Papakura Local Board

OPEN MINUTE ITEM ATTACHMENTS

<table>
<thead>
<tr>
<th>ITEM</th>
<th>TABLE OF CONTENTS</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>Local Board feedback on the Productivity Commission inquiry into local government funding and financing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>A. Papakura Local Board feedback on the Productivity Commission inquiry into local government funding and financing</td>
<td>3</td>
</tr>
</tbody>
</table>

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.
Papakura Local Board feedback on the Productivity Commissions draft Local Government Funding and Financing Report

Background
The Productivity Commission’s draft report on local government funding and financing opportunities was released on 4 July 2019, and examined the adequacy and efficiency of the existing local government funding and financing arrangements to meet current and future needs.

The Commission’s conclusions are:
- High performing local government is vital for community wellbeing. The funding and financing framework must incentivise good performance and enable local authorities to deliver quality amenities and services that reflect the preferences of their communities.
- The current funding and financing framework is broadly sound.
- There is scope for councils to make better use of existing tools.
- The ‘benefit’ principle which states that those who benefit from, or cause the need for a service, should pay for its costs, should be the primary basis for deciding who should pay for local government services.
- Legislative changes are needed to make the current rating system more equitable and transparent including:
  - changing rating powers to give more effect to the benefit principle
  - phasing out the current rates rebate scheme
  - introducing a national rates postponement scheme.
- New funding tools are required to address key cost pressures such as providing infrastructure, adapting to climate change, supporting tourism and the accumulation of responsibilities placed on local government by central government.
- New funding or financing tools are needed to provide for growth related infrastructure such as:
  - value capture and user charging
  - special purpose vehicles to assist with debt burdens, including in brownfield developments
  - possible tax on vacant land.
- Support is needed for councils to adapt to climate change.
- Support for councils with tourism pressures including the use of the accommodation levy and direct support from the international visitor levy.
- A reset of the relationship between local and central government, including a partnership approach to an appropriately funded regulatory regime.
- A new regulatory regime to improve the safety and environmental performance of the three-waters services.

Papakura Local Board feedback

<table>
<thead>
<tr>
<th>Row No.</th>
<th>Key Findings</th>
<th>Papakura Local Board feedback</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The current funding and financing framework is broadly sound</td>
<td>The Papakura Local Board broadly agrees with this statement, subject to the further feedback below.</td>
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</tbody>
</table>

Whilst current funding and financing framework is broadly sound, councils need new tools to help them deal with some specific cost pressures.
2. 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.

The benefit principle is generally an appropriate way of categorising where the burden of funding services should lie. However, councils have a broad mandate to deliver the four well beings, and the benefits (or the costs) of services aren’t always locally contained.

A number of social services supported by councils such as caring for older people, citizens advice bureau, and supporting homelessness, as central government funding and services are inadequate to pay for local needs. So along with the benefit principle, a clearer articulation of respective local and central government responsibilities (and funding accountability) is needed, so ratepayers aren’t effectively subsidising taxpayers for complex needs and services.

The Papakura Local Board notes that the Commission has been asked not to explore the rating of crown land. The board however agrees with the Commission’s previous recommendations that the Crown should pay rates on its land. The board also believes charging GST on rates needs to be revised, or GST collected on rates returned to councils.

3. Where local services also benefit national interests, central government should contribute funding.

Papakura Local Board support this view, and more clarity is needed on what these services are. As explained above communities expect councils to fill the gap in funding or services where central government support is inadequate. The distinction here is not co-funded services such as regulatory regimes or transport infrastructure, but inadequately funded government services.

4. User charges or targeted rates should be used wherever it is possible and efficient to do so.

The Papakura Local Board agree that user charges and targeted rates are important tools to offset general rates and support the benefit principle.

However, the Papakura Local Board is concerned that the use of targeted rates and user charges will benefit more affluent communities and disadvantage poorer communities whose disposable income to pay for public services will be limited. For instance, targeted rates and user charges for basic services such as swimming pools, libraries, playgrounds will disadvantage poorer communities as these communities rely on generally funded public services.
<table>
<thead>
<tr>
<th>Item 18</th>
</tr>
</thead>
</table>
| 5. Improving equity - 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 (that those who benefit from or who cause the need for a service should bear the cost). Often no clear distinction exists between applying the benefit principle and the ability-to-pay principle.  
  - phasing out the current rates rebate scheme (which is not equitable or effective)  
  - and introducing a national rates postponement scheme.  
| The danger of a targeted rate is that it could become the norm to achieve services that would normally be picked up in the general council rate. A targeted rate should be the exception and be supplemented by tests on maintaining minimum service levels and provision for “equity” and the ability to pay principle to ensure disadvantaged communities are not disadvantaged further. |
| 6. 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.  
  - Value capture – 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.  
| The Papakura Local Board will need further detail on what this looks like in legislation or practice. The principles of equity and ability to pay by deprived communities needs to be taken into account.  
| 7. 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.  
  - Value capture – 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.  
| The Papakura Local Board supports a national rates postponement scheme in principle, subject to further detail.  
| 8. Special Purpose Vehicles (SPVs) could help councils nearing their debt limits - 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 Papakura Local Board is concerned that the special purpose vehicle is essentially an accounting sleight of hand as it addresses the reporting of debt rather than the burden of debt for councils providing costly infrastructure. The Papakura Local Board suggests further consideration of central government support for the building of costly infrastructure, as the benefits of the efficient and timely provision of infrastructure has |
9. Additional options –
   
   (i) 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 a system of central-government payments to territorial local authorities based on the amount of new building work put in place in each territorial authority’s jurisdiction (see page 167 of report for more information). Such a tool would tick several boxes in that it would:
   
   - be largely consistent with local autonomy and accountability;
   - link council revenue directly to local growth and development; and
   - be transparent and relatively low cost to administer – the payment would be proportional to a simple estimation of construction and development in a territorial local authority’s area (eg, based on the value of building consents or new construction measured by floor area).

10. 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.

   The Papakura Local Board believe a tax on vacant land would be a useful mechanism to turn vacant land into more productive land. The tax however should target land-bankers and speculators rather than genuine developers, based on implied intent or a bright line test of time period.

   The board notes other work such as the powers of urban development authorities could also support the supply of adequate land for development in the future.

   A value capture tax based on council land use planning should also be used to disincentivise speculation and land banking.

11. 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.

   The Papakura Local Board supports NZTA co-funding local roads to include assistance to councils facing significant threats to local roads and bridges from climate change.
<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>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. Communities in the Papakura Local Board area suffer from coastal erosion. The costs of repairs are significant and are likely to increase from the effects of climate change. Therefore, the board welcomes the creation of a climate-resilience agency and associated fund and hopes that funds will be forthcoming and distributed equitably.</td>
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<tr>
<td>13</td>
<td><strong>Funding support for tourism hotspots</strong>&lt;br&gt;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. The Papakura Local Board agrees that legislation should allow local authorities, who can evidence tourist pressures, to charge an accommodation levy. The Papakura Local Board agrees the government should provide funding from the international visitor levy to local authorities. This should not be dependent on the size of the local authority or its ability to use accommodation levies or user pays mechanism. Tourism has local, regional and national benefits and in accordance with the benefit principle, the costs must be borne by central and local government and user pays.</td>
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<td>14</td>
<td><strong>Need to reset the relationship with central government</strong>&lt;br&gt;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 Papakura Local Board supports a general approach towards localism where government and Governing Body Services are devolved locally as local boards are able to be more responsive to local needs. This however needs to be supported with adequate funding, funding tools and decision-making authority (and transparency and accountability) for local boards. A Treasury initiated funding impact statement and cost recovery model should accompany all legislation or policy that central government intends local government to implement.</td>
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<td>15</td>
<td><strong>A new regulatory regime for the three waters</strong>&lt;br&gt;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 three waters infrastructure is significant multi-generational investments with added challenges around climate change and environmental impacts. Further incentives and support is needed for smaller councils to collaborate across boundaries and share expertise, costs and oversight to manage their three waters assets/standards.</td>
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<td>Item 18</td>
<td></td>
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<td>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.</td>
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