Productivity Commission Review of Local Government Funding and Financing

Submission on Draft Report

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Introduction.

Thank you for the opportunity to make a submission on the Local Government funding and financing review. The Commission presents well thought out analysis of the issues facing Local Government and puts forward reasonable recommendations which I generally support, especially responses relating to unfunded mandates from Central Government, tourism pressures and climate change issues.

I would like to make specific comment on three areas: Uniform Charges, Special Financing Vehicles and other sources of funding for Local Government in the form of Green Bonds.

1. **Uniform Charges**
    a. I support the retaining of a cap on Uniform Charges as a proportion of rates and note that there is some ambiguity as to whether targeted rates are deemed to be a uniform charge or not. I would like the Commission to look into why the 30% cap was imposed in the first place, and if this was to prevent the over-reliance of fixed charges for general rating purposes arising from the concerted actions of interest groups, then a legislated cap on Uniform Charges should be retained.
    b. One of the reasons the rural sector lobbies for greater use of Uniform Charges is their view that they don't make as much use of council services as urban dwellers, and therefore shifting the incidence of rates from capital value to fixed charges is more equitable. The Commission has given its view on this approach to rates, confirming them as property taxes and not service charges.

       Little weight appears to be given by rural ratepayers to the roading services that the rural community enjoys, yet funding that activity accounts for a significant part of the rate take. I am familiar with Waipa District Council, and in the 2019-2020 year, 19% of rates were allocated to the roading activity. Rural businesses depend heavily on well maintained and safe roads for collection of milk, transportation of animals, contracting services, employee commuting and site visits by specialist advisors. Road user charges, as pointed out in the Commission's report, only covers Central Government's contribution to roading, leaving ratepayers to fund the remainder.

2. **Special Financing Vehicles**
    a. **P. 72 Comments on Milldale development in Wainui**

    I question the use of schemes like Special Financing Vehicles which transfer the incidence of development contributions from developers to section owners. Currently developers generally enjoy a significant uplift in value for subdivisions which allows them to meet the cost of development contributions from section sales. Furthermore, there seems to be an assumption that the level of development contributions influences the selling price of sections, and that if development contributions were removed, then section price would be lower. In Waipa District where this was investigated, it was found that other factors influenced price, and financial contributions had no discernible effect. Therefore, the Special

Financing Vehicle proposal as it stands has the effect of significantly boosting developer profit margins, while also imposing a significant repayment burden on section buyers.

As an example, the parameters for the section charge for Milldale were: $1,000 per property paid over 30 years with a 2.5% increase annually. The actual capital value of the charge was not disclosed, but I understand the base financing rate was approximately 5%. With the 2.5% annual increase in repayments, this could substantially increase the true finance rate of the scheme. My calculations put the finance rate at 8.85% if the capital charge being repaid was $16,000. I accept that the true capital charge could be much higher and therefore the finance rate would be reduced; however, the point I make is that disclosure of these specifics is essential so that section buyers understand what they are committing to for the next 30 years.

In my view, consumer financing safeguards need to be put in place for Special Financing Vehicles and the recommendations of the Australian Banking Royal Commission applied to any proposal in that:

- the financier is to act in the best interests of the intending borrower, not the bank/funder providing the loan

- the finance rate (true rate of interest with all the additional charges and commissions added) is disclosed

- any conflicted remuneration is declared. This might include things like commission.

Other new ways of financing growth or improvements to infrastructure could be explored and implemented more widely, as discussed in point 3 below.

3. **Other Funding Sources for Local Government**

   a. **Green Bonds and Carbon Credits**

      An area not included in your review was the potential for the use of Green Bonds as a funding option for Local Government, designed in such a way so that they can be excluded from a Council's debt limits. This could be achieved if Green Bonds were limited to financing infrastructure that would reduce carbon emissions, and an Emissions Trading Scheme was operating with a Carbon Price similar to that modelled in the Commission's Report on a Low Emissions Economy. The work sheet below sets out how the cost of servicing a Bond compares to Kapiti Coast District Council's actual emission reductions achieved in 2017 (https://www.kapiticoast.govt.nz/whats-on/news/2017/kpiti-coast-district-council-obtains-cemars-recertification/).

Value of Bond	Term	Interest Rate	Annual Repayment	Carbon Price per tonne	Carbon Emissions Tonnes needed to	Comparison with Kapiti Coast District council - operational

					match annual payment	emissions savings 2017 (tCO2e)
$1,000,000	30 years	3.00%	$50,592.48	$88.00	574.9	*9,348.75
$1,000,000	30 years	4.00%	$57,289.80	$88.00	651.0	*Based on 5 year rolling average since 2012
$1,000,000	30 years	4.00%	$57,289.80	$75.00	763.9	

Because the green infrastructure project can demonstrate emissions savings year on year, producing ETS carbon credit equivalent revenue which would exceed the financing costs of the Bond, it can be argued that there is no need for the Bond debt to be included in prudential lending limits. This is because the financing of the Bond can be managed solely (or ring-fenced) through the ETS scheme and does not affect in any way the Council's ability to service other lending or Council's financial strength.