Local Government Funding and Financing

LGNZ's view on the Productivity Commission's findings and recommendations

April 2020

We are. LGNZ.
Te Kāhui Kaunihera ō Aotearoa.

Summary

Funding and financing are issues that never go away. As all elected members understand, the challenge of being in government involves balancing community expectations for better services, investing in long-term assets and infrastructure and ensuring taxes and charges are affordable. Added to these are the pressures successive government place on taking on new services, enhancing service delivery levels of existing services and meeting more demanding accountability and information requirements. Consequently it is not a surprise to find requests for complementary forms of funding at the top of most elected members' wish lists.

The past two decades have been no exception to that. In 2005 a review of local government funding conducted by a joint officials' committee, made up of local and central government staff (following a request from the Central Local Government Forum), highlighted major sustainability issues for certain types of councils. This was followed two years later by the Local Government Rates Inquiry. Its report, known as the *Shand Report*, after its Chair David Shand, made more than 90 recommendations for change, few of which few were ever actioned. This was followed in due course by the LGNZ Local Government Funding Review, https://www.lgnz.co.nz/our-work/local-government-funding-review/ which also called for substantial change.

Three years later the new Labour–led Coalition, while actioning a commitment made in the coalition agreement, asked the Productivity Commission to also conduct a review into local government funding and financing.[1] *"Hold a Public Inquiry (A Decade after Shand) to investigate the drivers of local government and its revenue base"* (Labour/NZ First Coalition Agreement).

The Commission was asked to find out what is driving the cost of local government services and advise on whether the current funding and financing arrangements are adequate and efficient. In addition, the Government wanted to know what options and approaches would improve those arrangements. The Commission was not given an open-ended brief, excluded from the terms of reference were:

- Rating of Crown land;
- Rating of Māori freehold land;
- The valuation system and practice;
- Substantial privatisation; and
- Changes to local government boundaries.

The Commission received its brief in July 2018 and published an issues paper in November of that year with a draft report published in July 2019. In response to the draft report, 270 submissions were received and a final report, which differed noticeably from the draft in some areas, was published in November 2019. The Report can be accessed at https://www.productivity.govt.nz/inquiries/local-government-funding-and-financing/.

[1] The principal purpose of the Commission is to provide advice to the Government on improving productivity in a way that is directed to supporting the overall well-being of New Zealanders, having regard to a wide range of communities of interest and population groups in New Zealand society. More information can be found at https://www.productivity.govt.nz/

The Commission's main findings

The Commission's overall picture of funding and financing in local government was that it wasn't broken. In their view, the way in which councils are funded is fine for most of the activities local authorities undertake and the challenges they faced, however additional funding tools are needed to address a number of new challenges, such as the impact of climate change, population growth and visitor numbers. The major findings were:

- Radical reform is not required. The current rates-based system remains appropriate for New Zealand. International experience offers no clearly superior alternative;
- There are areas of significant funding pressure. These pressures are highly uneven across small, rural councils serving low-income communities under particular pressure;
- Targeted solutions are needed to tackle these pressures. Key recommendations made by the Commission include new tools to help councils fund and manage growth, and additional support from central government to help councils adapt to major pressures, such as climate change;
- Councils need to lift their performance to help manage funding pressures. This includes making better use of all existing funding tools. Transparency is key, and a number of recommendations are aimed at improving the transparency of funding decisions and performance;
- A better relationship between central and local government is essential. An agreed protocol would help end the practice of central government imposing responsibilities on local government, without appropriate funding. The Crown should also be paying for council services it receives on its properties and developments; and
- Regional spatial planning would better prepare councils for the future. It's a key tool for achieving more efficient use of resources, and better coordination between councils, and local and central government.

In total the Commission made 78 findings and 44 recommendations. The legislation that established the Productivity Commission requires governments to respond to each report's recommendations but does not set a time frame. It is expected that the Government will respond in May.

While largely agreeing with the Commission's analysis, LGNZ is disappointed with the overall conclusion that recommends targeted government transfers rather than additional funding tools that would give councils the financial capacity and incentive to address future challenges on their volition.

Chapter analysis

Chapter Three: Trends in local government revenue, expenditure, prices and debt

This chapter, the first substantial chapter in the Productivity Commission's report, provides a detailed analysis of trends in council revenue and expenditure. It is an extremely helpful chapter with the Commission drawing on its expertise to undertake an in-depth analysis of the factors that contribute to expenditure changes. Their findings show that many common perceptions about revenue and expenditure are often untrue. The key points of this chapter include:

- As a whole, operating revenue and rates revenue have been roughly stable as a proportion of gross national income and household incomes over many decades. Growth in rates revenue per person varies greatly across councils due to differing circumstances;
- Major drivers of capital and operational expenditure reflect population growth and inflation. The biggest components of capital expenditure are roading and waste water;
- The prices facing councils have been rising faster than the consumer price index (CPI), particularly water, sewerage and drainage services; and
- Excluding depreciation and interest, operational expenditure per person grew at an average of 1.2 per cent a year between 2007 and 2017.

As noted above, once the factors that councils themselves are unable to control are taken out of the equation, the Commission notes that rate increases have averaged 1.2 per cent a year since 2007, in contrast to popular perception. The Commission also notes that the introduction of the well-being purpose in 2002 (the four well-beings) led to no material increase in expenditure. As part of the analysis, the Commission developed a specifically designed local government price index, similar to the Local Government Cost Index, which may be worth broader replication.

This chapter might have been more valuable if Auckland Council had been treated separately. The scale of Auckland as a proportion of local government revenue is such that topics such as expenditure and debt are highly influenced by what happens in that city.

Chapter Four: Pressures on funding and financing

This chapter identifies and analyses the extent of the funding pressures that councils are likely to face in the future. There are no real surprises with the Commission's view aligning well with the feedback it received from local authorities. The five areas of pressure discussed are:

1. Changing population - population change is identified as a significant future challenge for some councils, particularly those with ageing populations; dispersed populations and high-rates of population growth;
2. High rates of deprivation - the Commission's report highlights the significant gap between New Zealand's wealthiest and poorest communities and correctly notes the challenges poorer communities will experience when facing the need to upgrade services in response to changing climate and government expectations;
3. Increased functions and responsibilities from central government - the report provides a good overview of the nature and extent of new functions and responsibilities that councils are expected to undertake (see *types of unfunded mandates* below). The Commissioners conclude that "some councils are finding the cumulative impact increasingly difficult to manage";
4. Treaty of Waitangi obligations and Treaty settlements - a key conclusion of this discussion is that many of the co-governance and co-management arrangements have imposed considerable costs on some local authorities with central government support insufficient and ad hoc; and
5. Scope of local government and rising community expectations - the discussion in this section concludes, despite claims made elsewhere, that there has been no major shifts in the range of councils services in the last few decades. It notes that rising expectations from citizens tend to be

driven by increasing concerns over climate change, water quality, changing demographics and rising incomes.

Types of unfunded mandates:

- New or stronger standards that councils must meet – without commensurate funding;
- New responsibilities, functions or processes that councils must undertake – without commensurate funding;
- Reduction, cessation or removal of central government funding, or of government funded programmes and services within the community; and
- Restrictions on the ability of councils to set cost-recovery fees for services or functions.

Climate change, tourism, three waters

All three of these issues are seen as major drivers of future costs and each has their own chapter at the tail end of the report.

While the major cost drivers are challenging for many councils, in the Commission's view such pressures, by themselves, do not necessarily reflect a lack of funding. They argue that some of the pressures flow from poor prioritisation and decision-making by councils, including sub-optimal business models, and poorly designed policies and regulations made by central government that do not adequately consider councils costs.

Chapter Five: Improved decision-making

This Chapter of the report examines the degree to which funding pressures could be better managed, if not diminished, if council decision-making and external scrutiny was improved. It is a broad ranging discussion that covers:

- The degree to which councils make use of the full palette of funding tools available; too many fail to achieve this, in their view;
- The need for greater diversity and capability amongst elected members – particularly in relation to delivering effective governance. A number of recommendations argue for more training and professional development for elected members;
- The failure of current performance reporting requirements due to excessive complexity and irrelevance. New approaches are recommended as well as the addition of a requirement for councils to have audit and risk committees;
- The failure of LTPs to provide an effective mechanism for engagement due to complexity and duplication; and
- Concerns are also expressed at the quality and effectiveness of council engagement and consultation processes.

A specific finding is that councils should have a strategic framework. A strategic framework should:

- Set out vision and goals, provides links between goals and desired community outcomes, planned activities to deliver goals and outcomes and measures of results against the outcomes;
- Aligns supporting strategies to the outcomes; and
- Is actively used to guide prioritisation and decision-making (Productivity Commission).

While the narrative veers toward the idea that local government is too complex to be left to citizens and their representatives, it does highlight legislative requirements that either constrain good governance or simply lead to mechanistic and "tick the box" time consuming exercises. For example the LTP and the local government performance framework simply being two of the more egregious.

Chapter Six: Evaluation of current funding and financing arrangements

This chapter proposes a range of criteria which evaluate councils' existing portfolio of funding and financing tools and concludes that they are largely, as far as business as usual is concerned, fit for purpose. It also notes that the challenges identified in the previous chapter, namely climate change, tourist and infrastructure for population growth, are not business as usual and the Productivity Commission recommends bespoke funding and financing options to meet each of those pressures. Key points are:

- While rates, charges and the ability to borrow measure up well against criteria like efficiency, fairness and predictability, "scope exists for many council to improve the transparency of their funding decisions and make better use of their funding tools";
- Rates in smaller councils are likely to be higher because of the ability of small populations to pay for spread out infrastructure. This is likely to create affordability problems for some of their communities; and
- While reluctant to recommend transfers from central government due to the potential impact on autonomy the Commission identifies the method of financial assistance from the Land Transport Fund as an example of a well-designed grant system.

In its discussion, the Commission expresses support for land value taxes because, in their view, they are less distortionary than rates set on capital values. However, it also recommends that councils give more weight to the benefit principle when making decisions. As part of that discussion they acknowledge that capital value rating is regarded as a better proxy for benefit than land value rating. This tension is never resolved.

Council's rating decisions are also criticised as lacking transparency. What this actually means is not explained and seems driven by anecdote. A reasonable interpretation would be that councils could do more to explain the reasons behind the specific mix of funding arrangements that they adopt in their LTPs.

Chapter Seven: Future funding and financing

In this chapter, the Commission examines the potential solutions to the growing pressures facing councils and begins with a framework to guide the use of funding tools, reflecting its view that many councils are not using existing tools as well as they could. Amongst the important points made are the recognition given to the challenges facing growth cities, the weight given to the problem of unfunded mandates and cost shifting and the evidence given to show that property tax growth has been moderate and in line with growth in personal incomes. Key points include:

- Funding pressures are growing but are not spread evenly across councils;
- Debt limits and perception that growth is not self-supporting limitations on high-growth councils but the introduction of "special purpose vehicles" (currently before parliament) will help;
- The need for a reset of the relationship between central and local government to one of partnerships would improve regulatory design and outcomes; and
- The recommendation that the Government should pay development contributions on its projects.

With regard to additional funding tools a number of the Commission's recommendations reflect the points made in LGNZ's submission on the draft report and the submissions of SOLGM and our members. Those of note include:

- The removal of a 30 per cent cap on uniform charges. This has been a long term request from LGNZ although some submitters have argued that its removal could lead to less equitable rating systems. The Commission argued that there are sufficient checks and balances to stop this occurring, however not all submitters agreed;
- Charging for Compliance Monitoring and Enforcement (CME) activities were supported, although it would have been good to see a strong push to allow councils to apply infringement charges for bylaws made under the LGA 2002 – an issue of concern since the passage of the Act in 2002;

- Congestion charging is supported, particularly if undertaken on a network basis and with the involvement of NZTA;
- Development Contributions (DC) – while the suggestions of a DC template is unlikely to be supported by councils (policies and contexts are too different), better guidance would be supported, as would the power to recover the costs of administering DC policies;
- Value capture was endorsed by the Commission with the suggestion that councils might be able to use targeted rates based on increases in property value. This is likely to require an amendment to the LG (Rating) A 2002. To nationally set rules and processes would be important to avoid the risk of local challenges;
- Special Purpose Vehicles are supported and not just for growth councils. Seen to be largely limited to green field areas, the complexity of the model may be a problem. Draft legislation is now in parliament; and
- Register of short term accommodation – this aligns with the remit passed at the 2019 LGNZ annual general meeting and will assist councils to establish equitable funding mechanism for meeting the costs of visitors.

The Commission concludes that because aggregate rates revenue and personal incomes have grown at similar levels since 1990, the current funding system has proved adequate and sustainable. This conclusion is qualified by a recognition that four new areas of funding pressure indicate a need of additional funding to ensure sustainability in the future. These are:

- Infrastructure in high growth cities;
- Devolution from central government;
- Adapting to climate change; and
- Tourism growth.

The Commission favours targeted solutions to these pressures.

The Commission recommends that rates should continue as the main source of funding accepted. This is accepted but only so far that it is not the only form of taxable income. LGNZ continues to argue for a broader tax base so that councils are better prepared for future shocks. It also recommends that councils should make better and more transparent use of their existing funding and financing tools. There are some problems here as “better” is not defined and the report could be more helpful in reconciling the tension between the benefit principle and the ability to pay principle.

It is also recommends that individual ratepayers be given an explanation of what their rates are used for (itemised rates notices) in order to strengthen accountability and understanding. This is not supported; we would support however, research into the value of itemised rates accounts based on the experience of those councils that currently use them.

The Commission does not support the current use of differential rating and, like the Shand inquiry, would prefer councils to make a greater use of targeted rates. From LGNZ’s perspective while targeted rates are an extremely useful tool, there is a cost involved in aiming for too much precisions – a cost created by complexity and inflexibility. It can also have the effect of encouraging people to view rates as a payment for services rather than a tax. Other concerns about the recommendations are:

- The lack of evidence to show that the proposed solutions will work. “Point solutions” may be of limited value to the whole sector and unlikely to be helpful when addressing new, and yet to be identified, challenges;
- More quantification of costs would have been helpful to better understand the size of the challenges and to understand whether new tools are needed or not; and
- The report is too quick to dismiss the use of general grants on the grounds of loss of autonomy. There may be some policy areas where loss of autonomy might be an acceptable trade-off if it lead to better local outcomes. Issues of autonomy can also be addressed in the design of government transfers (the report provides a helpful discussion on factors that should be taken into account when establishing grant schemes).

A number of proposals that were floated in the draft report, such as government payments to councils based on the number of new houses built, that never made it to the final report.

Chapter Eight: Affordability

The affordability of local government services, and rates in particular, is perhaps the most important factor that led to the decision to ask the Productivity Commission to undertake the review, yet it is probably the chapter that feels most under done.

In earlier chapters the Commission restates accepted economic theory that matters of redistribution, given the nature of its tax base, are the responsibility of central, rather than local, government (which doesn't mean that councils don not play an important role in enabling poor communities to access services, such as through the provision of free libraries, parks or subsidised public transport fares.) This chapter looks at the mechanism available to central and local government to reduce the impact of rates in particular on poor households.

Of significant interest to councils is the fact that the Commissioners have taken issue with the Rates Rebate Scheme on the basis that it is complex and difficult to administer but most of all because it fails the horizontal equity test, that is, not all poor households are able to benefit from the scheme and people on superannuation have less affordability issues than other groups. Key findings are:

- The Rates Rebate Scheme is inequitable because renting households in similar circumstances do not quality;
- A national Rates Postponement Scheme would be a better approach to addressing affordability than the Rates Rebate Scheme;
- The 30 per cent cap on uniform charges should go because the LGA 2002 has sufficient checks and balances to ensure rates do not become too regressive.

The draft report proposed replacing the Rates Rebate Scheme with a beefed up accommodation supplement. On the basis of submissions received, the Commission is now recommending that the Rates Rebate Scheme be phased out over five years or so and also streamlined. Whereas a number of councils have operated rates postponement schemes in the past (with very low take-up), the Commission recommends a national scheme to reduce transaction costs and presumably to assist with its promotion. It also recognises a general reluctance for many to use private run reverse equity schemes. It is not clear which agency would lead the development of the scheme.

It is disappointing that the option of GST sharing was dismissed due to apparent complexity – we believe there are efficient mechanism for achieving this using new technology. Another option for addressing affordability related to councils with low socio economic communities involves the use of a system of equalisation funding. These are generally untied grants allocated to poor councils and are common in other countries. Despite an excellent discussion on the principles that should underline the use of transfers (grants) from central to local government it has been too quick to dismiss the option of general purpose grants.

In LGNZ's view addressing affordability is best achieved by broadening local government's tax base, so that the proportion of revenue received from property taxes is significantly less, thus reducing affordability problems.

Chapters Nine – Eleven: The drivers: climate change, tourism and the 3 waters

These three chapters discuss in detail three of the bigger challenges placing pressure on local government funding and financing.

Climate change

In relation to climate change, the Commission recommends that central and local government jointly develop and provide a centralised source of knowledge and guidance about climate change adaptation for councils and that legal frameworks be developed to give councils greater ability to make land use and infrastructure decisions. In relation to funding the recommendations include:

- That NZTA's co-funding model be extended to include funding to relocate land transport infrastructure at risk from sea rise; and
- That a new agency and a Local Government Resilience Fund be established to work with at-risk councils with the ability to co-fund and co-design initiatives to protect, re-locate and rebuild infrastructure.

Responding to tourism pressures

The Commission supports local government's argument that tourists' use of local infrastructure and services imposes costs on councils and that these costs are not evenly shared. A particular pressure is the impact on local public-good type amenities and services that are paid for by rates, such as public toilets, walkways etc. It notes that while tourists contribute to the costs of their visits in a number of ways, almost all of that revenue goes to central government, little goes directly to councils. In response to these pressures, the Productivity Commission has two main recommendations:

- That councils make better use of existing funding and financing tools such as user charges and debt; and
- That some central government funding for councils for tourism and mixed use infrastructure is justified – particularly in tourism hotspots. Funding should be distributed in a way that is fair, predictable and transparent.

A further recommendation that is supported by local government suggests that central government assist councils to identify properties operating as short term rental accommodation businesses (also the subject of a remit at the 2019 LGNZ annual general meeting). Overall LGNZ is disappointed that recommendations failed to provide an ability for councils to determine their own local levy.

Funding and financing three waters

The report sets out the case for the aggregation of water and waste water services to access greater specialised staff, professional management and oversight and arms-length corporate style governance structures. It also sets out the case for direct charging and an effective regulator to ensure councils meet nationally to set bottom lines and improve performance. It largely reflects the direction of the current government's work on the three waters. There are a number of fundamental problems with the chapter:

- It fails to distinguish between water and waste water schemes owned by councils (public schemes) and those that are owned by communities themselves, whether incorporated as companies, clubs or informally managed. Consequently the discussion on water borne illnesses and environmental performance fail to distinguish between public and non-public systems;
- There is no estimate of the cost required to improve performance of many rural water schemes, the likely benefits from additional investment and how those investments will address the risk profiles associated with different networks. The status quo is characterised by communities, through their elected representatives, required to make trade-offs between investment costs and water standards within the context of risk and affordability;

- The issue of pricing is similarly unaddressed. Is it expected that prices will be equalised over an area covered by an aggregated water provider or will they be set according to the costs of each scheme? Both options raise important equity considerations; and
- The tension between a regulator that may require a major investment in water infrastructure and the requirements on councils to consult on major capital investments through a long-term planning process should have been discussed. The power of a Government regulator to require an additional level of investment does not sit well with legal and democratic requirements on councils to incorporate investment decisions in a long term planning consultation process.

Chapter Twelve: Bringing it altogether

This chapter provides a useful summary and synthesis of the Productivity Commissions' overall conclusions. In short they are:

- The existing suite of funding tools is largely fit for purpose – the power to levy a property tax, and the flexibility available to councils when determining the type and level of tax, provides councils with the autonomy to meet community expectations and the mechanisms for communities to hold their councils to account;
- New pressures require additional funding – while rates are fine for "business as usual", new pressures, particularly climate change, population growth and new national standards, create a need for additional funding, which is urgent in some cases. These pressures are uneven, affecting different councils differently. The Commission recommends highly targeted funding interventions designed to address specific funding pressures;
- Better use of existing tools – underpinning the Commission's recommendations is the view that councils can make better use of the tools they already have, whether that means increasing rates, more use of targeted rates to reflect beneficiaries or exacerbators, and scaling up some infrastructure services through the use of jointly owned Council Controlled Organisations etc (amalgamation was outside the scope of the Commission's brief); and
- Regional spatial planning – although not discussed in the body of the report, the Commission strongly promotes regional spatial planning as a mechanism to help councils address future challenges, especially those challenges that require infrastructure investment. Regional spatial planning is considered in detail in their Better Urban Planning report.

LGNZ's immediate response

Immediately after the release of the report LGNZ's President, Dave Cull, issued a media statement which expressed the following sentiments:

- "The report underscores the well-understood point that property rates are an efficient mechanism for charging and collecting local government taxes. We do not disagree, especially where councils are operating in a stable environment," said LGNZ President Dave Cull;
- "But we're not in a stable environment. Our critical local infrastructure has not kept up with this growth because rates confronted local communities with the costs of paying for growth infrastructure upfront, whereas the short-term tax benefits of population growth wash up exclusively in central government's coffers in the form of GST, salary and profit taxes.";
- LGNZ has long argued that local government's revenue tools need to be broadened and linked to the economic cycle, either through a share of GST, local capital grants, resource rents, or tourist taxes;
- "We're not calling for rates to be scrapped, but for this mainstay of local government funding to be augmented with revenue tools that give communities a clear reason to vote for pro-growth initiatives.";
- "That's what makes the Productivity Commission's endorsement of the status quo so disappointing. If the Government entity charged with coming up with bold new ideas for New Zealand can't think courageously, then who can?"

The local government peak body welcomed many of the suggestions put forward about how councils can lift their performance, noting that much of it was already in train through LGNZ's work programme. What was less certain was the Government's willingness to accept the recommendations in the report as they relate to central government, particularly on the need for central government to tally up the invisible costs it imposes on ratepayers through the legislative process.

LGNZ's Response to the report's recommendations

This section of the report provides a quick assessment of the Productivity Commission's specific recommendations.

	Recommendations	Response
4.1	The Government should commission a comprehensive, independent and in-depth analysis of costs associated with implementing Treaty settlement arrangements – to councils and to iwi.	Agree.
5.1	The Department of Internal Affairs, LGNZ & SOLGM should work together to improve basic governance, including financial governance, skills and knowledge across elected members. In undertaking this work, they should consider a range of formal and informal mechanisms, such as training, peer support, mentoring (eg, via "sister council" links), and networking; and sharing of resources and best practice; and a variety of delivery platforms, including online media and collaboration tools. LGNZ should ensure that resources and programmes are independently evaluated.	Agree, however EquiP is already offering a range of relevant programmes to elected members.
5.2	LGNZ should work to achieve greater participation in ongoing professional development by elected members, including new and existing members, to ensure skills and knowledge are built and periodically refreshed.	This is already the case.
5.3	Make Audit and Risk committee's mandatory with at least one independent.	Agree.
5.4	Review and streamline performance reporting framework and replace with a small set of mandatory measures.	Agree with a range of qualifications – so far the value of the frameworks has failed to match the administrative cost involved.
5.5	LTPs should be streamlined to be more accessible and transparent, less duplication and lower transaction costs	Agree.
5.6	The scrutiny on long-term planning provided by the audit requirements should not be considered a substitute for internal quality-assurance processes. Councils should have robust quality-assurance procedures across their long-term planning process, including the use of expert review where appropriate.	Hard to see why this is a recommendation.

5.7	The review of local government performance reporting requirements should consider how to include measures of the aggregate unit costs of service delivery for a small number of essential infrastructure categories (roading, water supply, wastewater, storm water and solid waste).	Disagree; compliance would be complex and it is hard to see the public benefit given likely cost.
6.1	Given the limited scope of local government in New Zealand, central government transfers to local government should be restricted to the following situations: • When local government activities have national-level benefit spill overs; • Sharing risks across all taxpayers, when some communities are subject to damaging shocks (such as natural disasters); • Helping low-income communities whose councils are struggling to fund essential services; and • Recycling revenue collected centrally (for administrative efficiency) to cover costs incurred locally. Central government payments to local government that do not have one of these principled justifications, or similar, risk undermining the autonomy and accountability of local government.	Agree.
6.2	Given the modest scope of local government in New Zealand, the benefits of a property-tax-based system, and the absence of a clearly superior alternative, rating land and property should continue as local government's main taxing power. To help relieve funding pressures, councils should make better and more transparent use of their rating and other funding tools.	LGNZ does not agree. While rates should continue to be the main taxing source, they should not be the only one. Councils' dependence on a single form of taxation exposes councils to risk, fails to adequately distribute the impact of taxes and results in risk adverse behaviour.

7.1	In choosing among funding tools, rating bases and whether to charge rates as a percentage of property values or as uniform charges or some other targeted feature, councils should give close and explicit consideration to: • Promoting economic efficiency; • Fairness in who pays; and • Keeping compliance and administration costs low. Sometimes these three goals will conflict, in which case councils must be clear and transparent about the reasons for their choices. Regarding fairness in who pays, councils must strike a balance between charging in line with who benefits from the service and basing payments on ability to pay. Again, it is important for councils to be transparent about their reasons for striking the balance they choose.	More guidance when making the trade-off between benefit and ability to pay is needed.
7.2	Resolve the legislative ambiguity about charging for compliance, monitoring and enforcement of non-consented activities.	Agree.
7.3	The New Zealand Society of Local Government Managers should review and revise its guidance on setting fees in local government, to more clearly explain how to apply the benefit and exacerbator principles and how to set fees that meet the legal test of "reasonable". The Quality Planning guidance on setting fees for consented activities would be a good model for the revised guidance to follow.	Agree (assuming SOLGM is prepared to make this investment).
7.4	The Government should give councils powers to levy: • Some form of value capture using targeted rates; • Road congestion charges; and • Volumetric wastewater charges. These would give councils additional means to recover the costs of growth from those who benefit from growth.	Agree, we note that while volumetric charging for waste water is possible, if water services are established as council controlled organisations this requirements seems unnecessary.

7.5	The Government should expand the use of Special Purpose Vehicles to finance investment in growth infrastructure in fast-growth local authorities that face debt limits.	Agree, we note that legislation to implement this is currently before the House. However, this tool is likely to be limited to green field developments and outside the capability of any but the largest councils.
7.6	The Government, LGNZ and SOLGM should work together to develop templates to standardise the structure and format (but not the content) of: • Councils' development contribution (DC) policies; and • Council assessments of DC charges for individual property developments. Councils should be strongly encouraged to use the templates.	Qualified agreement. While there is value in more guidance, we are not convinced of the practical value of developing a standard format given the diversity of contexts.
7.7	While the general approach of local authorities to depreciating their infrastructure assets is satisfactory, three issues are of concern and may require action: • Councils' decisions about the best use of the large amounts of cash that depreciation funding can give rise to should be part of formulating their wider financial and infrastructure strategies; • Councils should prioritise improving their knowledge of the condition and performance of their assets to, among other benefits, avoid the risk of under-estimating asset lives and over-estimating depreciation expense; and • The Essential Services Benchmark should be reviewed as part of the wider review of the performance reporting framework. Any reframing should avoid the implication that individual councils must invest in as much asset renewal each year as their depreciation expense.	Agree with these recommendations. We also note that there may also be cases where depreciation levels are under-estimated.
7.8	Councils should consider the partial or full sale of commercial assets as an alternative to borrowing so they can finance needed new investment. Councils should consider each case on its merits based on maximising net current and future benefit for the district or region.	Agree, only as far as considering the option is good practice when setting financial policies.

7.10	This first-principles review should consider how to implement a requirement that councils publish information on rates revenue by category of rateable property (eg, residential, business and rural), the number of rating units in each category and average and median rates per unit in each category.	Disagree for the following reasons: • Councils should not have to pay to identify categories of ratepayer if their rating system does not require it; and • Rating units are a misleading denominator for comparing levels of rates in council.
7.11	Section 45 of the Local Government (Rating) Act 2002 should be amended to require councils to provide indicative itemised rates assessments that show ratepayers the dollar amounts they are contributing to each activity funded from each rate. Even so, councils should retain their current budgeting flexibility and should not, as a result of the amendment, be required to hypothecate the dollar amounts for particular activities.	Disagree – we believe this is not practical in large councils and the value is yet to be shown. We would support research focussed on a council that does provide indicative rates assessments to see what value if any is created.
7.12	Councils should assess rates for business properties in proportion to the cost of council services that benefit those properties.	Too prescriptive and undermines the status of rates as a tax. Agree for cases where additional services, that specifically benefit business apply
7.13	LGNZ and SOLGM should develop advice for councils on transparently showing how their revenue and financing policies meet the requirements of the LGA2002, including consideration of the benefit principle, the exacerbator principle and ability to pay.	Agree.
7.14	The Government should pay development contributions on all projects it undertakes in line with the development-contributions policies of the local authorities in which the projects are located.	Agree.
7.15	The Government should pay more than it currently pays (because of the Crown rating exemption) for the services that councils provide to Crown properties.	Agree.
7.16	The Government should find an efficient and effective means to fund councils for the cost of damage to local roads caused by heavy vehicles such as logging trucks. While the vehicles pay for their damage through Road User Charges, no effective mechanism currently exists to channel these funds to councils to cover the cost of the damage that councils bear.	Agree.

7.17	The Government should remove the few remaining legislative limits on the fees that councils can charge to recover their regulatory costs. Consistent with provisions in the Resource Management Act 1991 and the Local Government Act 2002, it should constrain councils to charging reasonable costs only.	Agree.
7.18	Central and local government should strive to achieve a more constructive relationship and effective interface through: • Central and local government providing input (formally or informally) into each other's relevant policymaking processes, under an agreed set of principles or a protocol; • Central government engaging in a meaningful dialogue with local government early in the process of developing relevant new regulations; • Central government explicitly and consistently considering the costs to local government of relevant new regulations, and the funding of the costs, in its Regulatory Impact Assessments; • Cooperative approaches to tackling problems with implementing relevant new legislation, regulations or environmental standards; • The creation of formal and informal feedback loops to identify problems with delegated regulations when they first appear; and • The spread of information through the system and the sharing of expertise and knowledge.	Agree.
7.19	The Government should, in providing funding to local government for essential infrastructure (such as roading or drinking water infrastructure), take account of the rating capacity of councils in determining the level of support. Government funding should also be conditional on sensible infrastructure design and local co-funding. The Government should favour designs with the scale and specialisation best suited to help small communities upgrade and then maintain their essential infrastructure.	Agree.
8.1	The Government should work with local government and suitable financial providers to develop and implement a national scheme for postponing rates. The scheme should: • Have a single set of clear and generous eligibility rules; • Be accessible and have provisions that are easy to understand and work with; • Have moderate and transparent fees; and • Be nationally promoted.	Agree and note the implications for short-term council debt.

8.2	Phase out the Rates Rebate Scheme (RRS) with a revamped national rates postponement scheme (or digitalise to improve).	Agree with the digitalisation and stream lining of the RRS. Rates Postponement needs to be in place first.
8.3	Removal of the 30 per cent cap on uniform charges.	Agree conditional on the decision being undertaken as part of the funding policy decision-making process.
9.1	Central government to provide science and data and secure legal framework to assist councils confront climate change.	Agree.
9.3	National and local authorities should adopt anticipatory and flexible approaches to climate change adaptation, in line with recognising the constantly changing nature of the risks.	Agree.
9.4	The Government should review the existing legislative and planning framework for the environment and natural hazards, to ensure that considerations about climate-change adaptation are integrated and aligned within and across that legislation and policy where relevant.	Agree. We note that some national policy statements are poorly aligned and can be in conflict with each other, for example productive soils and urban development.
9.5	The Government should extend the New Zealand Transport Agency's role in co-funding local land-transport infrastructure to include assistance to relocate or protect local land-transport infrastructure at risk from sea-level rise and more intense storms and flooding due to climate change. The amount of assistance should reflect the scale of the threat facing each council and its rating capacity.	Agree.
9.6	Central government to establish a climate resilience agency and associated fund to redesign and relocate at risk infrastructure	Agree.
10.1	DOC should ensure that visitors contribute towards the costs of construction, maintenance and renewal of the mixed-used infrastructure and services it is responsible for providing.	Agree.
10.2	Central government should explore ways to assist councils to identify properties operating as short-term rental accommodation businesses within their districts. For example: requiring booking platforms to provide information to a national register of short-term rental accommodation providers.	Agree.

10.3	Councils should make better use of existing tools for funding and financing mixed-use infrastructure, including better use of debt and greater use of user charges. Councils should also make better use of efficient targeted rates, and communities under significant pressure from tourism should introduce a broad-based targeted rate on ratepayers in business districts benefiting from tourism, levied on land value.	Agree.
10.4	Some central government funding for councils for tourism and mixed-use infrastructure is justified – particularly in tourist hotspots with a high proportion of day visitors. Such funding should be distributed in a more predictable, efficient and fair way by using a transparent allocation formula.	Qualified agreement. LGNZ's preference is for local levies developed with the agreement of local communities themselves.
11.1	The Government should actively encourage aggregation of council water businesses and better governance arrangements. It should also consider having backstop arrangements to deal with councils that fail to lift performance sufficiently to meet minimum health and environmental performance standards. The Government should place water providers under economic regulation when and where doing so would improve investment performance and minimise costs.	Qualified agreement. Current water regulator plans should be allowed to work before any other actions are contemplated.
11.2	The Government should legislate to enable any council-owned water provider, incorporated as a council-controlled organisation, to directly charge water users for their services, with provisions similar to those applied to Watercare in Auckland.	Agree.
11.3	Change law so that councils can levy volumetric wastewater charges and road congestion charges	Agree.