Newsletter of the
LOCAL GOVERNMENT
BUSINESS FORUM

effective local government

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Welcome to the Forum

The Local Government Business Forum advocates policies that create a positive economic environment. Recognising the significant role of local government in private investment decisions, the Forum was established in 1994 to promote greater efficiency in the local government sector and to contribute to debate on policy issues affecting it.

The Forum comprises business organisations that have a vital interest in the activities of local government and regularly produces publications addressing crucial issues relating to the performance of local government and legislative developments in the sector. The Newsletter offers commentary on a range of issues affecting local government and is written and produced by Forum members.

From the Chair: Fix Council Funding

by Michael Barnett

The role and funding of local government is becoming an increasingly critical issue. Rates are continuing to rise much faster than consumer price inflation and even the annual increase of the local government cost index. If this year's long-term plans are anything to go by there are some big rates increases on the way.

This is why the Local Government Business Forum has launched a campaign to fix council funding. We want councils to have access to more sustainable revenue sources that will reduce the over-reliance of rates to fund council activities.

Some councils are struggling with infrastructure pressures caused by rapid population growth and others are struggling with ageing infrastructure and static or even shrinking populations. Record tourism numbers, while an economic boon, is also putting pressure on councils, especially those with small rating bases.

The Forum is pleased the Minister of Local Government has asked the Productivity Commission to undertake an inquiry into local government funding. This a great opportunity to find sustainable solutions to the problems with how local government is funded.

But this must not be a blank cheque for local government. Councils need to do their bit by making better use of existing funding and financing tools and focusing on their core activities and doing them efficiently and effectively. So, we are not so pleased with the return of the 'four well-beings' as foreshadowed in the Local Government Community Wellbeing Bill and what that might mean for spending and rates.

To find out more about the campaign, go to www.fixcouncilfunding.co.nz. This includes research we commissioned on the role and funding of local government, which discusses problems and solutions.

Michael Barnett is Chair of the Local Government Business Forum

Participants in the Local Government Business Forum are:

- BusinessNZ
- Federated Farmers of NZ (Secretariat)
- NZ Chambers of Commerce
- NZ Electricity Networks Association
- NZ Initiative
- Property Council NZ

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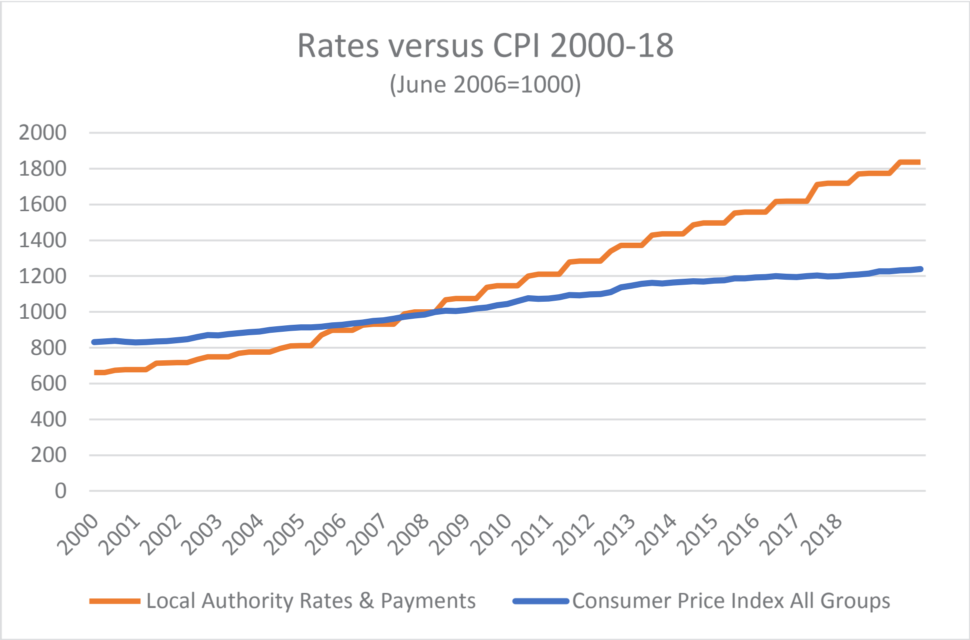
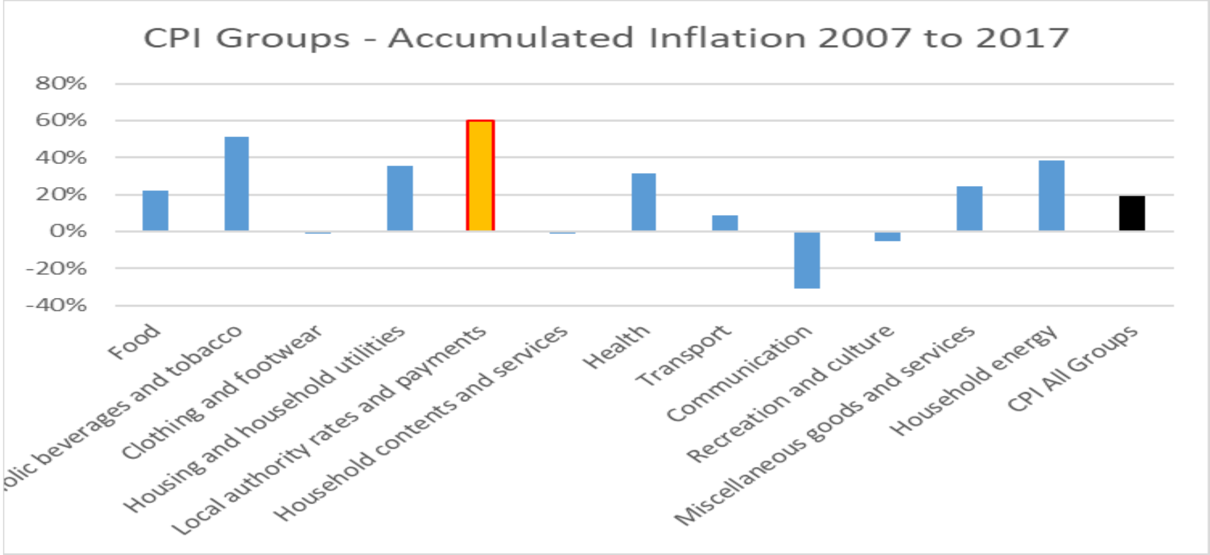
The state of the Gap



Source: Statistics NZ Consumer Price Index

This graph shows the difference between inflation of rates (as measured by the Local Government Rates and Payments component of the Consumer Price Index (CPI)) and inflation in the wider economy (as measured by the CPI – All Groups).

Since 1994 the average annual rates increase has been 5.7 percent, while for the CPI the average has been 2.3 percent and for the population growth the average has been 1.2 percent. This leaves 2.2 percent 'real per capita increase' in the cost of local government.



This chart shows the local government and rates component of the CPI being one of the fastest growing sub-groups of the CPI, growing even faster than alcohol and tobacco which is subject to hefty annual excise tax increases.

The worry for ratepayers is the rapid increase of the rating burden in real terms which has not prevented the growth of a substantial infrastructure deficit or spectacular growth in financial indebtedness of some councils. The concern for New Zealand is the impact this ballooning cost is having on economic growth. Rates are becoming increasingly unsustainable and reform of local government funding is long overdue.

The local government sector believes it is overly simplistic to compare its cost pressures with the CPI. While acknowledging that local government's cost pressures are different, Forum members' concern is from a consumer's perspective and it is notable that the sector's own local government cost index has increased only slightly more than the CPI.

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WEBSITE

The Local Government Business Forum website contains the Forum's published reports, media statements, submissions and newsletters.

www.localgovtforum.org.nz

All Power to the Productivity Commission

by Katie Milne

The Coalition Government has announced that the Productivity Commission will conduct its promised inquiry into Local Government Funding.

This inquiry is long overdue and most welcome, especially for long suffering ratepayers. It will investigate the drivers of local authority cost pressures and provide recommendations for how councils can maintain and deliver services and infrastructure in cost-effective ways into the future.

Local Government Minister Nanaia Mahuta announced back in May that the Productivity Commission will be undertaking the inquiry promised in the Labour-NZ First Coalition Agreement.

And speaking to the recent Local Government NZ conference, Finance Minister Grant Robertson added that the inquiry will investigate cost pressures, funding and financing models and the regulatory system for Local Government. These include investigation into:

- Cost and price escalation for services and investment, including whether this is a result of policy and/or regulatory settings
- Current frameworks for capital expenditure decision making, including cost-benefit analysis, incentives and oversight of decision making
- The ability of the current funding and financing model to deliver on community expectations and local authority obligations, now and into the future
- Rates affordability now and into the future
- Options for new funding and financing tools to serve demand for investment and services. This will appraise current and new or improved approaches for considering efficiency, equity, affordability and effectiveness, and how the transition to any new funding and financing models could be managed
- Constitutional and regulatory issues that may underpin new project financing entities with broader funding powers, and
- Whether changes are needed to the regulatory arrangements overseeing local authority funding and financing.

It's notable that Grant Robertson publicly acknowledged what we all know, that local government cost pressures have grown significantly and by more than other costs faced by ratepayers. The pressures faced by local councils vary significantly, whether it's the provision of infrastructure due to growing resident populations, or provision of tourism infrastructure against decreasing rating bases.

Grant Robertson is dead right to say that an in-depth look is needed into whether our current structures are fit for purpose, and to identify how central government can help by cutting red tape, improving regulation and taking pressure off local government.

The Productivity Commission is the perfect vehicle for such an inquiry. Since its establishment in 2011 it has built up a strong track record of high quality inquiries that get to the bottom of the issues and makes sensible findings and sound recommendations.

We look forward to engaging with the Commission as it goes about its inquiry.

Katie Milne is National President of Federated Farmers of NZ and is its local government spokesperson.

Local Government Funding - Problems and Solutions

The Forum's Fix Council Funding campaign has hit on several problems with council funding and is offering some solutions.

Problems

- Infrastructure demands – the need for new and expanded capacity in areas with strong growth in population and/or tourists and for replacement and renewal of ageing infrastructure in other areas.
- Cost increases – council cost pressures seem to consistently run ahead of consumer price inflation.
- Government requirements – the unfunded mandate of regulatory obligations passed on by central government.
- Inefficiencies – waste in council operations.
- Broadening scope – more councils involved in a wider range of activities than in the past (no longer just "roads, rubbish, and water").
- Community expectations – but do they reflect noisy pressure groups or the wishes of ratepayers as a whole?

These have all put pressure on the traditional local government funding system based mainly on property-value based rates.

Solutions

- Councils to focus on value-for-money and doing core activities well before branching out into other activities.
- Councils to make appropriate use of debt and sale of assets for capital investment.
- Councils to make more and better use of user pays for goods and services and of existing rating tools like targeted rates and uniform annual charges.
- Government to provide more funding to councils for unfunded mandate and for pressures on infrastructure caused by growth in tourism.
- Government to enable new funding and financing tools like removing rates exemptions, road pricing/congestion charging, infrastructure bonds, etc.

Whose Well-Being is Really at Stake?

by John Pask

A 2012 amendment to the Local Government Act 2002 required the purpose of the Local Government Act was "to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory function in a way that is most cost-effective for households and businesses."

This relatively clear purpose statement is in danger of being thrown out the window and replaced by the reintroduction of the "four well-beings (social, economic, environmental and cultural) of communities. Not in addition to the current purpose statement, but simply replaced by the four well-beings, without any priority to provide core services (water, sewerage and local roading infrastructure etc.). It's akin to throwing the baby out with the bath water!

The Government recently introduced the Local Government (Community Well-being) Amendment Bill (currently before the Governance and Administration Select Committee) which would, amongst other things, allow councils to spend rates money and levy property developers to provide a wider range of social and cultural activities.

The 'four well-beings' reintroduced in this Bill are likely to push up local government costs and increase the rates burden on domestic and business ratepayers. Business ratepayers are already over-levied, for example in Wellington businesses pay almost three times more in rates than households for an equivalent level of capital value.

BusinessNZ, along with other members of the Local Government Business Forum, have applauded the move by the Local Government Minister to invite the NZ Productivity Commission to undertake a review of local government funding mechanisms in NZ. This review is timely in light of the fact that ratepayers are coming under increasing pressure to fund both infrastructure associated with significant population growth, and also to deal with some rural areas with a relatively small ratepayer base. We are cognisant of the pressure also brought by an increasing number of tourists.

However, we consider that the changes made in this Bill are premature; given that the Productivity Commission has yet to start its study (some say that August 2018 is likely to be the starting point).

Whether the "four well-beings" contributed to significantly increased costs of local government over the decade from 2002 (the time they were in place) is not yet clear, but the Productivity Commission should at least have the opportunity to carry out a thorough investigation as to their impact.

Members of the Forum consider that the Bill would allow loose spending by councils and cause rates to rise further while reducing the focus on core services such as water, sewerage and local roads.

The Bill should be delayed until the Productivity Commission has completed its study on local government funding mechanisms.

John Pask is an Economist with BusinessNZ

Reaping the Benefits of Growth will make our Communites More Vibrant and Liveable

by Matt Paterson

"Growth should pay for growth." It's a phrase increasingly bandied about in local government circles, and it sounds good. But what does it mean in practice?

Many councils feel it's developers that are causing growth, and therefore developers must pay for all the associated costs of their developments. Sounds logical, right? And it is, but only to a certain degree.

Most developers are happy to pay their fair and reasonable share of the new (or expanded) infrastructure needed to service their developments. After all, there are some critical infrastructure services provided by councils that development needs to be viable. Those services are roads, wastewater, stormwater and drinking water. This makes sense - the eventual residents of the houses or the users of the commercial building will use those services.

There is provision in the Local Government Act for developers to contribute to that new infrastructure through the payment of development contributions. Councils are required to clearly identify the costs of what new infrastructure the city will need to cope with its expected growth. They then divide up that cost by the number of houses needed for the expected growth in population and charge developers their portion by the number of houses they build.

There is an important constraint written into the law that councils can only charge for the portion of growth directly caused by the actual development. That is fair.

The problem comes because many councils try to stretch what is included in 'directly caused' in order to lower the burden on wider ratepayers. They try to include roads many existing ratepayers

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will use and get better service from. They try to include wider community infrastructure or services that new residents may or may not use. Things that are nice to haves but are not critical.

As a result, councils around New Zealand are repeatedly increasing development contributions against more and more tenuous expenditure. That problem will get worse if the Local Government (Community Wellbeing) Amendment Bill is passed in its current form.

Councils' attitude seems to be "I don't want the people who vote for me to have to pay, so developers can pay instead". The problem is it is actually home buyers who eventually pay.

All the costs of building a house, whether they be materials, labour or council fees, get added up into the price the house sells for. The higher the development contributions paid to council the more expensive the house is likely to get.

If the costs add up too much, the houses just won't get built in the first place. No one is going to start building a house if they are going to lose money. We have a housing shortage in New Zealand. We need to build more houses not less. We should be doing everything we can to lower the costs of building houses not increase them.

Let us go back to the assumption that developers cause growth. Developers don't cause growth, they simply build the houses and provide the buildings for shops and other businesses. In other words, they cater for the needs caused by growth.

Growth is caused by a city doing well. It is a sign of its success that people and business want to locate and live there. Councils should be embracing and actively facilitating growth. But they don't – they fear the costs of growth and try to palm as much of those costs onto developers and in turn new homeowners as they can.

We feel for councils. There are both costs and benefits of growth. Councils tend to bear the burden of costs and do not necessarily get extra revenue to cope with the growth. There is a serious problem in New Zealand's local government rating system that does not allow councils to realise some of the financial benefits of growth.

Councils need to be able to pay for the nice-to-have services that help make a city more liveable. But they also can't just keep putting up rates.

There are lots of different ways to fund local government and infrastructure. They all have their pros and cons. The Productivity Commission is set to do a review of local government spending and funding. It is a critically important review to ensure growth can be funded by the community as a whole in more sustainable ways.

We all want a better more prosperous New Zealand. We want vibrant liveable communities and cities. We will only get it if councils see growth as a benefit rather than being afraid of the cost.

Property Council New Zealand represents the commercial property and large scale residential development industries that are literally building our cities. Matt Paterson is Property Council's Head of Advocacy.

Housing Affordability Beyond the Crisis

by Dr Eric Crampton

It shouldn't take a housing affordability crisis to build policy that can restore housing affordability. But if policy fixes do not address the underlying infrastructure financing problems, the next crisis will always be just around the corner. The government should take this opportunity to set policy for the longer term so that housing supply can better respond to changes in demand.

At this month's meeting of the New Zealand Economics Association, we again saw evidence that current urban policy induces artificial scarcity in zoned land and inflates the cost of housing. Rural-urban boundaries continue to build-in zoning rents. And the increase in the value of developable sections with up-zoning also points to the scarcity of those sections.

All of it comes down to the incentives facing council. Auckland Council's economists presented work at the Economics Association meeting suggesting that the per-dwelling cost of delivering infrastructure is close to $150,000.

It seems unbelievable that costs could be that high, but monopoly suppliers can be expensive. The takeaway for us is that, in Council's view, accommodating growth is incredibly expensive, and the bulk of the benefits go to central government. Restrictive urban plans are a direct result of those perceived costs and benefits.

And so fixing infrastructure financing is critically important in changing Council incentives. Shifting to financing mechanisms that both load the costs of infrastructure onto those benefitting from it over the longer term, and that enable competitive contestable infrastructure delivery, will change the game.

Most promising are revenue bonds backed not by council but by levies on the properties benefitting from the infrastructure, and authorised by referendum of the affected property owners – or special tax districts achieving the same end. Instead of waiting for council to be able to extend infrastructure to a new section, developers can build their own. This enables leapfrogging of any current landbanks, restores competitive land markets, and mitigates council objections either to up-zoning or new suburban developments.

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If those benefitting from infrastructure bear the costs instead of the general ratings base, council has less cause to restrict development.

There are a lot of promising things in the works. Matt Prasad reports from the Kiwibuild Summit that the government is working on legislation to shift liability from councils to builders and consumers to hasten consenting. Councils tend to risk-averse behaviour when they bear all of the costs if something goes wrong and council is the last entity standing. He also reports that central government is working on a national directive under the RMA to enable Auckland to free up height and density around transport nodes and corridors.

All of that is important and will ease the current crisis. RMA reform will also matter, but without addressing underlying incentives, councils will be tempted to pour the old restrictions into the new structures. The long term fix requires dealing with infrastructure financing.

Dr Eric Crampton is Chief Economist with the New Zealand Initiative

A Super Solution for a Super City

by Michael Barnett

Mirror, mirror on the Wall, who's the richest of us all?

Why dear rate, fuel, regional road, income tax payer and traffic jam sitter, your local government is.

Together, local government councils in New Zealand have $115 billion worth of assets under their ownership and control. Auckland Council alone has $39 billion in assets spread over the port, airport, Watercare, arenas, event centres, golf courses, pensioner housing, carparks, swathes of land, parks and reserves, view shafts, leisure centres and buildings.

And taking a leaf from Dr Evil's wealth management own it and control it all mantra, "why make trillions when you can make billions" [so long as it's] "mine, mine", Auckland Council won't relinquish any of its strategic assets, not even some of its non-core assets except some buildings, including service centres.

A recent report commissioned by the combined Chambers of Commerce in New Zealand described too many councils, without singling out Auckland alone, as "fixated on more conspicuous baubles" that enhanced liveability rather than "boring stuff" like water, and waste and storm water infrastructure or clean beaches.

So here we are, asset rich and $8 billion in debt in a city that is drowning under the strains of unplanned population growth with hours to contemplate the dilemma as we sit idling, burning mainly fossil fuel, in traffic congestion that costs the region an estimated $2 billion each year.

Now, don't think I've gone off the rails. I am thrilled that national and local government are working together on a resumption of relations over transport infrastructure spending as momentous to our city as the symbolic hand holding of the leaders of North and South Korea as they look to ending 68 years of war.

The $28 billion fillip from the two Philips, Mayor Phil Goff and Transport Minister Phil Twyford isn't about to land as one giant step for Auckland kind, but will be spent over the next 10 years. That is a long, long time for a long, long overdue Auckland Transport Alignment Plan (ATAP) to inch forward nor look at how value could be captured rather than lost as we continue to lose billions of dollars a year in lost productivity and opportunity through congestion.

We can't wait that long to reach catch up using last century thinking and models for a 21st century city that needs to lift productivity, generate employment opportunities, attract relevant skills, innovate to deliver efficiencies and competitive advantage and become appealing to investors. Oh, and having suffered the not on my watch dereliction of investment duty we need our infrastructure reset to be inured from political whims and blow backs.

Sitting right in front of us, there is a richly endowed Emperor - the New Zealand Superannuation Fund with billions of dollars looking for a home – if only it were asked.

Former CEO, Adrian Orr, is on record as saying the Fund would be open to investing in infrastructure if the regulatory framework, procurement process and property rights were clear.

So, come on Council think fresh and think bigger. You don't have to own everything to still control it. Use regulations to protect the public interest. Stop counting the millions from dividends so short-sightedly relied on or threaten old world tax and rate hikes when these assets could be growing billions under the management of a Fund which works for public good.

Just imagine what our core communications services and connection to the world would be like if there had not been a reformation to deliver us of what is now Spark, that was Telecom, and who wants to remember what it was before privatisation and investment in new technologies.

We've got a super solution to fund a super city so let's start by thinking differently and then get moving.

Michael Barnett is Chief Executive of Auckland Chamber of Commerce.

Taxing Tourists

by Nick Clark

The Government is set to impose a new tax on international visitors to fund conservation and tourism infrastructure.

Currently out for consultation is a proposal to impose a $25-$35 levy on international visitors to raise $57-80 million per annum to fund tourism infrastructure and conservation activity. Not all tourists will pay with exceptions for Australian citizens and permanent residents, people from Pacific Islands Forum countries, and children under two years old. It will be collected from a to-be-introduced electronic travel authority and paid before they travel.

Most tourists will probably shrug their shoulders at a $25-35 fee, especially one that is paid passively. However, the tourism sector might not be so relaxed about another cost that could make New Zealand a more expensive destination in what is a competitive global industry. It could also be the thin edge of the wedge and who is to say what it might be in five or ten years' time.

There is also the not so small matter of the $3.2 billion already contributed to the Crown from GST on tourists' spending and income tax and corporate tax from the tourism sector. It can hardly be said that tourists don't contribute enough, especially at a time when the Government is running healthy surpluses.

The need for more funding for conservation and tourism infrastructure is quite another matter. There is little doubt that both have come under pressure from increased international visitor numbers. Every summer there are headlines about freedom campers defiling our countryside and even our cities. The problems have been particularly acute for small, rural councils and their ratepayers.

This illustrates the problem with councils' over-reliance on property value rates. Councils increasingly cannot cope with the pressures on tourism infrastructure yet central government is rolling in tax revenue from tourists.

Federated Farmers has been a strong proponent of the Tourism Infrastructure Fund, established in 2016, and the need for it to be bulked up. The recently-established Provincial Growth Fund is also there to help fund tourism infrastructure (among other things).

While more taxpayer funding is also needed for conservation and biodiversity activities, like predator control, Department of Conservation facilities should be funded by more and better use of user charges on huts, tracks, etc., with the option of international visitors paying more than New Zealanders. It is unfair for all visitors to pay a tax to fund these facilities when most would not use them.

It is also unclear how the revenue from the tax will be split between conservation and tourism infrastructure. And will the funding for tourism infrastructure be a no-strings-attached revenue stream to councils or will it be used to fill up contestable funds like the Tourism Infrastructure Fund and the Provincial Growth Fund?

Overall, while the increased funding for conservation and tourism infrastructure is welcome, less so is yet another new tax on one of our key export earners.

Nick Clark is Manager General Policy at Federated Farmers of NZ

Change Coming for 'Three Waters'

by Nick Clark

The Government is moving closer to changes to how drinking water is regulated and possibly even delivered.

The Minister of Local Government, Hon Nanaia Mahuta is leading the Government's review of the 'Three Waters' system - drinking water, wastewater and stormwater – launched in response to the inquiry into the 2016 Havelock North campylobacter outbreak.

According to the Minister one in five New Zealanders are drinking water from water supplies that don't meet current drinking water standards and New Zealand has a 'system wide problem that will need a system wide, collaborative solution'.

Meeting the national recommendations of the Havelock North inquiry could cost drinking water suppliers between $305 million and $567 million. The Three Waters Review work to date suggests that upgrading waste water infrastructure will cost a great deal more. This will have major implications for ratepayers.

Dealing with this challenge may need a single regulator and more consolidated delivery of drinking water services. The Minister has travelled to England, Scotland and Ireland to see first-hand how they deal with three waters.

According to the Minister all options are on the table but continuing public ownership of existing infrastructure remains her bottom line for reform.

Nick Clark is Manager General Policy at Federated Farmers of NZ