

15 Galileo Street
Private Bag 544
Ngaruawahia
New Zealand
Telephone 07 824 5878
Facsimile 07 824 5892
Email allan.sanson@waidc.govt.nz



16 August 2019

Local Government Funding and Financing Inquiry
New Zealand Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143

info@productivity.govt.nz

Dear Sir/Madam,

RE: Submission from the Waikato District Council on the Local Government Funding and Financing draft report

The Waikato District Council (WDC) appreciates the opportunity to make a submission on the Productivity Commission's ("the Commission) Local Government Funding and Financing draft report.

WDC agrees with the Commission's conclusions regarding the funding and financing framework being "broadly sound" and the summation of the key pressures that need to be addressed as; infrastructure supply for rapid growth, climate change adaptation, tourism growth and responsibilities placed on local government by central government.

Submission

Council's observations on the key pressures outlined in the draft report are provided below. The attachment, which signals support or not with brief explanatory comments against each of the report's recommendations, forms part of WDC's overall submission.

Value capture

Waikato district has experienced high growth for a number of years and being situated between two major cities of Hamilton and Auckland we expect this to continue. In our Council's experience, value capture is already addressed through virtue of running a capital value rating system, implementing capital contribution fees for connection to new infrastructure and charging for availability of services as network infrastructure extends. A significant amount of rating valuation objections relates to capital value movements in the absence of capital improvements. This demonstrates that property owners do pay for value capture albeit based on the frequency of the valuation cycle.

Extending local government tools to allow for road use charges (such as congestion charging) and volumetric wastewater is supported as it would expand current funding options while reinforcing the benefit principle.

New central government growth funding stream

The proposal to introduce a new central government funding stream based on new building work is supported by our Council. Greenfield development costs are high and while provincial and rural councils have opportunities to ease the housing shortage by releasing additional land, we lack the critical mass and economies of scale to fund the infrastructure required without central government assistance.

As infrastructure costs to service growth in greenfield areas is higher than with urban in-fill, our Council would expect this funding opportunity to be based on a set of criteria rather than build value alone. A new home in a city urban area may have higher build cost, but from a council perspective the level of attributed infrastructure spend is likely to be far less than that required to support new builds in rural or provincial areas. Additional criteria capturing the quantum of building consents as a proportion of overall property numbers may assist to right-size the distribution of central government funds between city, provincial and rural councils. This approach assumes that the government want to support growth in the regions.

In terms of the tax on vacant land proposal, WDC does not believe this supports the benefits principle that underpins the inquiry, as the linkage to infrastructure and service provision is questionable. Normal cyclical valuation movements will increase vacant land contributions towards council costs over time. Removing the ability to charge a uniform annual general charge seems in conflict with the proposal to introduce a new tax on vacant land. A scheme that increases the cost of holding vacant land to incentivise supply of land would have limited success from WDC's perspective. In provincial areas our property rates can already be comparatively higher than city rates due to economies of scale (as is the case with Auckland currently), however, in our experience this has not impacted on the speed with which land is developed.

Climate Change

WDC supports a redistribution of climate change focus to risk reduction. Noting that funding for recovery activities after an event should remain in place given risk management practices will take time to reach sufficient maturity. Proposed central government funding in this space is welcomed. Council is supportive of the Society of Local Government Managers (SOLGM) submission, in that both the data/science centre and funding role be assigned to the Climate Change Commission.

Funding support for tourism hotspots

Council supports the distribution of international visitor levies to local authorities where user pays mechanisms and accommodation levies would be administratively difficult to implement. This fund should be non-contestable and split formulaically for the individual council's to control funding decisions at the local level.

Central to local government mandates

WDC is already benefiting from a more constructive relationship between central government and local government, although funding discussions have been limited. Disappointingly we observe more traction between central government and city council representatives with boundary changes still an underlying discussion point, when much of the greenfield development space and hence funding opportunities to support growth sits with the provincial councils. A work-on for all parties.

Unfunded and under-funded mandates from central to local government have led to compliance challenges and additional expense. Developing a "partners in regulation" protocol would be well received.

It is unclear in the draft report how agility will be achieved in the proposed additional funding streams. WDC's preference would be for formulaic methods of distribution rather than the creation of contestable funds which ultimately result in winners and losers.

Summary

- Waikato District Council believes value capture is already passed on via capital rating systems, but is supportive of the addition of new road and wastewater charging mechanisms
- Council is supportive of the new building works funding stream proposal, however, would like to see a proportionate approach for distribution of funds rather than solely on build value due to the variation in infrastructure costs to service greenfield versus urban in-fill developments
- Climate change recommendations are supported with the exception of new agency creation. The Climate Change Commission should assimilate the data and funding roles
- Funding for tourism hotspots should be distributed formulaically with the use of funds controlled at the local council level
- New or improved funding and financing mechanisms should be agile – not same size fits all

WDC would like to thank the Commission for the opportunity to make a submission. The Council will speak to this submission if required and are willing to be part of any further discussions.

Yours sincerely,



Allan Sanson

MAYOR

Feedback on draft report recommendations			
Recommendation	✓ Support	✗ Not support	Comments
R5.1	✓		
R5.2	✓		
R5.3	✓		Waikato District Council has an Audit & Risk Committee with a well-qualified/appropriately skilled independent chair and believes local government as a whole would benefit from adding this as a requirement.
R5.4	✓		
R5.5	✓		
R5.6	✓		
R5.7	✓		
R5.8	✓		
R6.1		✗	Waikato District Council supports the SOLGM submission. Providing good guidance materials rather than 'regulating' standardised templates would be of greater benefit.
R6.2	✓		
R6.3	✓		
R6.4	✓		<p>Waikato District Council is supportive of the proposed new funding stream based on new building work.</p> <p>The Council would like to see the disbursement of such funds based on a set of thresholds rather than build value alone. Rural and provincial councils may have lower build value yet experience a higher number (quantum) of new builds in greenfield areas and therefore subject to greater demand for new infrastructure (higher servicing costs) than city in-fill development would generate.</p> <p>Council would like to ensure this 'fund' would not be contestable but distributed based on an agreed calculation method.</p>
R6.5	✓		<p>While Council supports the SPV in relation to debt limits, existing residents/ratepayers should already be paying their fair share of the costs if the benefits principles have been applied correctly at the outset of the projects.</p> <p>For example, putting a new wastewater scheme into a previously unserviced township should have the costs split between growth (DC's) and existing residents (capital contributions/lump sum payments). The recommendation assumes that this practice does not take place currently.</p>

Recommendation	✓ Support	✗ Not support	Comments
R6.6	✓		Waikato District Council has negotiated a long-term three waters servicing arrangement with WaterCare Service Limited (a CCO of Auckland Council) to take advantage of scale and specialisation for the benefit of our ratepayers/customers.
R6.7	✓		Waikato District Council supports the legislative change. However, in areas where tourism activities are still in their infancy or part of the appeal is the 'laid' back environment, the opportunities to collect tourism dollars through accommodation levies would have high administration costs (e.g. Raglan has a good level of tourism activity but mostly through air bnb, private rentals etc. rather than motels/hotels). Council's do not hold sufficient information to make this transition easy/cost-effective.
R6.8	✓		Waikato District Council, in reference to R6.7, supports this approach as a more practical solution to tourism funding. Again Council would like to ensure this 'fund' would not be contestable but distributed based on an agreed calculation method. The control of the decision making process should be localised.
R6.9	✓		
R6.10	✓		
R7.1		✗	It is unclear what benefits will be delivered via the removal of the UAGC and rating differentials, this is a restriction of the tools available which seems outside of the scope of the review. In practice, we suspect both mechanisms will be replaced by similar targeted rate charges. This will restrict the use of that income stream which could have an unintentional impact on the level of core general rate income required. Council believes this recommendation is short-sighted even noting the 5 year transition period.
R7.2	✓		This supports good practice. However, where a Council has had UAGC and differentials removed the ability to pay may be affected and the amount of collectible rating income may adversely impact cash flow. Income tax payers do not get to elect where their tax dollars are spent whereas at the local level this is the underlying principle. If we accept that property tax is an efficient and effective method to fund infrastructure and services at the local level then moving away from the principles of taxation seems counterproductive.
R7.3	✓		
R7.4	✓		Waikato District Council believes this is moot point if recommendation 7.1 is implemented.
R7.5		✗	Waikato District Council has a rate postponement policy in place; however the ability to exercise the policy is limited given the high administrative hurdles. The rates rebate scheme ensures Council actually receives the rating income albeit split between the

			government and the ratepayer. A national postponement scheme would have cash flow implications for the local authority unless the government are proposing to reimburse the lost income until the postponement is triggered for repayment.
R7.6		x	As above
R8.1	✓		
R8.2	✓		
R8.3	✓		
R8.4	✓		
R8.5	✓		
R8.6	✓		