Chairperson and Members
COUNCIL

14 MARCH 2019

Meeting Status: **Public**

Purpose of Report: For Decision

SUBMISSION TO THE PRODUCTIVITY COMMISSION ISSUES PAPER ON LOCAL GOVERNMENT FUNDING AND FINANCING

PURPOSE OF REPORT

1 This report requests approval of the draft submission to the Productivity Commission on the issues paper on local government funding and financing.

DELEGATION

2 Council has the authority to approve submissions.

BACKGROUND

3 In November 2018, The Productivity Commission released an issues paper on local government funding and financing.

4 The Government has asked the Commission to undertake an inquiry into local government funding and financing and, where shortcomings in the current system are identified, to examine options and approaches for improving the system.

5 The inquiry includes assessing the ability of the current funding and financing model to meet local government's obligations, now and in the future.

6 Drawing on feedback from inquiry participants, the Commission plans to publish a draft report in mid-2019, which will include a set of draft findings and recommendations. Further opportunity will be available to provide feedback and input before a final report is delivered to referring ministers in November 2019

7 The submission is due with the Productivity Commission on the 15 March.

ISSUES AND OPTIONS

Issues

8 The Productivity Commission has outlined 49 specific questions in the issues paper that it is seeking feedback on.

9 The submission response is attached in Appendix 1 to this report. Specifically, this sets out the funding and financing challenges from the Kapiti perspective and suggests a new funding source from central government's existing taxation framework as well as providing responses to the 49 questions raised by the Productivity Commission.

Considerations

Policy considerations

10 There are no policy considerations for this submission.

Legal considerations

11 There are no legal considerations for this submission.

Financial considerations

12 There are no financial considerations in addition to those already outlined in this report.

Tāngata whenua considerations

13 Mechanisms for rating Maori freehold land were excluded from the inquiry.

14 This initial submission did not include consultation with Iwi, however when the Productivity Commission proposals are released for further comment, the Council will discuss the proposed feedback with Te Whakaminenga o Kāpiti.

Strategic considerations

15 Summing up how we'll work with our challenges and environment as we set our path for the future is our vision, 'toitū Kāpiti.' It reflects our drive for a vibrant and thriving Kāpiti, while also incorporating our aspiration for strong, safe communities and our deep connection to the natural environment.

16 Toitū means to be sustainable, and for us it means that we need to protect and improve the wellbeing of our land and waters, so we can create an environment that is able to sustain, support and nourish its communities. Toitū te whenua, toitū te wai, toitū te tāngata, toitū Kāpiti.

17 To be able to achieve our vision and meet the needs of our citizens, innovative funding solutions developed together with Central Government are needed to ensure that we are able to maintain financial sustainability and maintain a level of rates that are fair and affordable into the future.

Significance and Engagement

Significance policy

18 This submission is considered to have a low to medium level of significance under Council policy.

Consultation already undertaken

19 No consultation has been undertaken in the development of this submission.

Publicity

20 No media release is planned at this stage.

RECOMMENDATIONS

21 That the Council approve the submission to the Productivity Commission issues paper on local government funding and financing, attached as Appendix 1 to this report (Corp-19-752).

22 That the Council delegates the approval of additional amendments to the Mayor, Deputy Mayor plus the Chairs of Operations and Finance Committee and Strategy and Policy Committee.

Report prepared by	Approved for submission	Approved for submission
Jacinta Straker **Chief Financial Officer**	**Mark de Haast** **Group Manager** **Corporate Services**	**Wayne Maxwell** **Chief Executive**

Appendix 1 - Submission to the Productivity Commission issues paper on local government funding and financing

14 March 2019

Local Government Funding and Financing Inquiry
New Zealand Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6041

Local Government Funding and Financing Review

Part 1 – The Kāpiti Coast District and Proposed Funding Model

Introduction

1 Thank you for giving the Kāpiti Coast District Council (the Council) the opportunity to make a submission and for agreeing to extend the submission deadline. The Council wishes to invite the Productivity Commission to engage in further discussion with the Council with regards to this submission.

2 This submission responds to the Productivity Commissions 49 questions but beforehand, it sets out the funding and financing challenges facing the Kāpiti district and details a proposed central government funding option for the local government sector for consideration.

The Kāpiti Coast District Council Story

3 Much of the Council funds are used to provide ‘core’ services such as roading, footpaths, water, maintaining parks and administering building and resource consents. There is little appetite in our community for the current service levels to be reduced. Continuing to offer the same services and the same service standards, while keeping up with inflation and changing government regulations is a challenging balancing act.

4 The Council must ensure that it lives within its means and in doing so, makes difficult choices so that it can start paying down its debt as soon as possible. This is to ensure the Council is well placed to fund a significant renewals cycle around 2040 that is likely to be in the region of $150 million. One of the reasons that the Council has high debt is that it has responded to its environmental and drinking water needs by investing in its three waters infrastructure to the tune of $90 million over the last ten years.

5 Another reason that the Council is significantly indebted is that for a significant period of time the Council did not fully fund its depreciation meaning that it had to cash fund a lot of its capital expenditure instead of being able to call upon rates funding and/or depreciation reserves. Whilst this situation is being reversed, it will take time, due to the impact on rates increases. At its peak, the impact on debt is around $45 million.

6 Furthermore, Kāpiti is expected to grow rapidly in coming years, so the Council needs to plan and budget for the new infrastructure that will be required. It’s important for the Council to attract people to and investment in the District to make it an even better place to live, and this can entail funding new services or undertaking new projects.

7 The Council is actively trying to strengthen the local economy but this is difficult because there are limited employment opportunities combined with the draw of Wellington. Some areas such as Ōtaki and Paraparaumu Central contain a lot of people on lower incomes, which means they’re missing out on the food, clothing, housing, education, employment and leisure opportunities that many people take for granted.

8 The opening of the expressway has created opportunities for the district and while there is strong residential property development, the houses being built don't always match the housing needs of our community.

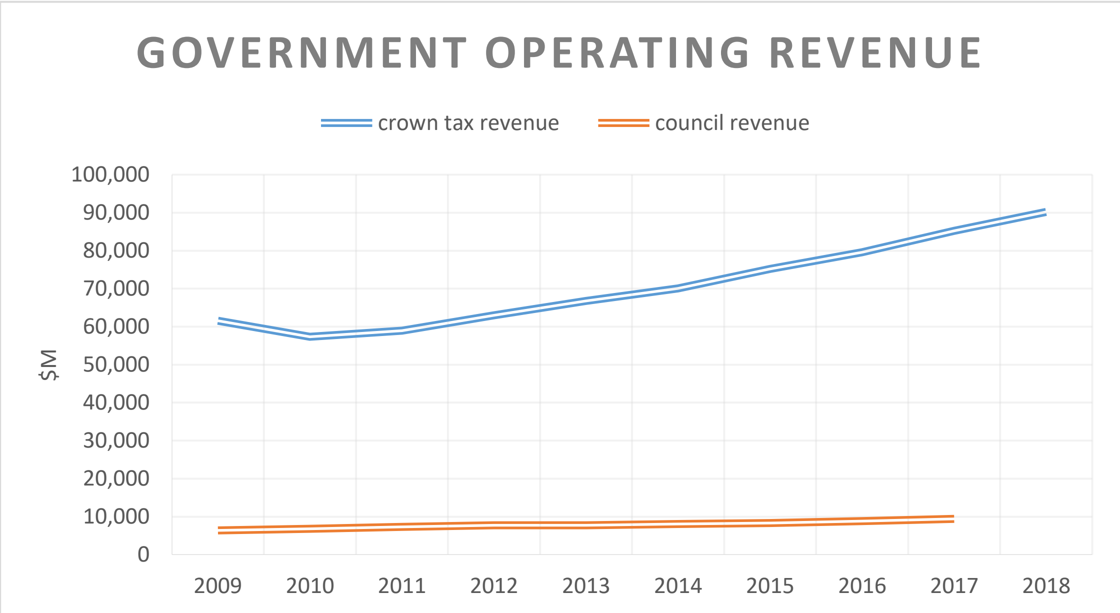
9 Being part of a community means being able to participate – to feel connected to others, join in and access services. In our district people aged over 60 outnumber those aged 20–49. This means that a high proportion of our population are retired, and may have reduced opportunities for, and greater barriers to, participation.

10 Many people have also told the Council that they're concerned about access to health services, and that transport options can create challenges. There are particular issues with the lack of public transport options for areas such as Ōtaki and Raumati.

11 Here in Kāpiti we have a wide range of environmental challenges related to our closeness to the sea and the large number of homes and businesses located along the coast. Severe storms, extreme tides and rising water tables may cause damage and disruption and have both financial and human costs. Other challenges relate directly to the environment itself, with biodiversity under threat because of invasive pests and weeds and a loss of habitats for our native plants and animals.

Central and Local Government

12 The financial realities for local and central government are worlds apart. Central government tax revenue is an order of magnitude greater than local government revenue. For FY2017, government revenue was $85.2 billion, while council revenue was $9.4 billion.



13 In the 2017 fiscal year, government tax revenue increased by $5.7 billion. For the same year, the entire rates take across the country was $5.5 billion[1]. It's worth repeating: the <u>increase</u> in government tax revenue in 2017 was more than the <u>entire</u> rates take for that same year.

14 To state the obvious, these figures relate to the whole country and the 4.79 million people that were estimated to live here as of that date.

15 Councils are managing $114 billion worth of non-financial assets (property, plant and equipment), while government has $77 billion (both as at June 2017).

[1] This was 59% of total council operating revenue and is somewhat skewed by water charges in Auckland not being rates.

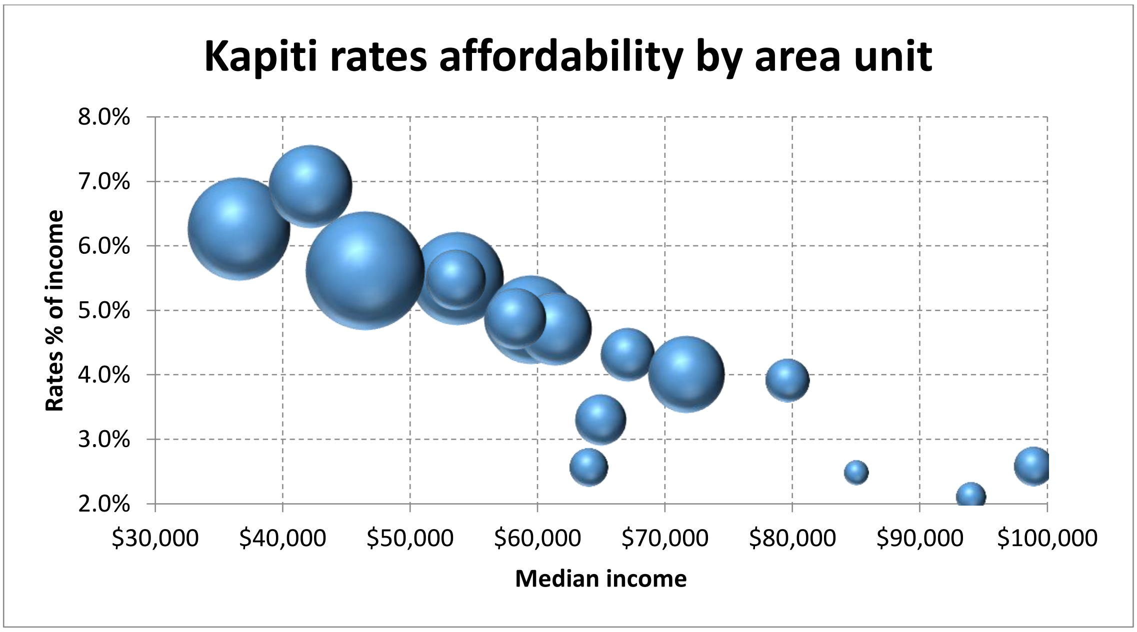
Ability to Pay

16 As outlined in the Government's Fiscal Strategy Report 2018, New Zealand's intergenerational contract assumes that people pay most taxes during their working lives and less at the beginning and end of life (when they are more likely to receive services and payments funded by taxpayers). These come primarily in the form of education for the young, and healthcare and retirement income support towards the end of life. The combination of the implied intergenerational contract and population ageing will have consequences for future public finances.

17 The fundamental concern for Local Government is that rates have no direct relationship to personal income, and thus have little recognition of ability to pay. Rates will generally proportionately increase for people as they reach retirement due to them building up significant value in their properties, which is the basis for which rates are charged. Tax revenues, based on income, benefit from a direct relationship to the ability to pay; and tax revenues are benefiting from the buoyancy effect, as personal incomes rise.

18 Taxpayers hardly notice the tax effect, given that taxes are deducted at source; whereas councils have to ask for an increase every year to cover their increased costs. Ratepayers have to physically transact the payments with councils, using 67 separate rates setting and collection systems (noting that regional councils' rates are collected on their behalf by territorial authorities).

19 The Council undertook a significant amount of work to understand ability to pay, as part of the development of our 2018-2038 Long Term Plan. By our estimates, our rates are 5.2% of the median household income in our district. This includes the regional council rates, and does not make good reading if you accept the conclusion from the 2008 Shand Report that rates exceeding 5% of household income is too high.



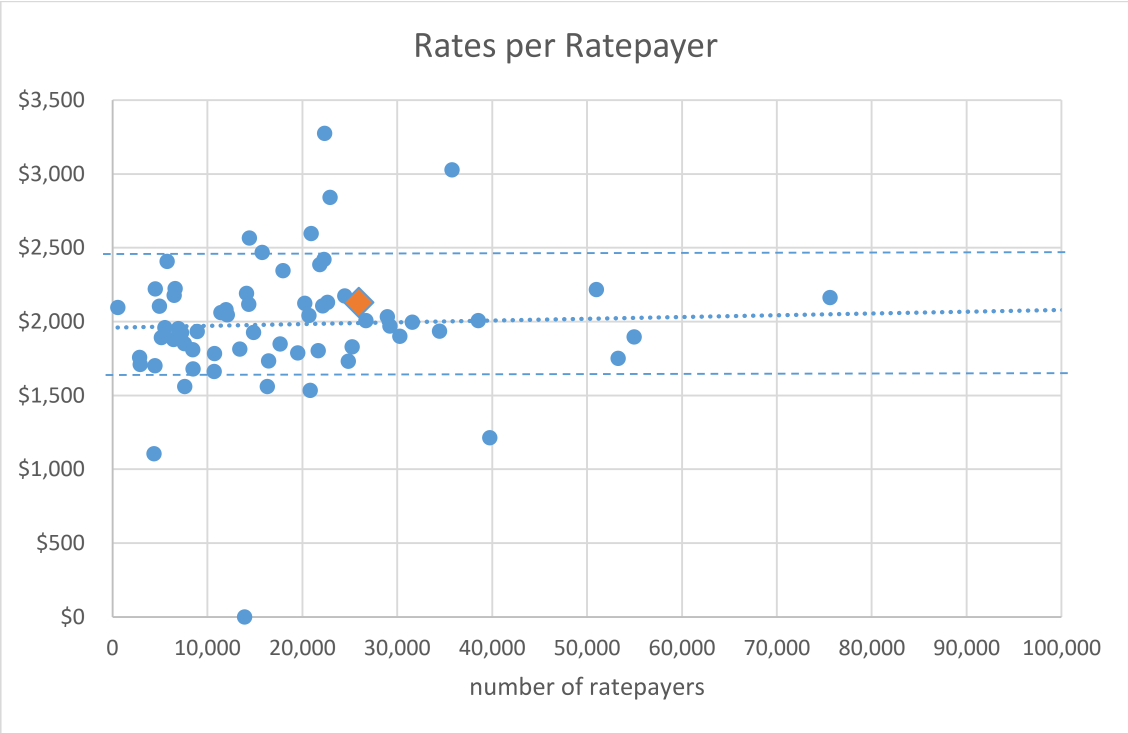
20 This chart breaks the district down into area unit. The bubbles represent the size of the area units (number of households), and the chart shows the relationship between income and affordability.

21 While we have worked hard to soften the burden for lower-income households through rating policy changes, the very fact that rates are not based on income mean we are using very blunt tools. Adjusting rates for affordability reasons is like carving with a spade – the tool is not fit for the purpose.

22 Increasingly we are faced with challenges of retirees, who are at the end of their government tax life and now on fixed incomes struggling to pay the level of rates that are associated with the value of their properties.

23 It is also important to mention that the Council ranked second lowest in terms of operating costs per ratepayer in New Zealand in the 2018 Taxpayers union Ratepayer's Report.

24 The chart below shows the average rates per ratepayer, using historical data sourced by the Taxpayers Union (2012/13). It demonstrates that most councils have average rates that are within 20% of the overall average (upper and lower bounds marked by the blue dashed lines).

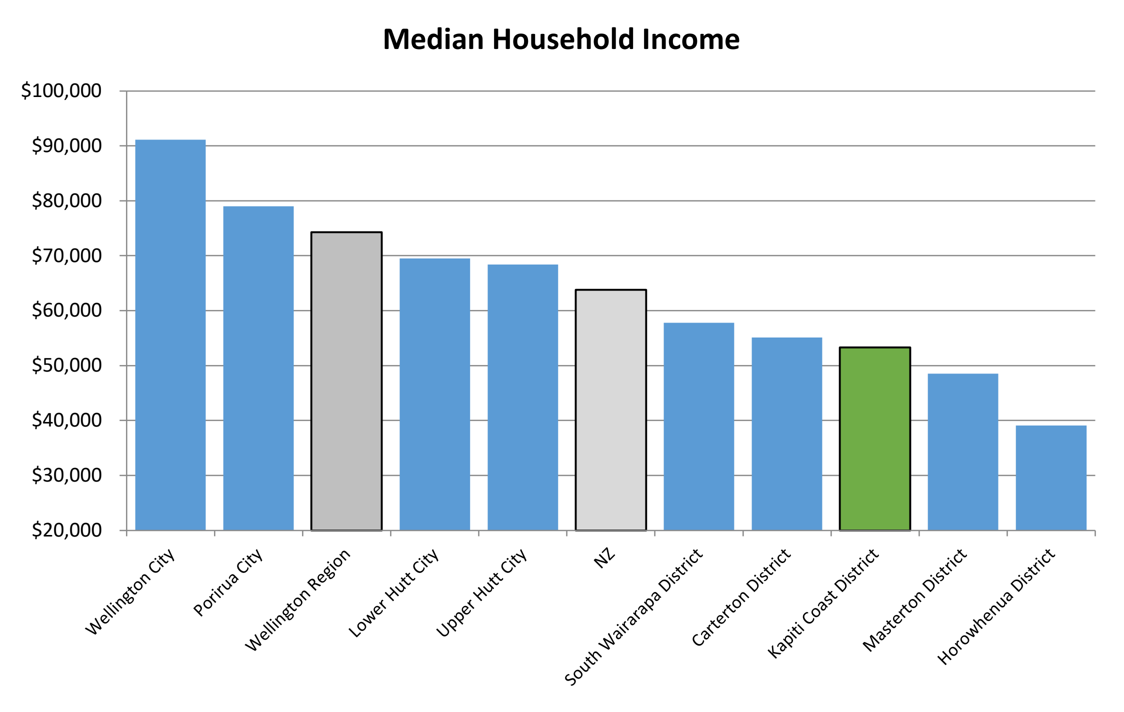


25 There are a few outliers, and some caution needs to be used with the data. It should also be noted that most of the data does not include regional council rates. Therefore, unitary authorities such as Tasman and Nelson do show up above the bounds. However, the data is adequate for demonstrating the main point.

26 The Council is highlighted in orange and this shows that the average rates for the district are only 7% higher than the national average. The point of this analysis is that the main driver of the affordability constraint for Kāpiti is household income, not rates expense.

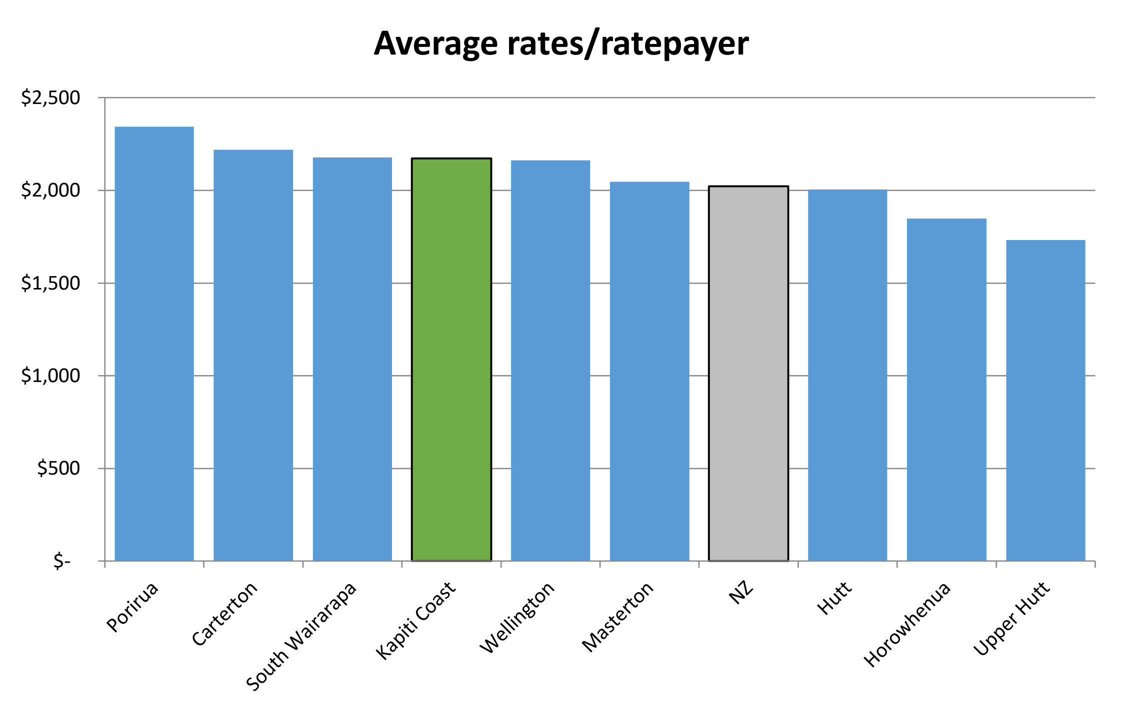
27 As at the 2013 census, the median household income for the Kāpiti district was $53,000. For our two neighbours, the median household income was $79,000 in Porirua City, and $39,000 in Horowhenua. Using the national average rates per ratepayer of $2,000, this would translate to rates as a percentage of household income of 3.8% for Kāpiti households, 2.5% for Porirua City households, and 5.1% for Horowhenua households (note that the actual rates for those councils differs from the average).

28 For the Wellington region[2], median household income from the 2013 census is as follows:



29 The median household income for Kāpiti reflects the differing demographic breakdown for our district, with a high proportion on fixed incomes. It disproves the various government assumptions made by, for example NZTA, that Kāpiti is a 'wealthy' district, and therefore provides the district with the lowest funding assistance rates.

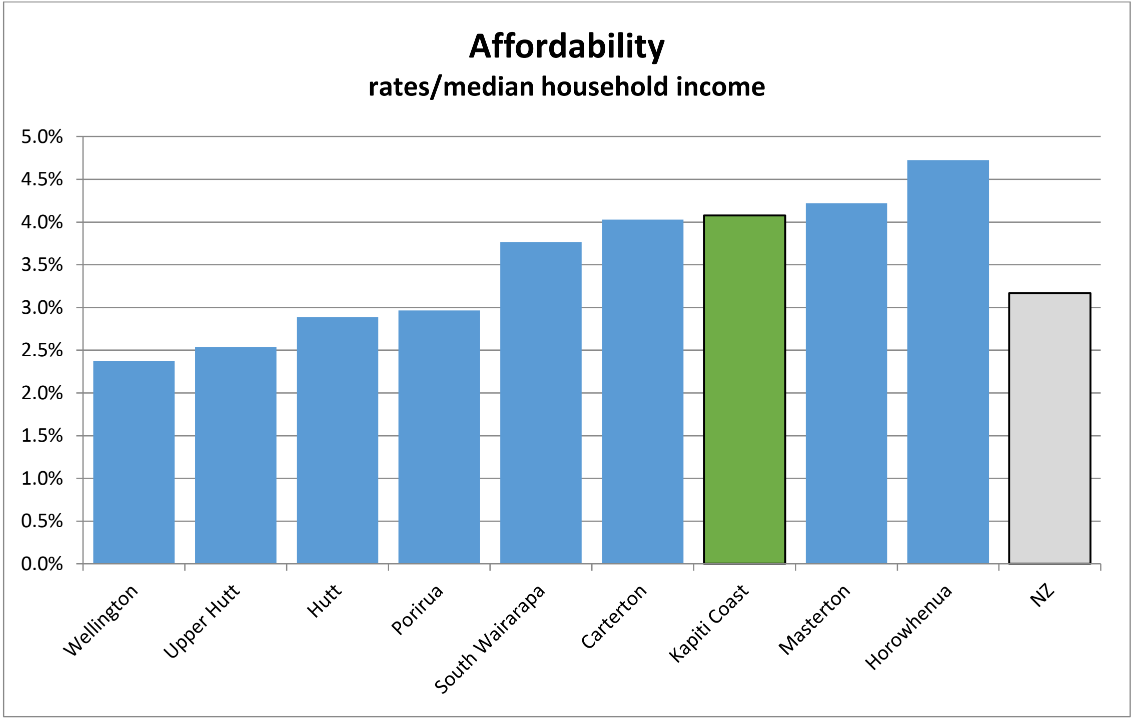
30 A simple calculation of rates per ratepayer for the region shows:



[2] Horowhenua has been included, being our neighbour to the North

31 This is considered a more relevant measure than rates per capita, when considering who pays (and ability to pay). It does demonstrate differences in demographic make-up – for example Porirua has a very similar population to Kāpiti, but fewer households (and thus fewer ratepayers).

32 When the rates per ratepayer is measured against household income, affordability (or lack of) shows up quite clearly.



33 In this chart, the higher bar equates to lower affordability. The three districts with the worst affordability are those with the lowest household incomes. This includes Kāpiti.

The Mythical Disconnect

34 There have been statements made, informing this review, that rates have become disconnected from household income and/or CPI.

35 There was never any connection between the two. In fact, the continual focus by local government on finding savings in order to keep rates increases down, has masked this disconnect.

36 To understand the cost driver for local government, is to understand the heavy asset investment that we make. To provide a hypothetical example:

a.	PP&E	$600m excluding land
b.	Annual depreciation	$20m
c.	Average remaining life	600/20 = 30 years
d.	Revaluation (at CPI)	$600m * 2% = $12m
e.	New depreciation	(600-20+12)/29 = $20.4m
f.	Rates	$62.3m
g.	Depreciation increase	$0.4m
h.	Rates increase from depreciation	0.4/62.3 = 0.66%
i.	Depreciation as % of expenditure	20m/80m = 25%
j.	Depreciation impact (if CPI) should be	2.0% * 25% = 0.5%

37 The point is that the increase simply from revaluing the existing assets has a disproportionate impact on rates. In this simplistic worked example, revaluing the assets at the rate of CPI (assumed at 2%), creates a cost increase that is greater than the expected share of rates. There is no direct connection.

38 On top of this will be the depreciation of new assets that have been built in the preceding financial year. For the Council, actual depreciation expenditure from these two factors over the past 3 years has been a major driver of rates increases:

a. 2016/17 was 1.6%
b. 2017/18 was 1.9%
c. 2018/19 was 1.4%

39 As our asset base grows, the "disconnect" has the potential to increase. Council finance staff and asset managers spend a lot of time and energy looking at ways to manage this cost down. This includes identifying the valuation impacts of new technologies, and reviewing the remaining lives of the assets.

40 It is important to note that real cost drivers have been higher than headline CPI, for many reasons. These are not repeated here, as they have been well covered by others[3].

Depreciation will never fully match the cost of asset replacement

41 The issues paper states that *"over time, the total amount of depreciation accumulated should roughly equal the total cost of replacing a council's assets"*

42 This is not correct. It is a misunderstanding to assume that depreciation is "an expense each year, to provide funds for future renewals of assets". In fact, depreciation represents the amount of an asset that has been used during that financial period. The point of revaluing is to ensure that the cost of that asset use is recognised in current dollar values, not the historical cost.

43 When an asset is revalued, there is no recognition of backdated depreciation. Therefore, the amount of depreciation recognised over the life of an asset is unlikely to ever match the replacement cost.

44 Again, using an over-simplified example:

- The council purchases an asset for $100, with a 20-year life. The asset value appreciates by 2% every year, so that a replacement asset in 20 years' time will cost $148. Assuming that depreciation is reset every year to the higher value, the accumulated depreciation after 20 years will be $121, leaving a shortfall of $27. If the revaluation is done less frequently (every 3 years, for example, as is standard practice) the shortfall will be even greater.

- This is a hidden problem for councils, and is one that will show up over time through increasing debt levels. This is because any asset renewals that cannot be funded through depreciation will have to be funded by debt.

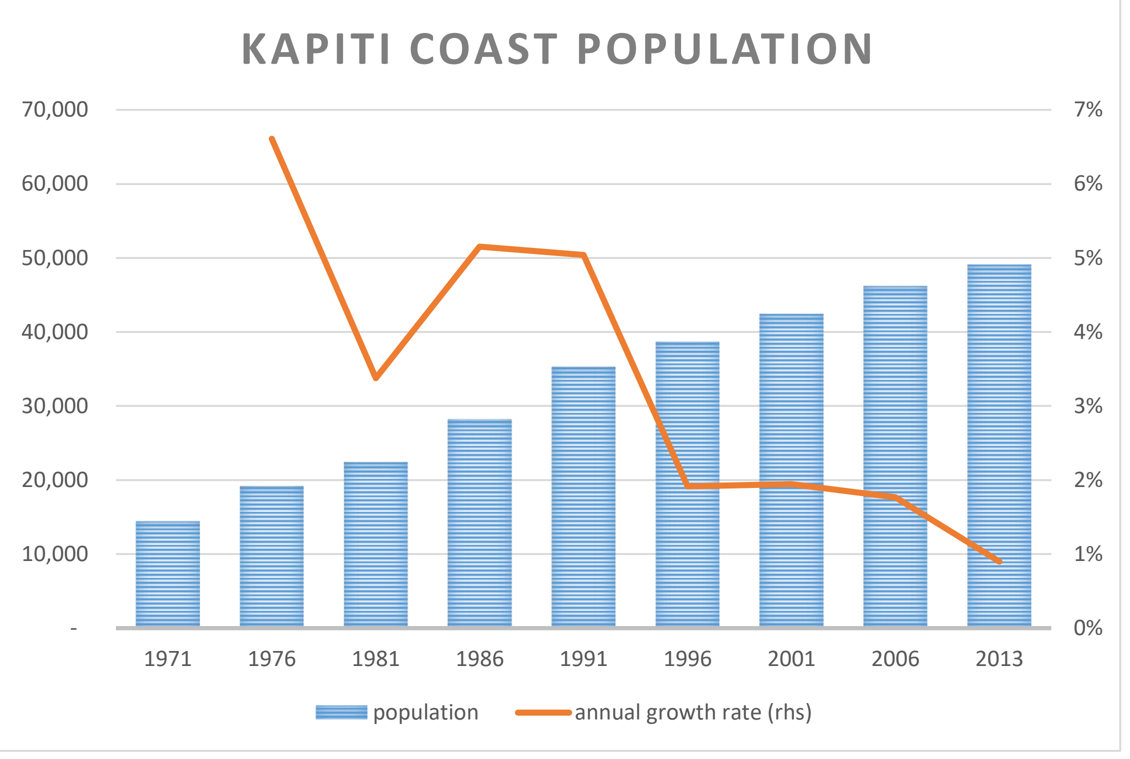
Renewals capex is less than depreciation

45 The issues paper also notes that *"asset reinvestment for most local authorities has been less than 100% of depreciation"*

46 The concern being raised is that councils may be 'over-accounting' for depreciation or failing to complete the renewals when required. While we can't comment for other councils, it is worth explaining our story – yet another example of the differing circumstances that can be found across the country.

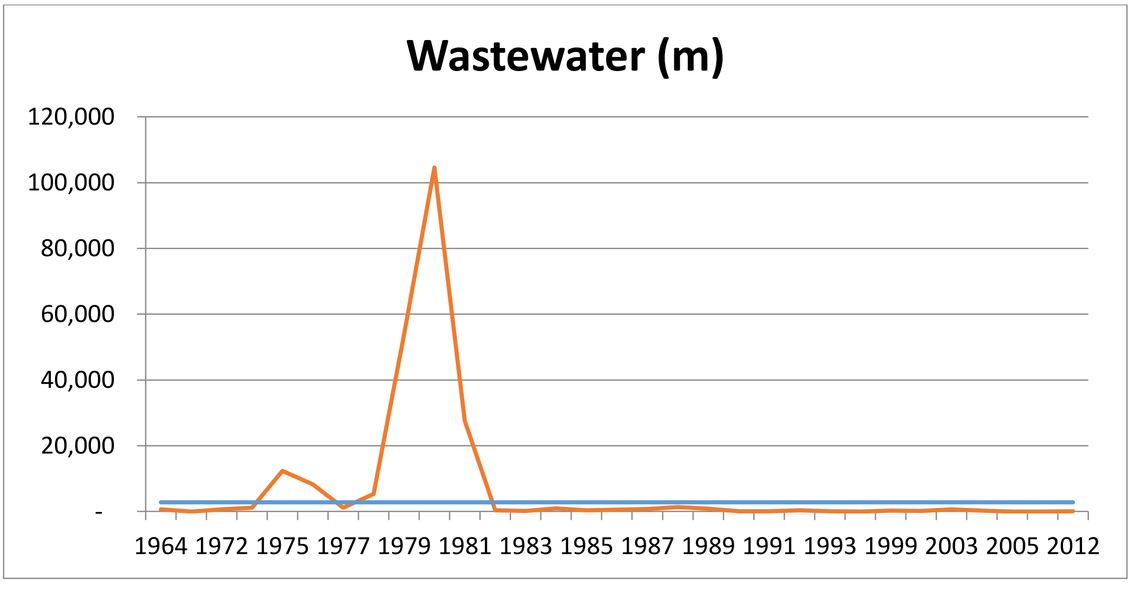
[3] We would note one example from our own experience, where the national price of three waters assets had been artificially low using the indices supplied by BERL. During our asset revaluation for June 2017, this price corrected, with a composite index rise of 5.5%, compared to a BERL assumed increase of 3%.

47 The Kāpiti district has grown rapidly for many years, with growth occurring in four settlements. Generally, sustained growth at rates of 2% or more per annum can be considered high growth in the New Zealand context. As shown in the following chart, growth has been at or over 2% per annum for 35 years, and was as high as 6.6% between 1971 and 1976. Because of the dispersed nature of settlement (between Ōtaki in the North and Paekākāriki in the South), the impact of this growth was not as apparent.



48 It was not until the mid-70s that the settlements in the district reached the size that supported infrastructure such as water and waste-water networks.

49 As the following chart demonstrates, 47% of the wastewater network was installed in 1980.



50 Water tells the same story. The biggest single year for water pipes in Kāpiti was 1978, where around 21% of the network was installed (by value). Over the ten years from 1974 to 1984, 76% of the network was installed.

51 Pipe networks have an estimated useful life of 80 years (although this can vary due to many component circumstances such as materials, ground conditions, etc.). In simple terms, significant renewals expenditure is not required until 2060, based on expected asset lives.

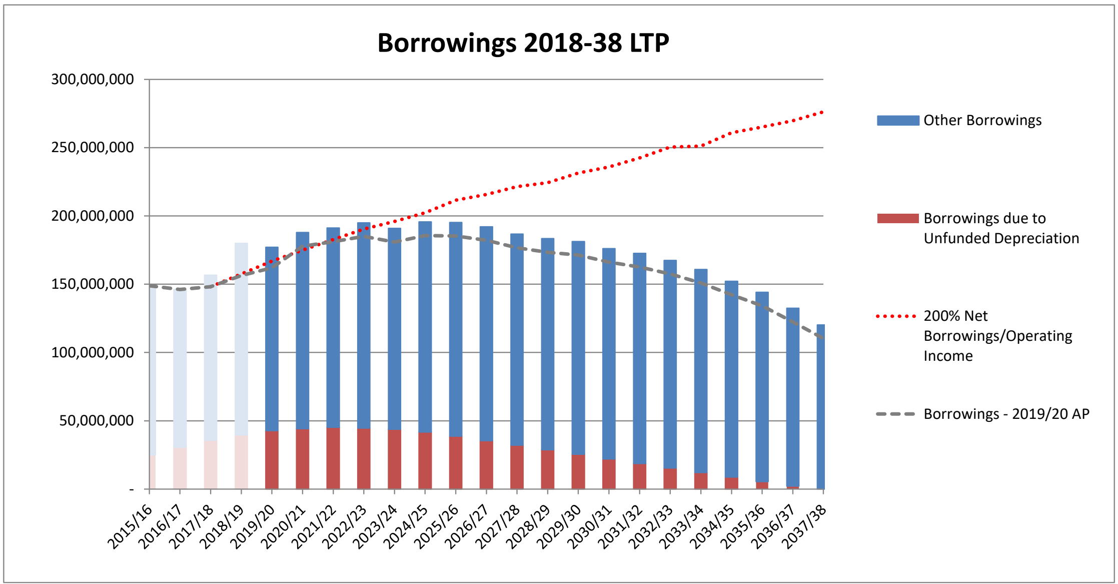
52 When the Office of the Auditor General (and the Productivity Commission in this review) make statements to the effect that either:

- Councils are not renewing their assets in time (they are sweating assets); or
- Councils are 'over-accounting' for depreciation

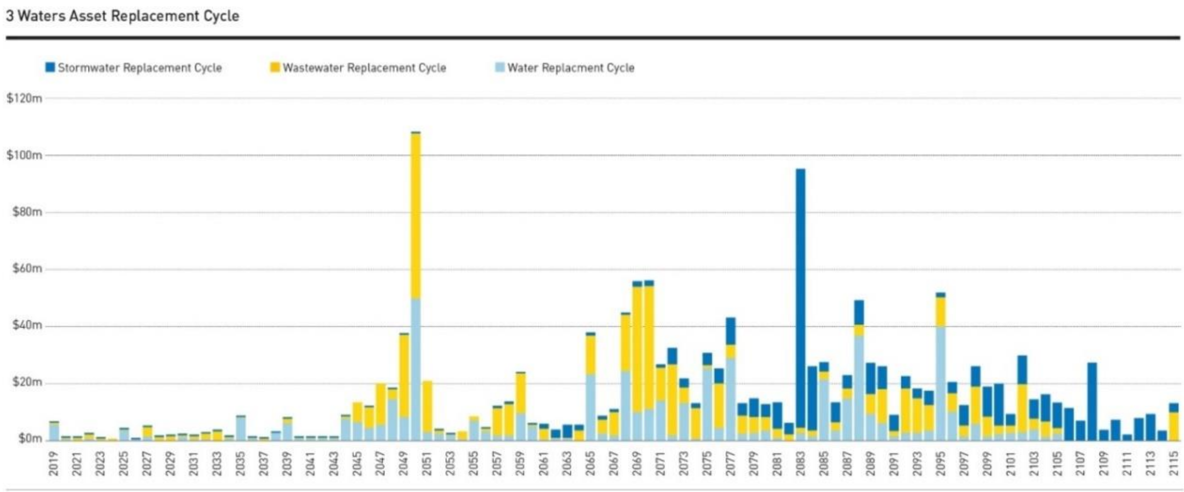
the Kāpiti story is one example of the need to understand the details behind our infrastructure profile. We expect to be spending significantly less on renewals than we are collecting in depreciation, for at least another 35 years as the assets are not yet ready for replacement. Beyond that horizon, it is likely that we will be spending significantly more, as the majority of our networks come up for renewal.

Long Run Debt Impacts

53 The Council currently has very high debt levels. We have invested significantly in water and wastewater over the last decade. The financial strategy recognises the significant capital expenditure that will be required in future years and accordingly delivers low debt levels by that time.



This chart shows the Council's projected borrowings profile for the next twenty years.



This chart shows the 100 year renewals profile for our 3 waters.

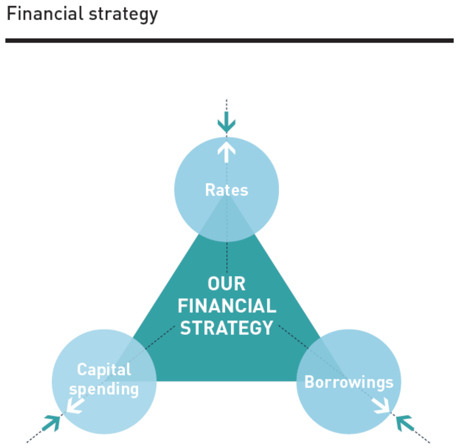
The Funding Triangle

54 The Council's financial strategy is aimed at achieving a balance between rates, capital expenditure and debt. The only way to deliver lower debt levels is to pay down debt through operating surpluses or reduce the level of capital expenditure. Spending on capital upgrades (such as for new assets or assets to provide sufficient capacity in our infrastructure networks to support a growing community) would need to be minimised to reduce borrowings further, as these are funded by debt.

55 We recognised that, while the direction set in the previous 2015-35 long term plan began to address our financial constraints, we needed to go further and faster. Right now, our aim is to improve our financial position so that we have more room to manoeuvre in the current financially constrained environment; and invest only in infrastructure that supports resilience and agreed growth. We'll do this through a programme of reduced capital expenditure that will enable us to start reducing our debt earlier than previously forecast which we call our 'green line strategy'.

56 In the short term this is likely to lead to an improved credit rating in 2019, and in the longer term we'll be in a better position to manage a substantial renewals programme for out 'three waters' infrastructure. These actions will go a long way to putting the Council's finance on a more sustainable footing, while increasing the resilience of our assets and our plan for the future.

57 But it comes at a cost to ratepayers. The annual impact is an additional 1.0-1.6% to rates, above what we need for our operating costs. This 'closing the gap' on depreciation funding will continue for another 3 years.



Intergenerational equity can never work

58 Most Councils will likely include in their financial strategy the concept of intergenerational equity as the best way to share the costs of their assets across their useful economic lives. This is theoretically sound, but in practice is quite unlikely to ever be fully implemented due to the limited public appetite for government debt. While personal mortgage debt is upwards of 500% of household income for approximately 40% of residential mortgages, communities express concern with council debt levels at much lower thresholds. This includes this Council's current net debt as a share of operating income at 198%.

59 In principle, intergenerational equity expects that all new assets will be fully debt funded. At original value, this might be conservatively estimated to be 50% of book value (thus excluding the impact of revaluations). Kapiti Coast has PP & E with a book value of $1.7 billion. Had they been all debt funded, the current debt might be $850 million, instead of the current $148 million.

Organisation	***Assets***	***Debt***	***Net Debt***	***Debt/ Assets***	***Net Debt/ Assets***	***Annual Revenue – LY***
	$B	***$B***	***$B***	***%***	***%***	***$M***
Kāpiti Coast District Council	*1.70*	*0.21*	*0.15*	*12.4*	*8.8*	*73*
Watercare	*8.90*	*1.60*	*1.60*	*18.0*	*18.0*	*631*
Ryman	*5.80*	*1.10*	*1.00*	*19.0*	*17.2*	*343*
Air New Zealand	*7.80*	*2.70*	*1.20*	*34.6*	*15.4*	*5,490*
Contact Energy	*5.30*	*1.50*	*1.50*	*28.3*	*28.3*	*2,160*
Fonterra	*20.20*	*7.60*	*7.30*	*37.6*	*36.1*	*20,430*
Vector	*5.80*	*2.40*	*2.40*	*41.4*	*41.4*	*1,330*
Kathmandu	*0.44*	*0.02*	*0.02*	*4.5*	*3.9*	*497*
Sky Network Television	*1.50*	*0.24*	*0.22*	*15.6*	*14.9*	*839*
Port of Tauranga	*1.66*	*0.41*	*0.40*	*24.4*	*24.1*	*283*
Rakon	*0.11*	*0.00*	*(0.01)*	*2.7*	*-7.1*	*101*
Pushpay Holdings	*0.04*	*0.00*	*(0.03)*	*0.0*	*-77.1*	*102*
Investore	*0.74*	*0.31*	*0.31*	*41.3*	*41.0*	*47*
Local Government – Stats NZ	*136,873*	*17,450*	*10,879*	*12.7*	*7.9*	*6,067*
Central Government – Stats NZ	*259,911*	*112,935*	*31,349*	*43.5*	*12.1*	*79,178*

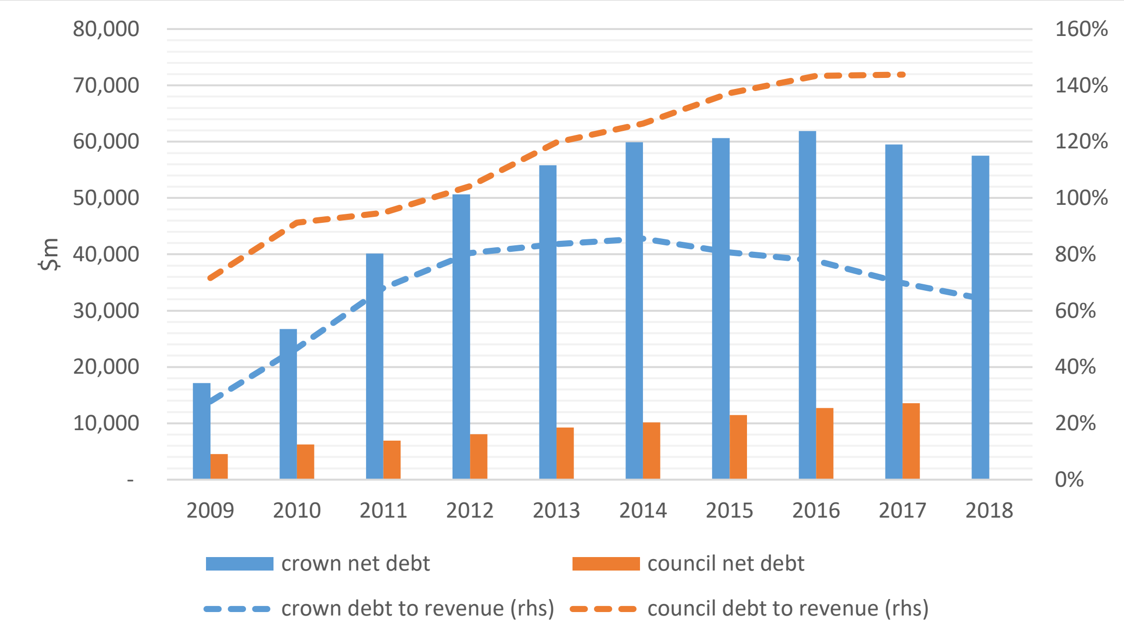
60 The current level of net debt to assets is 8.8% and the community has concerns that the debt is too high. As the following table shows, the debt to asset ratio for our council is low compared to other organisations:

61 The very real issue today is that our level of debt is constrained to a level that is deemed acceptable by our residents and ratepayers.

Council Debt is becoming constrained

62 The following chart shows net debt for central and local government over the last ten years. For local government one of the key measures is debt to revenue, as it is considered to be an indicator of the ability of an organisation to service debt.

63 As noted, for Kāpiti Coast, the ratio is 198%. For the local government sector, this ratio is now over 140%. While the central government's preferred measure is debt to GDP, this chart shows debt against core crown revenue, which has dropped to around 60%.



64 This suggests that there is capacity for the government to consider options that utilise more debt.

Central Government Funding Proposal

65 Every year, local authorities publish their average rates revenue increases. Inevitably, these are challenged against the consumer Price Index (CPI) for the preceding rating year, particularly when CPI is much lower than the actual rates increase.

66 What then follows is the perpetual counterfactual explanation of the difference between CPI and the Local Government Cost Index (LGCI). In addition, local authorities also endure an actual cap on the annual permitted increase in their rates revenue, as outlined in their mandatory financial strategies.

67 As discussed above, the current funding and financing model for local government is disconnected and not sustainable. What is critical to the longevity of an effective local government framework and delivery model, is both security and sustainability of additional central government funding.

68 Central government appears to exercise far greater budget flexibility, particularly regarding its forecast annual tax revenue. The table below shows the annual fiscal forecasts for five years to 2023. Central government is forecasting the annual tax revenue to increase by $14.9 billion over 5 years, with year on year increases all exceeding CPI and/or medium term CPI targets.

Year ending 30 June	2018 Actual	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
Central Tax Revenue	79,427	82,444	85,291	88,631	91,810	94,280
		4%	3%	4%	3%	3%

69 In recent years, the increases have been even higher for central government.

Total taxation revenue	*Year ended June*								
	2009	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*
	$(million)								
Central Government	*57,482*	*53,018*	*54,494*	*58,329*	*61,991*	*64,935*	*69,803*	*73,921*	*79,178*
Annual increase		*-8%*	*3%*	*7%*	*6%*	*5%*	*7%*	*6%*	*7%*
Local Government	*4,097*	*4,289*	*4,473*	*4,653*	*4,814*	*5,107*	*5,389*	*5,760*	*6,067*
Annual increase		*5%*	*4%*	*4%*	*3%*	*6%*	*6%*	*7%*	*5%*
Stats NZ – Government finance statistics (general government): Year ended June 2017									

70 The table below reports central government's forecast OBEGAL (Total Crown Operating Balance before Gains and Losses) up to 2023. This shows that the government is forecasting to realise an average net operating surplus of $5.4 billion per year over the same period.

Fig 13 – Total Crown operating balance before gains and losses (OBEGAL)		
Source: The Treasury		
	% of GDP	$billions
2018	1.9	5.5
2019	0.6	1.7
2020	1.3	4.1
2021	1.5	5.1
2022	2.2	7.6
2023	2.3	8.4

71 Clearly, there is capacity, without government making any changes to its current taxation framework or budget assumptions, to appropriate parts of these planned surpluses to the local government sector.

72 Importantly, this appropriation need not be complex. Indeed, it can and should be extremely simple. The Council proposes the following simple funding model for the Productivity Commission to consider:

a. Introduce a tax appropriation for the local government sector using a fixed rate per capita (suggest $100 to $150 per capita) for a 10-year fixed transition period. Importantly, this is funded from governments existing surpluses (without the need to increase planned central tax revenues).

b. At $100 per capita, the government appropriation would be in the order of $490 million for the country in 2019/20. For Kāpiti Coast, this would equate to approximately $5.2 million for 2019/20, which is more than the proposed increase in rates for next year, of $3.6 million.

c. It could mean, therefore, that Kapiti Coast can cover its extra requirements without a rates increase, and the Council could start to close the gap on other funding shortfalls, that it had consciously decided it could not fund at this time.

d. It is proposed that a further increase of the same amount ($100 per capita, preferably adjusted incrementally for CPI) would be appropriated from these planned surpluses annually for the following 9 years. Effectively, after 10 years, the Government would achieve a funding level equivalent to the current level of total rates revenue for the entire local government sector (in the order of $5.4 billion). In essence, this would achieve a 50/50 local government/central government funding model, similar to central government's current roading subsidy model.

e. We do not propose that local authorities reduce their annual rate increases due to additional funding from central government, and we do not propose any changes to central government's current local government funding/subsidy models (i.e. roading subsidies and the rates rebate scheme).

f. A limitation of this simple appropriation methodology, is its inability to align to local economic buoyancy. For this reason, the Council therefore recommends that post a 10-year transition period, the appropriation converts to a fixed rate in the dollar of central tax revenue.

g. Using a conservative central tax revenue estimate of say $110 billion per annum in 2029 and assuming that this includes indirect taxes (i.e. Goods and Services Tax), a fixed rate in the dollar of central tax revenue could be calculated as follows:

a. 2029 Central tax revenue	$110 billion
b. Less: indirect tax revenue	$30 billion (estimated GST)
c. 2029 Direct tax revenue	$80 billion
d. Annual 50/50 target funding model	$5.4 billion (post 10-year transition period)
e. Fixed rate in the $ direct tax revenue	6.75 cents in the dollar ($5.4bn/$80bn)

73 This clearly demonstrates that central government can indeed provide local government with the much needed critical funding, thereby reducing the unsustainable heavy burden on ratepayers, without raising planned income taxes in order to do so, for as little as 7 cents in the dollar of planned income taxes to be collected.

74 Notwithstanding the above, in ten years' time, a fixed rate of 7 cents in the dollar of central tax revenue equates to at least $5.4 billion of additional local government funding per annum. As this may seem a significant level of funding, it is important to note that this represents just over one-third (1/3) of the sectors total revenue requirements from 2029 onwards, as illustrated below.

Total Local Government Funding Mix	**2019**	**From 2029**
Rates revenue	53%	34%
Non-rates revenue (fees and user charges, subsidies, development contributions etc.	47%	32%
Central government funding (proposed)	-	34%
Total funding split	**100%**	**100%**

75 The second part of this submission details the Councils responses to the Productivity Commission's 49 questions. The Council wishes to emphasise Part 1 of this submission, and in particular, the Kāpiti story which will be undoubtedly echoed from many local authorities across the country.

76 Whilst it is not for the Council to determine the precise mechanism for additional funding from central government, it is this Council's role to advocate for much needed additional central government funding for our ratepayers, critical for the prosperity and longevity of the Kāpiti region.

77 Again, the Council invites the Productivity Commission to discuss this funding proposal in more detail, with the Council.

Part 2 – Responses to the Productivity Commission Questions

1. What other differing circumstances across councils are relevant for understanding local government funding and financing issues?

   a) *Every Council situation differs for a variety of reasons. It's important to understand these – to keep people feeling heard and engaged; and to understand how the impacts of change will vary for each council.*

   b) *There needs to be recognition of the inefficiency of the two-tier structure created by regional and city / district council. Two-tier structures are less transparent and can be more confusing due to the complications caused by differing boundaries, particularly between central and local government.*

      Costs will be higher because of duplication and self-interest can lead to inefficient decision-making and delays in policy implementation.

   c) *Some councils have made significant investment in their critical infrastructure while others have chosen not to or have been unable to. For example, KCDC has incurred significant debt through investment in its Three Waters asset. This was recently acknowledged by the Auditor-General in his report –* ***Managing the supply of and demand for drinking water*** *which commended us for our strategic approach.*

   d) *Some councils will have benefitted / suffered more than other councils as a direct result of government decisions on national infrastructure, for example, the location of planned Kiwibuild development and roads of national significance.*

   e) *Some councils have benefitted from owning income-generating assets, or legacy assets, for example, Taupo with its TEL Fund (established in 1995 after the sale of Taupo Electricity and Taupo Generation) and New Plymouth with its perpetual investment fund (set up in 2004 following the sale of the council's shares in Powerco); Christchurch from Orion and other Council Controlled Organisations and the various ports around the country benefiting regional airports.*

   f) *KCDC, as a relatively young council has few such assets to call upon. This is reflected in KCDC getting 77% of its income from rates in 2017/18 while the average across NZ was around 53%.*

   g) *the ability of individuals to pay.*

   h) *dispersal of population, for example reticulation schemes are harder to manage over a larger less densely populated area.*

   i) *geographical constraints:*
      - *coastal properties; and*
      - *the presence of water tables low-lying property / peat (ground conditions).*

   j) *the difficulty of providing underground services in water tables and in rock.*

   k) *the impact of non-resident property owners.*

   l) *with increasing age there is an increased likelihood of fixed incomes and lower employment levels.*

2. What explains the difference between the amount that councils account for depreciation and the amount spent on renewing assets? Are changes needed to the methods councils use to estimate depreciation? If so, what changes are needed?

   a) *Depreciation is measure of asset consumption while renewals use the funding of depreciation to save up for the cost of replacing assets. Given the long-life nature of many of the KCDC assets, a year or 5-10 year snapshot of depreciation versus renewals is highly unlikely to capture the balance of renewals and depreciation.*

      For example, the KCDC pipe network has an expected useful life of around 70-90 years. The vast majority of these assets will need to be completely renewed, most likely during a period of several years around 2040, at which point the total renewal costs of the assets will most likely exceed the total depreciation charged across their lives.

      If we were to approximate renewal cost through depreciation, we would need to backdate the impact of each revaluation; or increase future depreciation to collect the shortfall – this is unlikely to meet accounting standards.

   b) *This Council disagrees with the widely-held view (particularly among grey power) recommended by Shand, that councils move away from fully funding depreciation, with the development of longer-term funding policies that take better account of intergenerational equity, and the availability of longer-term debt financing. However, as noted many councils have reached or are very close to their (LGFA / self-imposed) funding limits and while it may be financially prudent to take on more debt, from a political perspective it may be unpalatable / impossible.*

   c) *Furthermore, the cost of revaluing our assets every (other / three) year(s) is not inconsiderable.*

3. In what ways are population growth and decline affecting funding pressures for local government? How significant are these population trends compared to other funding pressures?

   a) *Kāpiti is currently a medium growth council. For over 30 years it was a high growth district, with growth exceeding 2% per annum. We anticipate high growth returning. Our comments are therefore from a growth perspective, rather than a decline.*

   b) *KCDC wants higher (sustainable) growth to improve our situation. But growth in the wrong places (leap-frogging) will cause problems.*

   c) *Size – at a certain point the population expects increased service facilities, an example of this for KCDC was a new $20 million aquatic facility. Factors that will affect growth include:*
      - *increased connectivity through the opening of the expressways and the electrification of the rail track;*
      - *natural hazards – the increased likelihood of future events;*
      - *growth can lead to congestion; and*
      - *prices are impacted by the 'halo effect' as people move out of Wellington due to factors such as increased connectivity and being priced out of the market.*

d) *We estimate that, from a capital expenditure perspective, growth represents less than 10% of our costs. However, if our growth is 3-4 times higher than currently forecast, as more recent forecasts have suggested for the whole Wellington region, then this will quickly change. In the short term, growth in rateable property would affect our rates impact – this year's growth was 1.2%, and rates increased 4.8%. With zero growth, the rates increase would have been 6.0%. if our growth had been 2.1%, our rates increase could have been 3.9%. However, as seen elsewhere in the country, sustained growth at these levels brings with it significant cost implications. The challenge is whether capex plans can be brought forward quickly enough and whether revenues (such as development contributions) are adjusted.*

4. What are the implications of demographic changes such as population ageing for the costs faced by local government?

    a) *The main impact of an ageing population that we notice is pressure to keep rates down and defer them, or for others to pay, due to a reduced ability to pay.*

    b) *Other impacts of an ageing population may include:*
    - *more roads and car parks and less cycle ways and skate parks. While many use public transport, there is also high demand for vehicle access (parking) close to facilities;*
    - *lower user fee revenues;*
    - *more demand for low cost/social housing; and*
    - *inefficiency of housing supply.*

5. To what extent is tourism growth resulting in funding pressures for local government? Which councils are experiencing the greatest pressure, and how is this manifesting?

    This is not currently an issue for KCDC – so we support the LGNZ submission on this question.

6. Is an expansion of local government responsibilities affecting cost pressures for local government? If so, which additional responsibilities are causing the most significant cost pressures and what is the nature of these increased costs? To what extent do these vary across local authorities?

    a) *We note the issues paper refers to cost shifting – this is something which is often acknowledged though rarely quantified.*

    b) *Examples of how cost shifting has impacted KCDC are:*

    - *the impact of the Expressway, and the need for revocation and to re-position the town centres to respond (consider amounts of funding required and received);*
    - *staff resourcing for consenting the Peka Peka interchange debate;*
    - *rising standards, e.g., stormwater consents for drain clearance, the cost of the PDP process and appeals; and*
    - *other examples include the cost of our community board structure, KCDC obligations under the Food Act, the DLC, Easter Sunday trading provisions and reporting and consulting on these and other issues.*

7. How is the implementation of Treaty of Waitangi settlements, including the establishment of 'co-governance' and 'co-management' arrangements for natural resources, affecting cost pressures for local government? How widespread is this issue?

   a) *An outcome of Treaty settlements is the provision of co-governance and co-management arrangements over significant natural resources and reserve lands. Local authorities are critical to the successful implementation of these arrangements, both as the regulatory authority for the natural resource or land, and as the co-governance and co-management partner with Treaty settling groups.*

   The Council's Memorandum of Partnership with Te Āti Awa ki Whakarongotai, Ngāti Raukawa and Ngāti Toa Rangatira, entering its 25th year is evidence of the Council's historically strong partnership approach.

   b) *Two of our three iwi have yet to settle their claims. We anticipate significant shifts in our approach and relationships going forward.*

   We refer you to the LGNZ report – The case for increased financial contribution to local government for implementing treaty settlement arrangements:

   CONTRIBUTION TO LOCAL GOVERNMENT

   http://www.lgnz.co.nz/assets/Uploads/LGNZ-Treaty-Settlement-Report-V2-March-2018.compressedV2.pdf

8. How are local authorities factoring in response and adaptation to climate change and other natural hazards (such as earthquakes) to their infrastructure and financial strategies? What are the cost and funding implications of these requirements?

   a) *Specific examples of KCDC response and adaptation to climate change include:*

      - *the coastal hazards/LIMs/PDP impacts - KCDC commissioned a Coastal Erosion Hazard Risk report which identified about 1800 homes as at risk within the next 100 years, and 1000 of them could be affected within half that time.*
      - *negative impacts of stormwater remediation:*
        - *KCDC policy of new development having to achieve hydraulic neutrality*
        - *grey water storage (KCDC offers a funding service for residents to purchase and install on-site water supplies for outdoor irrigation)*
      - *insurance:*
        - *increased insurance due to Wellington being more earthquake-prone than most other cities*
        - *60:40 underground*

9. Why is the price of goods and services purchased by local government rising faster than the consumer price index? To what extent is this contributing to cost pressures for local government?

   Annual and long-term plans are consulted on with communities and the nature of any rates increases / decreases are open and transparent, and subject to far more scrutiny and public discussion and airing on social media.

   A significant contribution is the scale of investment in assets – refer to our discussion from paragraph 34.

10. Do the prices of goods and services purchased by local government vary across councils? If so, what are the reasons for these differences?

    a) *Some councils are more remote – transport costs.*

    b) *Some councils have different terrain, geography, ground conditions, etc.*

    c) *Some councils have robust procurement policies and the discipline to adhere to them.*

    d) *Larger councils, with more money to spend generally have more buying power than smaller councils, though it is acknowledged that councils' ability to access All-of-Government procurement partly offsets such economies of scale.*

    e) *A lot of costs in the provinces are generally cheaper than in metropolitan areas – fuel is an obvious example of this but the rationale for fuel price differentials are understood by very few people, hence the Commerce Commission's inquiry.*

11. Is local government expenditure shifting away from traditional core business into activities such as economic development, sport and recreation and community development? If so, what is the rationale for this shift, and could these activities be better provided by other parties?

    a) *The introduction of the four "well-beings" mandated councils to develop a wider range of services. While the four well-beings were removed in 2012, most councils continued with activities already in place as there was no viable alternative and, as stated earlier, little appetite within communities for a reduction in services.*

    b) *For KCDC, the need for urgent and on-going economic development activity was highlighted by the withdrawal of Air NZ from Kāpiti Coast Airport. The Council had to respond immediately, which it did, with the support of the community but this resulted in not insignificant unbudgeted cost.*

    c) *Localism: Councils are best placed to understand community needs.*

12. Does the scope of activities funded by local government have implications for cost pressures? If so, in what ways?

    a) *The Council agrees with the LGNZ position in relation to this question, as stated below:*

       The scope of services a council delivers or commissions is determined, in consultation with citizens, as appropriate to maintain and/or enhance the overall quality of life of its community. Of perhaps greater importance is the scale (levels of service), rather than scope, for example swimming pools.

       The cost of aquatic recreation will be affected by, for example;

       - *the number of pools provided;*
       - *size;*
       - *whether they are covered or not;*
       - *level of staffing, and*
       - *the range of aquatic services provided in each facility.*

       Typically, urban centres with larger, concentrated populations tend to provide a wider scope of services and to higher standards.

While there is, of course, a clear relation between increasing cost and the scope of services offered, as noted earlier in this submission, communities increasingly want councils to play a more active role beyond the provision of core public services; a trend observable across the developed world. It is the view of LGNZ that this is entirely appropriate. Local government's proximity to communities means it is often better placed to manage a wide variety of programmes than centrally managed agencies, such as social housing, youth employment, and vocational training, to name but a few.

A more pertinent question to ask is whether communities are being faced with the true costs of their decisions as a necessary check and balance on the range of activities, and level of service, that communities expect of councils. Given that only homeowners and businesses directly pay local taxes, it is arguable that this is not the case.

13. What other factors are currently generating local government cost pressures? What will be the most significant factors into the future?

    a) *Council have a key role in ensuring the built environment meets current standards. This causes many pressures, with failures over time, such as weather-tightness and earthquake prone issues and natural hazards and emergencies. Even today, there are developments that proceed that are not adequate; and ongoing issues that emerge from earlier developments.*

    b) *At the same time, as developers accuse councils of being too risk averse, we are being asked to take over liabilities for poorly constructed and unconsented structures. Bella Vista is one such high profile example, but there are others.*

    b) *Quality of vested assets – can be substandard and not the best outcome from a whole of life perspective.*

    c) *Environmental factors, e.g., water quality, stormwater, coastal hazards.*

    d) *Resistance to increasing housing density (the quarter-acre dream).*

    e) *For us, central government is a competing employer that we cannot match. Salaries in central government can be significantly higher and our proximity to government departments means people can choose roles in Wellington.*

14. How will future trends, for example technological advances and changes in the composition of economic activity, affect local government cost pressures?

    a) *Biggest costs by far are asset costs – depreciation, especially revaluations and interest.*

    b) *KCDC interest costs have been held for 4 years, even though debt is up 10% - but revaluations are throwing up huge increases in depreciation. The increases have been masked by savings in interest costs. If/when rates increase, the cost issues will become apparent.*

    c) *There is a cost of democracy to bear – we note the wide range of central government policies and consultation.*

    d) *Technological advances can increase capability, range / penetration and efficiency resulting in competitive advantages – but always at a cost and not without expenditure which may carry significant risk.*

    e) *From a technology perspective, compatibilities, integration, sustainability, change of strategy, change of key personnel – can all have a significant bearing on the success (or otherwise) of an ICT project.*

15. How effective is the Long-term Plan process in addressing cost pressures and keeping council services affordable for residents and businesses?

    a) *The Long Term Plan sets out a budget which for at least the first three years is difficult (though not impossible) to change, especially with elections never far away. While the election cycle contributes to short-term decision-making the Long Term Plan process is at least transparent, encourages a longer term view and increases accountability.*

    b) *It is a highly intensive process; we spent over a year on the development of the 18-38 Long Term Plan.*

16. How effective are councils' Long-term Plan consultation processes in aligning decisions about capital investments and service levels with the preferences, and willingness and ability to pay, of residents, businesses and other local organisations?

    a) *Limited to the big decisions – for example in its 2018 long term plan this Council consulted on its 'Green Line' policy, which proposed the earlier repayment of debt over the long term, to better position the Council for a significant programme of renewals around 2040.*

    b) *The complexity of council business makes it very difficult for residents to comprehend the range of activities undertaken by councils and therefore to make informed choices.*

    c) *The Kapiti Coast District Council Long Term Plan consultation is having a positive effect on overall resident satisfaction with a satisfaction rating of 80% for 2017/18*

17. Is there scope to improve the effectiveness of Long-term Plan processes? If so, what, if any, changes would this require to the current framework for capital expenditure decision making?

    a) *Take a longer term view – 10 years is too short.*

    b) *A rolling budget (similar to central government 4 year plans) may be beneficial.*

18. How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently?

    a) *Need better sharing of productivity-increasing methods and technologies– which means more time and resources to do so.*

19. What practices and business models do councils use to improve the way they manage their infrastructure assets and the efficiency of their services over time? How effective are these practices and business models in managing cost pressures? Do councils have adequate capacity and skills to use these practices and business models effectively?

    a) *Yes, this Council does have the skills, especially for the big jobs. The recently released Auditor-General's report, Managing the supply of and demand for drinking water, shows that the Kāpiti Coast District Council is setting a good example in their future-focused approach to supplying drinking water.*

       The results are timely given the water management discussions going on across the country. The report highlights that the Kāpiti Coast District Council takes a very different approach to supplying drinking water when compared to the other Councils audited that were audited at the same time.

The Council's strategic focus on the whole system means that it is leading the way on many fronts. This includes reducing water use, detecting and repairing leaks, future-proofing, working with Iwi, gathering data, and supporting our residents on water-related matters, including affordability and leak repair.

Kapiti Coast District Council made a significant financial and strategic commitment to improving the District's water supply in recent years, and while this hasn't been popular with everyone, the community as a whole is really starting to see the benefits.

Since introducing water meters in 2015, 75% of ratepayers pay less for water than they would have if the Council stayed with the previous one size fits all approach for managing water supply.

Peak daily water use has decreased by about 25% since introducing water meters, and we're one of only a handful of Councils who didn't have to put water restrictions in place last summer.

20. How do councils identify and employ new technologies to manage their infrastructure assets and produce services more efficiently? How effective are councils in using new technologies to manage cost pressures? Please provide specific examples of the use of new technologies to manage cost pressures.

KCDC supports the LGNZ submission on this question, as stated below:

Councils learn about innovative practices from each other, through professional associations, through national and international excellence programmes (e.g. the Guangzhou Innovation Awards) and learning from their neighbours. In our experience, the update of new technologies amongst councils varies.

21. What incentives do councils face to improve productivity as a means to deal with cost pressures? How could these incentives be strengthened?

The main incentive is financial – rates increases and debt, and its relationship with the electoral cycle. Rather than aiding good decision-making, it can hinder it. Cost saving in the short term can be a disincentive to pursuing climate change programmes, for example.

22. What are the most important barriers to local government achieving higher productivity?
    a) Funding.
    b) Risk aversion.
    c) Silos.

23. How does local government measure productivity performance? Are these metrics useful? If not, what metrics would be better?

Councils are required to prepare Statements of Service Performance that set out non-financial performance measures for their activities. In addition, central government sets out, through legislation, performance measures for five service areas (roads, flood banks, potable water, wastewater and stormwater). Councils also take part in benchmarking clubs across a number of activities. In addition, Council MARKTM, established by LGNZ, provides a high level look at the systems councils have in place to provide for effective governance and, as part of the reporting process, guidance can be provided to councils on areas where performance can be improved. A common way of assessing the efficiency of a local government system is to compare the amount spent on wages and salaries; it provides an indication of the degree to which services are subject to competition. Compared to other countries, New Zealand local government spends a proportionally small amount on wages and salaries.

24. To what extent and how do councils use measures of productivity performance in their decision-making processes?

    a) *The community sets service level expectations.*

    b) *Councils seek the best delivery method.*

    c) *Trying to adhere to the principles of whole of life costs and who pays does not always support the most productive solution.*

25. Do councils dedicate sufficient resources and effort toward measuring and improving productivity performance? If not, why not, and how could effort toward measuring and improving productivity performance be increased?

    Yes, this forms part of service delivery reviews, resident satisfaction surveys and the annual and/or three yearly long term plan determinations.

26. What measures do councils use to keep services affordable for specific groups, and how effective are they?

    a) *Each rating system (CV or LV) has a different effect on different households and this will vary according to characteristics of the area. Flatness of rate is a trade-off between a concept of fairness (everyone pays the same) or social impact (vulnerable households are protected).*

       Kapiti Coast District Council is trying to better redistribute its rates by having fewer fixed charges. We use differentials to temper the impacts of the main rating system in terms of fairness, social impact, strategic outcome, and to try and convey the cost to the user.

       We use targeted rates to convey costs to main beneficiaries (fairness) but trade-off with strategic goals. All these variables are very interdependent.

    b) *Kapiti Coast District Council has recently done a lot of work to try to better understand the affordability of its rates to all the households in the District. At an overall level, Kāpiti rates are relatively high as a proportion of median household income, largely because household incomes are lower in Kāpiti. This means rates are less affordable in Kāpiti. See our discussion and chart in paragraph 19 in our Review.*

       An estimated 2,700 to 3,600 households throughout the district have rates affordability concerns - before any rebates or remissions have been applied.

       Kapiti Coast District Council provides the government rates rebate to 2,200 households, and we provide our own rates remission (hardship) to over 600 households. This is up to $300 per household (average $244) and would generally be on top of the government rebate.

       After the rebates/remissions, rates are reduced to a more affordable level (as a % of household income) - we can improve the affordability issue for our district but not eradicate it. The tools that we use are working and we can use our research to better target areas to ensure all ratepayers are using the tools and benefitting from them.

       But we need to find ways to lessen the affected households' numbers. Further to what we are already doing, we have recently amended our rates postponement policy to extend to ratepayers experiencing extreme financial hardship.

27. How do councils manage trade-offs between the ability to pay and beneficiary pays principles? What changes might support a better balance?

    a) *Trade-offs and changes are often 'political decisions' and public good considerations may be overstated.*

    b) *Our user charges tend to target affordability, e.g., cheap rents and swimming pools to encourage use.*

    c) *We have no business differentials as a way to encourage business growth.*

    d) *In Kapiti, the rates for a commercial property with a capital value of around $400,000 and land value of around $150,000 are approximately $2,500, whereas in Porirua, Wellington and the Hutt they range from $5,000 to almost $8,000.*

Kapiti Coast District		***Porirua***		***Hutt City***	
Land Value	*$170,000*	*Land Value*	*$124,000*	*Land Value*	*$140,000*
Capital Value	*$380,000*	*Capital Value*	*$325,000*	*Capital Value*	*$390,000*
Total Rates 18/19	*$2,503*	*Total Rates 18/19*	*$6,099*	*Total Rates 18/19*	*$4,890*
Wellington CBD		***Wellington Suburbs***			
Land Value	*$125,000*	*Land Value*	*$145,000*		
Capital Value	*$410,000*	*Capital Value*	*$450,000*		
Total Rates 18/19	*$6,943*	*Total Rates 18/19*	*$7,642*		

    e) *Councils too far removed from / don't have clear visibility of all people's actual wealth and ability to pay. Central government has a clearer picture of individuals' overall wealth so are better placed to 'tax' individuals at an appropriate rate and to re-distribute an appropriate amount of the funds to local government.*

28. Do councils currently distribute costs fairly across different groups of ratepayers? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across ratepayers?

    At present, we distribute costs across different groups of ratepayers as fairly as we can to best balance affordability with the services and standards required by our community. We constantly review our rating system to best ensure both fairness and equality.

29. Do councils currently distribute the costs of long-lived infrastructure investments fairly across present and future generations? If not, what changes to funding and financing practices would achieve a fairer distribution of costs across generations?

    a) *Council best achieves this through accurately determining depreciation of Council owned assets as well as regular asset valuations and impairment reviews so that today's ratepayers are paying for the cost of the assets they consume and/or benefit from today.*

    b) *As noted throughout this submission, the principle of intergenerational equity, while sound, is not successful in practice. This is due to debt levels causing concern at levels for lower than could be expected under Intergenerational equity.*

    c) *In addition, many groups opt for non-funding of depreciation, thus pushing the burden into the future.*

30. What principles should be used to appraise current and potential new approaches to local government funding and financing, and how should these be applied? What are appropriate trade-offs across these principles?

    a) *Simple.*

    b) *Fair.*

31. How effectively is the existing range of local government funding tools being used?

    a) *As well as can be. Debt limits, the ability to pay and political influences are all contributory factors.*

    b) *The Issues Paper (page 25) notes that, due to receiving significant development contributions, some fast-growing councils are less reliant on rates. This is incorrect as development contributions should only be used to fund growth-related costs and not to subsidise rates.*

    c) *Targeted rates can be used in conjunction with development contributions to fund community infrastructure that benefits a particular community – however these targeted rates are still rates and the ability to pay is not always there.*

    d) *Having a lot of targeted rates adds complexity and risk.*

    e) *The Uniform Annual General Charge is intended to be a simplification but it is regressive.*

    f) *Timing gap for development contributions, i.e., DCs received after infrastructure has been paid for – will become a bigger issue as growth increases.*

    g) *The LAPT has remained at the same rate since its introduction in February 1971 - 0.66 cents per litre petrol and 0.33 cents per litre of diesel. All councils should have the same rate as Auckland – if it is 10 cents per litre, KCDC would have approximately $3.4 million per annum extra revenue, which is comparable to a reduction in rates of 5.8%. Increases should have been introduced gradually over time.*

32. Is there a case for greater use of certain funding tools such as targeted rates and user charges? If so, what factors are inhibiting the use of these approaches?

    a) *The case for greater use of funding tools is very small as the costs of rates setting and collecting is inhibiting their use*

    b) *Value capture, as recommended by the NZPC – how do you cater for properties that have adverse value impacts?*

    c) *Volumetric wastewater charging and pricing the use of existing local roads – adds further complexity which increases cost and challenges transparency*

33. What is the rationale underlying councils' approach to levying rates? What are the costs and benefits of shifting from a capital value system to a land value system?

    a) *Rates are not sustainable as they don't sufficiently manage the differing abilities to pay*

    b) *The capital value system is the best proxy of a household's ability to pay*

    c) *This Council strongly supports a response that is simple and fair. Complicated new mechanisms are unnecessary.*

34. In addition to restrictions on how targeted rates are applied and the types of services where user charges can be levied, do any other restrictions on existing funding tools unduly limit their uptake or usefulness?

    The main constraints around debt levels and the link to capital expenditure, have been widely traversed already.

35. How does the timing and risk associated with future funding streams influence local authority decision making about long-term investments? What changes to the current funding and financing system (if any) are needed to address these factors?

    The ability to use borrowings to invest in required long term assets and ensure intergenerational equity, is influenced significantly by the public perception of debt levels and the corresponding struggle of some ratepayers on fixed incomes being able to pay for the associated costs of interest and depreciation.

36. What are the pros and cons of a funding system where property rates are the dominant source of funding? Does the local government funding system rely too heavily on rates?

    a) There is very little positive - the mechanism is broken.

    b) It doesn't accurately reflect the ability to pay.

    c) KCDC relies too heavily on rates but has few alternatives. KCDC has fewer options than other councils with larger commercial bases, a lower proportional rates take, more income-generating assets and subsequently a greater number of revenue options.

37. Under what circumstances (if any) could there be a case for greater central government funding transfers to local government? What are the trade-offs involved?

    Please see our introduction and overview, which sets out our case for change.

38. Do local authorities have sufficient financial incentives to accommodate economic and population growth? If not, how could the current funding and financing framework be changed to improve incentives?

    a) Local authorities have few financial incentives as central government captures the economic uplift.

    b) Incentives (funding) could be increased for roads, electrification, regeneration. Our simple example of a proposal to fund on a per capita basis would indirectly encourage growth.

39. What funding and financing options would help councils to manage cost pressures associated with population decline? What are the pros and cons of these options?

    n/a.

40. Are other options available, such as new delivery models, that could help councils respond to funding pressures associated with a declining population? What conditions or oversight would be required to make these tools most effective?

    n/a.

41. What are the pros and cons of local income and expenditure taxes?

    a) The implementation and administration of local taxes would be costly to put in place.

b) *We don't need local taxes; we need a system that fairly distributes existing tax revenue. This could take account of particular circumstances that exist at a community level and adjust accordingly, e.g., communities with known deprivation, those that receive substantial numbers of tourists and smaller more remote communities.*

42. What are the advantages and disadvantages of a local property tax as an alternative to rates?

The advantage of local property taxes is that it captures those who receive a share of the benefit, i.e., those who benefit from property value increase – but again the administration would be costly, adding another layer of complexity

43. Are there any other changes to the current local government funding and financing framework, such as new funding tools, that would be beneficial?

a) *Local government to receive a greater share of central government tax income*

Total taxation revenue	***Year ended June***								
	2009	***2010***	***2011***	***2012***	***2013***	***2014***	***2015***	***2016***	***2017***
					$(million)				
Central Government	*57,482*	*53,018*	*54,494*	*58,329*	*61,991*	*64,935*	*69,803*	*73,921*	*79,178*
Annual increase		*-8%*	*3%*	*7%*	*6%*	*5%*	*7%*	*6%*	*7%*
Local Government	*4,097*	*4,289*	*4,473*	*4,653*	*4,814*	*5,107*	*5,389*	*5,760*	*6,067*
Annual increase		*5%*	*4%*	*4%*	*3%*	*6%*	*6%*	*7%*	*5%*
Stats NZ – Government finance statistics (general government): Year ended June 2017									

b) *There is far more visibility and scrutiny of people's rates, than there is of people's income taxes. Most people don't actively pay their taxes on their wages and salaries, rather the taxes are deducted at source before they receive their net pay. Many people will accept this as being the way it is without even looking at their pay slips to see what calculations and deductions have been made.*

Central government determines the rates of taxation and regularly finds itself in the position of being able to offer tax breaks, something that local government can only dream of.

44. How can the transition to any new funding models be best managed?

Gradually.

45. To what extent does the need for particular funding tools vary across local authorities?

A lot! Clearly a range of factors impact the solutions needed. Use local solutions where it makes sense to do so but be fair, e.g., petrol tax for all. Our view is a nationally applied solution would be simpler than a range of tailored solutions; however, both can be applicable and appropriate.

46. To what extent are financing barriers an impediment to the effective delivery of local infrastructure and services? What changes are needed to address any financing barriers?

a) *The barrier is one of perception – that debt is bad. As the following table shows, KCDC does not have excessive debt when compared to other organisations (the link below highlights the range of what might be considered an acceptable level of debt):*
https://www.tradingview.com/markets/stocks-new-zealand/market-movers-large-cap/

Organisation	*Assets*	*Debt*	*Net Debt*	*Debt/ Assets*	*Net Debt/ Assets*	*Annual Revenue – LY*
	$B	*$B*	*$B*	*%*	*%*	*$M*
Kāpiti Coast District Council	*1.70*	*0.21*	*0.15*	*12.4*	*8.8*	*73*
Watercare	*8.90*	*1.60*	*1.60*	*18.0*	*18.0*	*631*
Ryman	*5.80*	*1.10*	*1.00*	*19.0*	*17.2*	*343*
Air New Zealand	*7.80*	*2.70*	*1.20*	*34.6*	*15.4*	*5,490*
Contact Energy	*5.30*	*1.50*	*1.50*	*28.3*	*28.3*	*2,160*
Fonterra	*20.20*	*7.60*	*7.30*	*37.6*	*36.1*	*20,430*
Vector	*5.80*	*2.40*	*2.40*	*41.4*	*41.4*	*1,330*
Kathmandu	*0.44*	*0.02*	*0.02*	*4.5*	*3.9*	*497*
Sky Network Television	*1.50*	*0.24*	*0.22*	*15.6*	*14.9*	*839*
Port of Tauranga	*1.66*	*0.41*	*0.40*	*24.4*	*24.1*	*283*
Rakon	*0.11*	*0.00*	*(0.01)*	*2.7*	*-7.1*	*101*
Pushpay Holdings	*0.04*	*0.00*	*(0.03)*	*0.0*	*-77.1*	*102*
Investore	*0.74*	*0.31*	*0.31*	*41.3*	*41.0*	*47*
Local Government – Stats NZ	*136,873*	*17,450*	*10,879*	*12.7*	*7.9*	*6,067*
Central Government – Stats NZ	*259,911*	*112,935*	*31,349*	*43.5*	*12.1*	*79,178*

The difference is that the main source of funding the debt costs is rates, rather than the sale of goods or services.

Councils could take on significantly more debt if the community was willing – but people are not comfortable with debt servicing that exceeds 10% of total expenditure.

b) *Our debt levels have had a significant impact on our CAPEX spend, requiring difficult prioritisation decisions, which heighten risks.*

47. What role could private investors play in financing local government infrastructure and how could this help address financing barriers faced by local governments? What central government policies are needed to support private investment in infrastructure?

a) *Kapiti Coast District Council is actively investigating these options at present. There is questionable value of private financing unless interest on borrowings is comparable to Local Government Funding Agency (LGFA) as councils would still retain the debt. Does anyone lend at better rates than LGFA? This has to be a trade-off against the advantage of off balance sheet financing.*

b) *Approve of new method of financing housing developments whereby developers bear all infrastructure costs and recoup from owners via instalments (DCs) which are added to mortgage so debt stays off council balance sheet.*

c) *Infrastructure bonds used by central government to fund debt – potentially complex rules but it is another way of keeping debt off council balance sheets, even though they are still servicing the debt through targeted rates*

48. If New Zealand replaces rates on property with a local property tax, should it also adopt tax increment financing as a way to finance growth-related infrastructure investments? What are the advantages and disadvantages of tax increment financing?

    Adds complexity.

49. How effective are the current oversight arrangements for local government funding and financing? Are any changes required, and if so, what is needed and why?

    a) *The key here is to avoid the UK experience:*

    "Main government grant funding for local services will be cut by a further £1.3 billion (36 per cent) in 2019/20 despite many councils already struggling to balance their books, facing overspends and having to make in-year budget cut. Almost half of all councils - 168 councils - will no longer receive any Revenue Support Grant funding in 2019/20.

    Between 2010 and 2020, councils will have lost 60p out of every £1 the Government had provided for services. Councils have gone to great lengths to ensure the savings they have been forced to make have as little impact as possible on the quality of services provided to their residents. They have embraced efficiency and innovation in a way that is not being replicated anywhere else in the public sector.

    However, local government leaders warn the financial viability of some councils is now under threat and many others are increasingly unable to provide dignified care for the elderly and disabled, protect children, boost economic growth, fill potholes, build homes and much more."

    b) *Our community decides what service levels they would like us to provide; and this gets set via the Long Term Plan process.*

    We believe our Long Term Plan/Annual Plan and reporting (quarterly and annual) provide a comprehensive framework for measure and monitoring our performance. There is no need to add layers of rules, bureaucracy and monitoring over the top of existing framework.

    The Government, through a combination of DIA and OAG, could collate this information and work with councils as required to evaluate whether we are doing what we promised.