Date: Tuesday 23 July 2019
Time: 9.30am
Meeting Room: Reception Lounge
Venue: Auckland Town Hall
301-305 Queen Street
Auckland

Komiti ā Pūtea, ā Mahi Hoki / Finance and Performance Committee

OPEN ATTACHMENTS
ADDITIONAL ATTACHMENTS UNDER SEPARATE COVER

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Note: The attachments contained within this document are for consideration and should not be construed as Council policy unless and until adopted. Should Councillors require further information relating to any reports, please contact the relevant manager, Chairperson or Deputy Chairperson.
Memo

To: Finance & Performance Committee
cc: Executive Leadership Team; and Waitakere Local Board
From: Rod Aitken

Subject: Sale of Council’s Graham Street offices goes unconditional

On 29 April 2019, Auckland Council entered into a conditional agreement with Asset Plus Ltd for the sale of Council’s offices at 35 Graham Street, subject to approval by Asset Plus shareholders at their meeting in June.

Yesterday, the sale, for an agreed price of $58 million, was approved by Asset Plus shareholders at their meeting, with settlement to occur on 28 June 2019.

The offices, including the customer service centre, will continue to operate in this location until mid-2020, at which point (between May and August 2020) services and teams will relocate to the existing offices at Te Wharau o Tāmaki / Auckland House (135 Albert Street) and Te Wharau o Horotiu / Bledisloe House.

The sale was carried out on behalf of council by its urban regeneration agency, Panuku Development Auckland, who negotiated the successful sale and price for the property.

At the time of the proposed sale, Finance and Performance Committee Chair, Councillor Ross Clow, said: “Our aim is to make council services more accessible to all Aucklanders, providing a contact point within 10km of where they live.”

“The sale of Graham Street is a big step forward in delivering this vision as funds raised from the sale of buildings which no longer support our plans will be reinvested to create more modern facilities across the region.”

In addition to accessibility, the additional advantage in this approach is the avoidance of an estimated $117 million maintenance cost for the earmarked buildings over the next 10-years.

Head of Corporate Property Rod Aitken explains, “The buildings we’ve identified as surplus to our future requirements would cost more to maintain in their current state than our 10-year budget allows. “Selling off this part of our portfolio and re-investing in fit-for-purpose spaces is a far better outcome for both customers and staff.”

Rod Aitken
Head of Corporate Property
Memorandum

To: Members of the Finance and Performance Committee

From: Ross Tucker, General Manager Financial Strategy and Planning

Cc: Matthew Walker, Group Chief Financial Officer
    Stephen Town, Chief Executive
    David Wood, Mayoral Office

Date: 4 July 2019

Subject: Productivity Commission inquiry into local government funding and financing: release of draft report and call for submissions

Purpose

1. This memo provides an update on the Productivity Commission (the Commission)’s inquiry into local government funding and financing.

Summary

- The Productivity Commission has today released its draft report relating to its local government funding and financing inquiry.
- The inquiry’s key aim is establishing whether the existing funding and financing arrangements are suitable for enabling local authorities to meet current and future cost pressures.
- The Commission’s draft report: raises eight questions, highlights 67 findings and makes 30 recommendations.
- Auckland Council will make a submission on the draft report.

Background

2. Central Government asked the Commission to conduct an inquiry into local government funding and financing in July 2018. The inquiry’s terms of reference require the Commission to examine the adequacy and efficiency of the current local government funding and financing framework and, where shortcomings in the current system are identified, examine options and approaches for improving the system.

3. The inquiry’s terms of reference do not call for an assessment of, or changes to, the current scope and responsibilities of local government.

4. The Commission’s issues paper was released on 6 November 2018. The council made a submission on the issues paper which was approved by the Finance and Performance Committee. The council’s submission can be accessed via this link.
Discussion

5. The Commission’s draft report was released today.

6. The draft report states that the current funding and financing framework is broadly sound but that councils need new tools to help them deal with some specific cost pressures.

7. The Commission has found that the existing funding model is insufficient to address cost pressures in the following four areas and that new tools are required:
   - supplying enough infrastructure to support rapid urban growth
   - adapting to the impacts of climate change
   - coping with the growth of tourism
   - the accumulation of responsibilities placed on local government by central government.

8. The commission also considers the three-waters sector an important area for investigation.

9. The inquiry’s terms of reference have also been amended to require the Commission to consider whether a tax on vacant land would be a useful mechanism to improve the supply of available housing. The addition is a result of the Tax Working Group’s final report to the government.

10. Documents available on the commission’s website include:
    - The draft report
    - An “at a glance” four-page summary (attached)
    - An A3 overview of the draft report

Next steps


12. The council will make a submission on the draft report. Staff will prepare a submission for the Finance and Performance Committee’s consideration at its meeting on 20 August 2019.

13. A workshop to discuss the draft council submission with the Finance and Performance Committee has been scheduled for 15 August 2019.

14. A report will be prepared for local boards to consider in their July/August meetings.

15. If you would like to provide comments and feedback for staff to consider when drafting the submission, we would be grateful if they can be received by Monday, 29 July 2019. Please forward this input to melva.yee@aucklandcouncil.govt.nz.

16. If you have any queries about this process, please feel free to contact me at ross.tucker@aucklandcouncil.govt.nz.
At a glance

Local government funding and financing
Draft report – July 2019

The Government has asked the Productivity Commission to undertake an inquiry into local government funding and financing. The Government wants to know whether the existing funding and financing arrangements are suitable for enabling local authorities to meet current and future cost pressures.

This At a glance summarises the main findings and recommendations from the Commission’s draft report. Your feedback and submissions on the draft report are invited by 29 August 2019.

High-performing local government is vital for community wellbeing

Local government matters a great deal to communities and the wellbeing of New Zealanders. High-performing local government can provide greater access to housing; better protection of New Zealand’s natural environment and cultural values; strong, engaged communities; and quality infrastructure at the right time in the right place.

If councils struggle to deal with rising costs, or are not incentivised to improve their performance, communities are unlikely to reach their potential. The funding and financing framework for local government must incentivise good performance, and enable local authorities to deliver quality amenities and services that reflect the preferences and aspirations of their communities.

The current funding and financing framework is broadly sound

Local authorities currently have a wide range of funding and financing options, which gives them considerable flexibility in how they raise revenue.

The current funding and financing framework measures up well against the principles of a good system. The current system, based on rating properties, is simple and economically efficient, compared to alternatives, such as local income taxes. Wholesale change to a radically different model would be expensive, disruptive and uncertain.

The current system should therefore remain as the foundation of a fit-for-purpose future funding and financing system for local government. However, councils need new tools to help them deal with some specific cost pressures.
There is scope for councils to make better use of existing tools

Many councils could make better use of the funding tools they already have available to them, and better organisational performance and decision making would also help to relieve funding pressures. Council decision making and broader performance also need to be more transparent.

Changes are needed to strengthen governance and increase the transparency of council performance. All councils should have an assurance committee that is independently chaired; and the legislative requirements for councils’ Long-Term Plans should be clarified and streamlined. In addition, the current performance reporting framework for local government is not fit-for purpose. It requires fundamental review, aimed at significantly simplifying and improving the required financial and non-financial disclosures.

The best way to use the current funding tools

The Commission favours the “benefit principle” as the primary basis for deciding who should pay for local government services. That is, those who benefit from (or cause the need for) a service should pay for its costs. Councils may also use “ability to pay” as a consideration, taking into account central government’s primary role in income distribution. Where local services also benefit national interests, central government should contribute funding. User charges or targeted rates should be used wherever it is possible and efficient to do so.

Improving equity

There is little or no evidence that rates have generally become less affordable over time. However, legislative changes are needed to make the current funding system more equitable and transparent, including changing rating powers to give more prominence to the benefit principle, phasing out the current rates rebate scheme (which is not equitable or effective), and introducing a national rates postponement scheme.

New funding tools are needed to address key pressures

The Commission has identified four key areas where the existing funding model is insufficient to address cost pressures, and new tools are required:

- supplying enough infrastructure to support rapid urban growth;
- adapting to climate change;
- coping with the growth of tourism; and
- the accumulation of responsibilities placed on local government by central government.

These pressures are not distributed evenly across councils, because they face widely differing circumstances. In addition, small rural and provincial districts are facing particular challenges in funding essential infrastructure and services. These councils need to be open to scalable new technologies and alternative organisational arrangements. They may also require support from central government to make the necessary investments.
New funding and financing tools for growth infrastructure

The failure of high-growth councils to supply enough infrastructure to support housing development has led to some serious social and economic problems. Councils currently have funding and financing tools to make growth “pay for itself” by ensuring revenue for new property developments is derived from new residents rather than existing ratepayers. However, the long time it takes to recover the costs of development, the risks involved, debt limits, and the continued perception that growth does not pay for itself are significant barriers.

Value capture and user charging would help growth “pay for itself”

The Commission has previously recommended a new “value capture” funding tool for councils. This tool would raise revenue because property owners who enjoy “windfall gains” in their property value as a result of nearby publicly-funded infrastructure investment would be required to pay a portion of this gain to the council. Such a tool, combined with powers for councils to levy road-congestion and volumetric wastewater charges, would help give councils sufficient means to fund growth.

Special Purpose Vehicles could help councils nearing their debt limits

Special Purpose Vehicles (SPVs) are a financing option for new development, that involve debt sitting off a council’s balance sheet. This provides a means for high-growth councils approaching their debt limits to continue to invest in development. The Commission supports the Government’s current work around expanding the use of SPVs to brownfields development.

Considering two additional options

To address the perception that growth does not pay for itself, the Commission recommends considering a new funding stream from central government to local authorities, based on new building work put in place within an authority’s boundary. This can be justified because of the strong national interest in an adequate supply of infrastructure-serviced land and new houses. The Commission seeks feedback on the advantages and disadvantages of such a payment scheme, and how it could be designed. The Commission is also seeking submissions on whether a tax on vacant land would be a useful mechanism to further improve the supply of land for housing.

Adapting to climate change is a significant challenge

As the impacts of climate change unfold over coming decades, local authorities will face a significant and growing challenge. Future sea-level rise and increased flood risk from climate change directly threaten local government infrastructure such as roads and bridges, as well as stormwater, wastewater and flood-protection assets. Moreover, councils are responsible for planning and regulating development on at-risk land.

To help local government prepare for the impacts of climate change, central government should take the lead on providing high-quality and consistent science and data, standard setting, and legal and decision-making guidance. Institutional and legislative frameworks also need to move from their current focus on recovery after an event towards reducing risk before an event.

The Government should extend the role of the New Zealand Transport Agency in co-funding local roads to include assistance to councils facing significant threats to
the viability of local roads and bridges from climate change. The Commission also recommends that the Government creates a **climate-resilience agency and associated fund** to help at-risk councils redesign, and possibly relocate and rebuild, wastewater, stormwater and flood-protection infrastructure threatened by the impacts of climate change.

**Funding support for tourism hotspots**

The large and rapid increase in tourism is placing considerable pressure on several types of “mixed-use” infrastructure in popular tourist destinations, such as local roads, parking, public toilets, water and wastewater. Tourists are not paying the full cost of the demands they are placing on this infrastructure.

The Government should legislate to enable councils in tourist centres to implement an **accommodation levy**. Councils in tourist centres should also make greater use of **user pays** for mixed-use facilities. For small councils that cannot reasonably use either accommodation levies or user pays, the Government should provide **funding from the international visitor levy**.

**Need to reset the relationship with central government**

Another cause of funding pressures on local government is the continued accumulation of tasks and responsibilities passed from central government, without adequate funding means. The Commission sees significant value, and has previously recommended, that central and local government work together to develop a **“Partners in Regulation” protocol**. This would involve the co-design and joint-implementation of appropriately-funded regulatory regimes, and would promote a more constructive relationship between central and local government.

**A new regulatory regime for the three waters**

Improving the safety and environmental performance of three-waters services (drinking water, wastewater and stormwater) will be expensive, and will create additional funding pressure on councils. A new approach that both rigorously enforces minimum standards, and is permissive about how councils meet these standards would substantially improve the performance of the three-waters sector. The **new regime would be administered by an independent regulator**, such as the Commerce Commission. The performance regime would be permissive and flexible, but have a backstop arrangement applied to councils that fail by a specified time period to lift their performance sufficiently to meet minimum health and environmental standards.

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Read the full version of the draft report and make a submission at [www.productivity.govt.nz](http://www.productivity.govt.nz), email us at [info@productivity.govt.nz](mailto:info@productivity.govt.nz) or call us on 04 903 5150.

The **New Zealand Productivity Commission** is an independent Crown Entity. It conducts in-depth inquiries on topics selected by the Government, carries out productivity-related research, and promotes understanding of productivity issues.

New Zealand Productivity Commission
www.productivity.govt.nz