

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.

Read the full version of the draft report and make a submission at www.productivity.govt.nz, email us at info@productivity.govt.nz or call us on 04 903 5150.

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