land, or collect development contributions from the crown is an issue. We strongly recommend that the Commission strengthen the final report to include these issues in their findings.

¹ New Zealand Productivity Commission, (2019), *Local Government Funding and Financing – Draft Report*, p. 179

Recommendation: The Commission strengthens its recommendations to central government regarding funding local government, for new and increasing regulatory roles, for Treaty settlement arrangements and where significant national benefits are involved. This would better reflect the findings of the Draft Report.

Recommendation: The Commission make the explicit point that local government's inability to rate crown land was identified by the inquiry as a funding issue, and reiterate the Commission's previous recommendation in favour of rating crown land.

Relationship Reset

20. Council supports recommendation 6.10 which urges a more constructive and cooperative relationship be fostered between central and local government. We see this being particularly essential in relation to the policy and regulation making processes and implementation.
21. As part of this recommended relationship reset the Commission should emphasise the need for central government to apply more resource to providing councils with the tools needed to implement national policy direction and other new legislative requirements.
22. These tools need to be developed with the huge range in council size and available resource in mind. A large council may have the internal resourcing capacity, or budget leeway for external resourcing, to comprehend the implications of policy and legislative change, to build an implementation framework, to socialise the changes with staff and stakeholders, and to carry out, monitor and report on these changes. A small council may only have one staff member, with an already full workload, responsible for this entire process.
23. If central government wishes to realise policy aims across the whole country, this needs to be a primary consideration throughout the policy development stage, rather than an afterthought, requiring local government to scramble to resource the implementation of these changes.
24. Further, under a 'partners in regulation protocol', where it can be demonstrated that it would be more efficient and effective for local government to act as a 'regulatory agent' for central government, this needs to be recognised for the service provision that it is. The delivery of these regulatory services by local government, for central government should be funded accordingly.

Recommendation: The Commission strengthen recommendation 6.9 to emphasise that when central government does expect local government to act as a regulatory agent, there needs to be accompanying resources and funding provided, taking into account the range in council sizes.

Recommendation: Recommendation 6.9 is further amended to make the explicit point that when local government are providing a service of national benefit acting as a regulatory agent for central government, this needs to be funded accordingly.

New Building Work Tool

25. Council supports this recommendation in principle. This approach may go some

way to assist councils address short term costs associated with growth. However, it may not be a sustainable solution to local government's funding pressures as it will likely be contingent on the political will of the sitting government and subject to budgetary competition from other departments.

26. We refer the Commission to the SOLGM submission which raises a number of questions about the detail of such a funding stream.

Accommodation and International Visitor Levies

27. The Draft Report correctly identifies the stressors and inequities for councils needing to provide tourism related infrastructure, and that tourists do not fully pay for the cost of local infrastructure and services that they consume directly. Council agrees that user pays and accommodation levies are the two best options available to councils for recovering the tourist share of costs.
28. Regarding recommendations 6.7 and 6.8, Council would like to see the Commission refine the definitions of "tourist centres" and "small tourist hotspots". Whether towns in the Timaru District popular with tourists, such as Geraldine, would be considered a "tourist centre" or a "small tourist hotspot" is not clear and guest nights might not support such classifications; however, the impact of tourism on Council's infrastructure is still evident.
29. Clarifying these recommendations would help ensure all councils have the ability to set an accommodation levy and access the international visitor levy, proportional to visitor numbers.
30. The cessation of the monthly accommodation survey carried out by Statistics New Zealand in November 2019, due to their own cost pressures, will add to the difficulty of refining this definition.
31. The Tourism Infrastructure Fund has provided some much needed relief for some councils in upgrading and installing new infrastructure. However, this only covers capital costs and councils are still left grappling with how to pay operating and maintenance costs for this essential infrastructure.
32. Similarly, the funding available for Responsible Camping initiatives has allowed many councils to investigate new initiatives to improve the visitor experience for, and reduce the harm caused by some freedom campers. However, like the Tourism Infrastructure Fund, this assistance from central government is irregular and uncertain.
33. As a recipient of funding for Responsible Camping initiatives, Council would like to see this stream of funding continue. We believe it provides an incentive for local government to proactively address freedom camping issues and find innovative approaches to solving them, while recognising both the local and national benefit these visitors provide.
34. As the data collected from the Responsible Camping post-season reviews accumulates, it will provide an extremely valuable resource for both central and local government for future funding decisions in this space. As much as possible, the data collected needs to be streamlined and made accessible to all local authorities.

35. Council would like to see the Commission include some analysis of the impact to date of the Tourism Infrastructure Fund and the Responsible Camping funding in the Draft Report, and to provide central government with clear direction about the future application of these funds to alleviate tourism cost pressures.

Recommendation: The Commission clearly define “tourist centre” and “small tourist hotspot” in recommendations 6.7 and 6.8.

Recommendation: Inclusion of an impact analysis in the final report of the Tourism Infrastructure Fund and Responsible Camping funding as possible ongoing funding options for councils dealing with tourism related cost pressures.

Rates rebate and remission policies

36. While the rates rebate scheme is cumbersome, inefficient and in some cases inequitable, it is still popular with Timaru District ratepayers and we cannot advocate for the removal of the rebate when it would adversely affect a considerable number of our residents.

Recommendation: The Commission amends its recommendation to phase out the Rates Rebate Scheme (RRS), recommendation 7.6, to consider a first principles review of the RRS, including consideration of how a rates postponement scheme might align with this.

Taxation on Vacant Land

37. While Council acknowledges there is merit in policies that discourage land banking, discussion on the nature of such a tax is very limited in the Commission’s Draft Report. As it stands, Council does not support such a tax.

38. A working paper prepared for the Tax Working Group in 2018 stated that such a tax has been introduced in a small number of countries and cities and as these are relatively novel “there is very little evidence to determine if the tax is increasing the supply of housing”.²

39. We agree with SOLGM’s submission; the Government should monitor overseas experience for evidence of the effectiveness of such taxes.³

Recommendation: The Commission recommend central government monitor the application and success of vacant land taxes in other countries prior to considering the implementation of such a tax in New Zealand.

Development Contribution Policies

40. Council does not support the recommendation for a national template for development contribution policies. As complex as these policies are to develop, policy setting is a key responsibility for councils and it is important that council’s autonomy and policymaking discretion is not eroded as a result of this inquiry.

² Inland Revenue and Treasury (2018), *Taxing Vacant Property – Position Paper for Session 23 of the Tax Working Group*, p. 22.

³ Society of Local Government Managers (2019), *Submission regarding the Draft Productivity Commission Report: Local Government Funding and Financing*, p. 9.

41. We acknowledge the Commission's finding, 6.7, that development contribution policies are inherently complex and would welcome a good practice guide for policy development as proposed by SOLGM in their submission to the Draft Report.⁴

Audit Committees

42. Council agrees that there is a need for appropriate skills in the audit and risk area for local government. Council supports an amendment to the LGA to require local authorities to have an Audit and Risk Committee, or the equivalent.
43. However, we are concerned that a prescriptive legislative approach to the appointment of independent Chairs to council committees undermines the authority of elected members. We urge the Commission caution in making such a recommendation and suggest alternative solutions be explored if, and when, councils identify a particular skill shortage following triennial elections.
44. An area the Commission could provide further analysis and recommendation in its final report is guidance on remuneration setting for independent members of such committees.

Recommendation: The Commission amend recommendation 5.3, removing the suggested requirement for all Audit and Risk Committees to have an independent Chair.

Recommendation: The Commission provides guidance on the appropriate remuneration setting process for independent members of council committees.

Long Term Planning

45. Council welcomes the Commission's recommendation that the Local Government Act (LGA) be revised to clarify and streamline the content of both long term plans (LTPs) and consultation documents, to reduce duplication, ease the compliance cost on councils, and make these central planning and engagement documents more accessible to the public.
46. As a council, we work hard every LTP process to ensure we produce accessible, accurate, and engaging documents for our community. However, given the wide range of challenges local government faces, and the volume of complex mandatory reports, this is no easy task.
47. The current requirements are not fit-for-purpose and councils and communities alike would benefit greatly from a first principles review of the long term planning process.
48. Any review should consider, first and foremost, the current purpose of the long term plan, as detailed in sections 93 and 93B of the LGA. Where content currently required does not advance these purposes, it should be removed from the LTP and consultation documents. We refer the Commission to SOLGM's

⁴ Society of Local Government Managers (2019), *Submission*, p. 17.

submission, and their submission to the 2012 Efficiency Taskforce.⁵

49. Council does not support reducing the frequency of the LTP process. We believe that removing the LTP from alignment with the triennial local government elections would erode local democratic decision-making processes. A likely result of this would be numerous LTP amendments in interim years, further undermining the effectiveness of the strategic planning process.

Recommendation: The Commission recommends the Government include a first principles review of the LGA requirements on Long Term Planning, particularly the mandatory reporting requirements.

Recommendation: The Commission does not recommend changing the LTP frequency from the current three year cycle.

Financial Management

50. We strongly support recommendation 7.2, that councils set out the reasons for their rating decisions in a clear and transparent manner. We also agree that the application of the benefit principle is important to ensure an equitable funding policy, however, it should not be the sole arbitrator of how rates are set.
51. The Commission found that the LGA currently provides only weak support for allocating rates primarily according to who benefits from council services. Our reading of the legislation is that there is no intention for councils to allocate rates primarily according to who benefits. The benefit principle is to be considered with four other issues in relation to each activity, while the overall impact of rating on community well-being must also be considered.
52. When determining how we fund services, Council is guided by section 101 of the LGA which legislates that councils must, in relation to each activity to be funded, have consideration for:
- a) The community outcomes to which the activity primarily contributes; and
 - b) The distribution of benefits between the community as a whole, any identifiable part of the community, and individuals; and
 - c) The period in or over which those benefits are expected to occur; and
 - d) The extent to which the actions or inaction of particular individuals or a group contribute to the need to undertake the activity; and
 - e) The cost and benefits, including consequences of transparency and accountability, or funding the activity distinctly from other activities;
53. And, as amended by the Local Government (Community Well-being) Amendment Act 2019:
- a) the overall impact of any allocation of liability for revenue needs on the current and future social, economic, environmental, and cultural well-being of the community.

⁵ Society of Local Government Managers (2019), *Submission*, pp. 30-32; Society of Local Government Managers (2012), *Better Local Accountability – A Submission to the Efficiency Taskforce*.

54. We believe that this section of the Act intentionally recognises the complexity inherent in the equitable funding of council activities and the importance of community well-being in this decision-making process.
55. The 2019 well-being amendments further highlight the Government's intention that local government consider not only community outcomes but also the current and future social, economic, environmental, and cultural well-being of the community in rating decisions.
56. Council welcomed the return of the local government mandate to promote and consider community well-being in all activities and decision-making. We would be adverse to any recommendation from the Commission which undermines the application of the well-being principles.
57. Elevating the consideration of benefit in determining rating policies, above the consideration for well-being would be contrary to the purpose of local government, as set out in section 10(1)(b) of the LGA, to promote the well-being of communities in the present and future.

Recommendation: The Commission reconsider recommendation 7.2, in light of the intention of the current legislation for councils to maintain a board perspective of consideration for funding services, including robust considerations of benefits.

Differentials, Uniform Annual General Charges and 30% Cap

58. The Commission's recommendation to amend the Local Government (Rating) Act 2002 to remove differentials and uniform annual general charges (UAGC) would have a significant impact on Timaru District ratepayers. For Timaru District Council, the drivers for the use of these tools in funding decisions relates to benefits provided, equity, affordability and ability to pay. Removal of differentials and UAGCs as a tool for funding decisions would cause significant disruption and mean a significant district-wide rating review would be required.
59. Council does not support the total removal of these tools. They are used to enable fairness and equity in rating decisions applied to certain user groups. Council does support increasingly the transparency around the use of these tools to ensure that ratepayers are fully conversant with why these decisions are made. Council supports a principle-based and robust approach to funding decisions, but not one that removes the ability for an elected Council to make political decisions.
60. Equitable rating is central to our Revenue and Financing Policy and these tools are effective for recognising the different scale of benefit received by ratepayers for different services and for distributing costs according to people's ability to pay.
61. Council supports the proposal to remove the 30% cap on uniform rates for the reasons outlined. Should a proposal to remove differentials and UAGCs ever be supported in legislation, this will be a necessary precursor.

Recommendation: That the opportunity to use differentials and UAGCs is retained.

Recommendation: That the 30% cap is removed.

Climate Change

62. Council strongly supports the Commission's finding and recommendations that central government take decisive action on leading climate change. We welcome the Commission's detailed assessment of the pressures councils face from climate change related mitigation, planning, engagement and adaptation. The power of the Commission's voice in echoing much of what local government has been telling central government for a number of years cannot be underestimated.
63. Timaru District has high exposure to risks from climate change, with a coastline of approximately 52km. We are currently undertaking a coastal hazard assessment to better inform our decision-making and planning. With a rapidly eroding headland at a popular recreational site, Patiti Point, the very real impacts of climate change are currently front of mind. Timaru is not alone; councils the length of New Zealand, particularly those with considerable coastlines are grappling with serious coastal erosion and inundation issues.
64. Up until this point, councils have had to grapple with climate change issues individually and with limited resources and expert advice. We certainly recognise the role local government will increasingly have to play in this space, as both a service/asset/activity owner and provider, a large organisation and as a community leader. The effects of climate change will be felt locally. However, these effects will pay no heed to administrative boundaries. Without national guidance, local government policy approaches to both adaptation and mitigation could lead to the unnecessary duplication of scientific research, inconsistency between neighbouring councils and heightened risk of legal challenge.
65. We welcome the Commission's assertion that more guidance is needed for councils on climate change and providing this through central, specialised sources for knowledge will be more cost-effective than each council inventing its own solutions.
66. We fully support recommendations 8.2, 8.3 and 8.4. We believe that the greatest immediate advancements that can, and need to be made, in the climate change space rest within these recommendations. Current legislation and policy needs to be reviewed to reduce confusion about local government responsibilities and to ensure an integrated and aligned platform for councils to engage in mitigation and adaptation activities with more confidence.
67. Council questions the need for the establishment of three new agencies – two centres of excellence, one for data and climate science, and one for policy, planning, risk management, legal issues and engagement, and a third to administer funding for adaptation of wastewater and stormwater assets.
68. While we recognise, and support the need for the three distinct functions of the proposed agencies, we believe that multiple agencies will lead to duplication, inefficiencies and excessive set-up time. We are also concerned that in making such a recommendation to the Government the Commission risks muddying the waters and distracting from the urgency of this work.

69. These functions could be administered by one single new agency, or by an existing organisation, such as NIWA, or the Climate Change Commission. The commissioning of these functions should be appropriately resourced to reflect the scale and time sensitive nature of this work.
70. Council is also concerned that drinking water assets have been excluded from the recommendation for resilience funding for at-risk infrastructure. Those councils whose stormwater and wastewater assets are threatened by sea-level rise are just as likely to have considerable drinking water assets at risk.
71. We strongly support the Commission's Recommendation 8.5 that assistance for land-transport infrastructure should be conditional on a strong business case, meet engineering and environmental quality standards. This recommendation should be extended to all funding for climate change adaptation, not just land-transport infrastructure.
72. We strongly agree with findings 8.3 and 8.5, that a set of high level principles about funding the costs of adaptation be established, based on minimising long-run costs, providing for the most equitable adaptation across communities and generations, and active engagement and empowerment of affected communities, and that any assistance based on social insurance should be carefully designed to incentivise risk reduction and avoid moral hazard. We believe that these findings should be incorporated into the Commission's recommendations to add the necessary weight to ensure both central and local government include these principles in all future climate change planning.

Recommendation: The Commission amend recommendations 8.1 and 8.6 and instead recommend a single agency, new or an existing organisation, deliver the three identified functions.

Recommendation: The Commission amend its recommendations to include drinking water assets within the scope of resilience funding.

Recommendation: The Commission extend recommendation 8.5 to reflect the need for all climate change adaptation funding to be conditional on a strong business case and meeting engineering and environmental quality standards.

Recommendation: The high level principles detailed in findings 8.3 and 8.5 be incorporated in the Commission's recommendations to ensure they are afforded the appropriate weight in the final report to government.

Yours sincerely



Damon Odey

Mayor