

Report No.	19-116
Information Only - No Decision Required	

PROPOSED RESPONSE TO PRODUCTIVITY COMMISSION DRAFT FINDINGS ON LOCAL GOVERNMENT FUNDING AND FINANCING

1. PURPOSE

- 1.1. To provide Council with an overview of the **New Zealand Productivity Commission's (the Commission)** findings in their recent draft report on their inquiry into Local Government Funding and Financing, and a draft submission to provide feedback on the draft report.

2. RECOMMENDATION

That the Committee recommends that Council:

- a. receives the information contained in Report No. 19-116 and Annexes.
- b. invites Council to consider how it wishes to address chapter five of the New Zealand Productivity Commission's findings in the draft report on their inquiry into Local Government Funding and Financing which focuses on improved decision making.
- c. authorises the Chief Executive to finalise the submission on behalf of the Council.

3. FINANCIAL IMPACT

- 3.1. There is no financial impact from the recommendations contained in this item.

4. COMMUNITY ENGAGEMENT

- 4.1. No community engagement is required.

5. SIGNIFICANT BUSINESS RISK IMPACT

- 5.1. There is no significant business risk associated with this report.

6. BACKGROUND

- 6.1. On 4 July 2019 the New Zealand Productivity Commission released their **draft report on their inquiry into Local Government Funding and Financing (the draft report)**. The draft report contains 67 findings and 30 recommendations based around 5 focus areas, one issue and one case study as follows:

- 6.2. Focus areas:

- Chapter 3 – Trends in local government, expenditure, prices and debt
- Chapter 4 – Pressures on funding and financing
- Chapter 5 – Improving decision making
- Chapter 6 – Future funding and financing arrangements
- Chapter 7 – Equity and affordability

- 6.3. The issue considered was adapting to climate change (chapter 8) and the case study was on Three waters (chapter 9). Also considered in depth by the Commission was the impacts of tourism and funding pressures resulting from Treaty of Waitangi settlements. A copy of the 289-page report is available on the Productivity Commission's website:

https://www.productivity.govt.nz/sites/default/files/ProdCom_Draft%20report_Local%20government%20funding%20and%20financing.pdf

- 6.4. The Commission has invited submissions on the draft report to be provided by 29 August 2019, and has provided eight questions to guide submitters; **Annex A**. Council made a submission at the issues phase through endorsing the LGNZ submission. We anticipate that LGNZ will also be providing a submission on this stage and will circulate their draft submission to Council when it is available.

7. DISCUSSION

- 7.1. Overall, the findings are positive, in that the revenue and rating system are broadly sound and tools are being applied well by Councils. There is strong recognition of the additional impost of costs being shifted from the taxpayer to the ratepayer as a result of central government policy development, including in the environmental policy area.
- 7.2. The Commission proposes recommendations that encourage central government to acknowledge and fund these associated costs, as well as take the lead on significant policy issues (such as climate change) and provide targeted funding support. For example, funding support for climate change is recommended to cover the spectrum of science evidence and advice, vulnerable transport infrastructure, and water infrastructure systems.
- 7.3. With regard to Treaty settlement arrangements, it is recognised that there may be considerable implementation costs imposed on local government and iwi - particularly with co-governance and co-management arrangements. The Commission suggests central government needs to undertake a comprehensive and in-depth analysis of both implementation and on-going costs to ensure the resourcing and funding needs are met.
- 7.4. The Commission made a number of findings reflecting that, in summary, local government will need new tools to better prepare for the future. This recognises the challenges our communities are facing in terms of ageing populations, assets that are reaching the end of their useful life, and the resilience building required for communities to cope with change (for example, the effects of climate change).
- 7.5. The Commission identified four key areas where new tools would be particularly helpful:
- Infrastructure supply to support rapid urban growth;
 - Climate change adaptation;
 - Tourism growth (beyond the community's capacity to cope);
 - The accumulation of responsibilities placed on local government by central government.
- 7.6. In terms of council activity planning, the Commission recommends that more efficient ways of consulting could reduce the costs of consultation for councils, while at the same time improving transparency and achieving the strategic intent of the **Long Term Plan (LTP)**.
- 7.7. The Commission recognises that there is a funding gap created by tourism activities and provided options for consideration of targeted funding (e.g. greater user pays and accommodation levies). This aims to recover costs in a more equitable way while promoting economic efficiency.

8. COMMENT

- 8.1. The Commission has identified that it favours the “benefit principle” as a primary basis for deciding who should pay for local government services. While generally supportive of this principle, we anticipate many beneficiaries will reside outside of the region, and therefore the recovery of this revenue would be complex if the benefit principle was applied.
- 8.2. This was particularly highlighted in the Commission’s commentary on tourism pressures, where the benefits often flow to outside the district or region, particularly when the tourism activity centres around natural resources that have no supporting commercial infrastructure (for example, walking tracks vs bungee jumping). This is where there could be merit in looking at other principles, such as fair use, to underpin some of the new funding models the Commission has recommended be developed.
- 8.3. It is encouraging to see the Commission recognise the issues associated with growth, however we note that they have not paid the same attention to issues of contraction. This was previously a long-term issue in pockets of the region and has only recently turned around. Given the demographic dividend New Zealand (along with all other western countries) has received due to the post-war population structure, a long-term view that accounts for the dividend payback period would provide tools now for local government to have the right tools to prepare for managing these effects in the future.
- 8.4. Within the terms of reference of the inquiry the Commission was invited to consider innovative funding models. There is a brief mention and acknowledgement of shared services (such as MWLASS). The Council has found shared services to be both an efficient and effective model of working with territorial authorities, and it would be useful to see this model expanded on. The Council also utilises the shared services model in commissioning some of the work we do across regions (for example, our Regional Integrated Ticketing System for public transport provision).
- 8.5. The Commission highlighted it was important for the Crown to direct adequate resourcing to councils to support treaty settlement arrangements. Our experience shows there is a greater draw on council resources than the funding provided by Te Arawhiti (Office of Crown-Maori Relations) to cover this work. It is useful to see the Commission’s acknowledgement that funding would benefit councils from being higher, without unfairly burdening the taxpayer. However, with our planned investment towards a partnership approach with iwi, our Long Term Plan recognised an increase in these costs.
- 8.6. The Commission acknowledges the reluctance of Councils to levy development charges in growth areas, as this can act to create perverse incentives for developers. Similarly, intending new residents do not consider these charges as a reasonable cost. Interestingly, these are the type of charges that would apply if using the benefits principle (which as noted above is favoured by the Commission). The value capture approach – used, for example, to capture property value windfall gains - does appear to have merit in exploring further, though in this proposed application it may be both administratively complex and potentially not deliver the revenue anticipated.
- 8.7. The findings and recommendations to improve and streamline the LTP process to encourage engagement and reduce bureaucracy are useful. However, one of the recommendations (R5.6) that suggests that LTPs *describe the reasonably practicable alternative options* could be an expensive and extensive exercise. A comparison could be the section 32 reports required under the Resource Management Act, which attract significant costs to produce, and require specialist technical and legal input, as well as staff resources. It would be unwelcome to see the section 32 process replicated in some form under the Local Government Act.

- 8.8. The Commission also noted that the elected member governance model may result in some councils lacking the necessary expertise for effective decision making, and that uptake of training opportunities can be patchy. Similarly, the findings set out that the effectiveness and public uptake of opportunities to engage depends on the public's understanding, which, in the Commission's words is "notoriously deficient" [finding F5.12, page 259 of the draft report].
- 8.9. Council staff invite Councillors to consider how they would like to address the findings and recommendations of chapter five of the draft report. A suggested approach is that it may be appropriate for nominated Councillors to discuss these findings and make input into the draft submission on behalf of the Council. Council staff do not believe it is appropriate to propose a view on these matters.

9. CONSULTATION

- 9.1. No consultation was required in the development of this report.

10. TIMELINE / NEXT STEPS

- 10.1. Provided that Council approve the draft submission **Annex B**, the Chief Executive will ensure the finalised version is prepared for submission to the Productivity Commission by the due date.

11. SIGNIFICANCE

- 11.1. This is not a significant decision according to the Council's Policy on Significance and Engagement.

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ANNEXES

- A Summary of questions
B Draft submission to the Productivity Commission