26 September 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: Overview

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.

2 This submission responds to the Productivity Commission's Local government funding and financing: Draft report of July 2019. This submission reproduces and expands on some of the content of our March 2019 response to the issues paper produced by the Productivity Commission. The recommendations we made in our response to the issues paper stand unmodified (i.e. this submission should be read in conjunction with the earlier response).

3 The findings of the Commission's inquiry have been much anticipated, partly in light of the widespread frustration over the failure to properly fund infrastructure to accommodate our country's growing population. Some councils are approaching their debt limits and local government politicians struggle to convince their ratepayers to invest in growth, creating significant challenges for intergenerational equity. Rates affordability and paying for climate change adaptation are also critical issues the inquiry was tasked with addressing.

4 New Zealand is the most centralised country in the world, with 89% of government spending by central government. The idea of central government sharing their tax take more evenly is not new but continues to go nowhere. The key issue appears to be that central government doesn't trust local government to spend the money wisely, despite it having a more stringent system of checks and balances than that of central government.

5 Part 2 of this submission sets out the funding and financing challenges for the Kāpiti district and describes some of the concerns we have with the findings of the draft report.

6 In Part 3 the Council questions some of the assumptions behind the findings of the Commission's draft report. We won't get a different result by using the same tools "better". We do need to keep rates as our main funding tool but look at reducing our reliance on these by increasing central government funding. This is critical due to cost pressures such as climate change adaptation, keeping up with inflation and complying with changing government regulations (for example the National Policy Statement on Urban Development Capacity, soon to be superceded by the National Policy Statement on Urban Development).

7 Part 4 describes the Council's proposed central government funding option for the local government sector, as presented in our March response, for further consideration.

8 Part 5 outlines the Council's work in adapting to climate change and responds to 'Chapter 8: Adapting to Climate Change' from the Commission's draft report. Appendix 1 provides further information on costs of the Council's programme of work in this area.

9 Overall, the Council believes the report doesn't go far enough in finding new ways for central and local government to jointly finance the infrastructure and services needed to support the wellbeing of our country's growing population. It is disappointing that the Commission's report essentially asks local government to do more with the same tools. It is also disappointing that the report makes little reference to the findings of the Shand report of 2007, for example the recommendation of a fuel tax, which we believe still holds relevance and is a missed opportunity to increase local government revenue via a relatively simple user pays mechanism.

10 Given the Council's proximity to Wellington, we would like to extend the invitation offered in our March submission for a visit from the Productivity Commission to engage in further discussion with regards to this submission and how central government can more effectively partner with Kāpiti to deliver on the future for Kāpiti residents.

Part 2: The Kāpiti Coast District

11 The Kāpiti Coast district is located an hour north of Wellington and has a population of 53,000. With a gentler climate than the capital, the area is popular with retirees who make up a higher than average proportion of our population, and this trend is increasing. Kāpiti has many natural advantages, but it doesn't have the income-generating assets that other local authorities have to draw on, such as ports. This means our district has higher than average dependence on rates at 78% of our total revenue (compared to the national average of 47%[1]). Our coastal location means we are already facing significant costs in adapting for climate change. We have higher than average home ownership, and a significant proportion of our community on fixed incomes (superannuation) which exacerbates community pressure to keep rates affordable. We can't compete with salaries in nearby Wellington and a large number of our working age population commutes to the capital for work (around 7,700 per day). Our population is increasing and with Transmission Gully opening in 2020, we are expecting the rate of growth to increase considerably.

12 The Society of Local Government Managers (SOLGM) and the Auditor General have highlighted Kāpiti's financial strategy (as outlined in our Long Term Plan[2]) as being one of the best at outlining our challenges and planned approach to ensuring we make our finances sustainable into the future. The Council has focused early on the issues facing our three waters infrastructure and we now have 50 years of capacity within our drinking water supply. Despite these positive observations, we face significant challenges in balancing community expectations, providing the services our community needs now and into the future, and funding and financing our services and infrastructure. We have attempted in this submission to demonstrate the challenges we face in our district and how these relate to the findings of the Commission's draft report.

13 In summary, the key financial pressures we face in achieving our objectives and keeping rates affordable are:

- keeping up the same services to the same standards
- paying for improvements to our water infrastructure
- adapting to climate change
- planning for and accommodating growth
- complying with changing government regulations.

[1] Figure 2.10, p. 32, *Local government funding and financing: draft report,* Productivity Commission, July 2019

[2] https://www.kapiticoast.govt.nz/your-council/forms-documents/policy-and-strategy/council-plans/annual-and-long-term-plans/

14 The net result of these pressures is that we must find alternative sources of income to supplement existing revenue.

Part 3: Challenging the Commission's Assumptions

15 This section covers several areas where the Council wishes to challenge the assumptions made in the Commission's draft report. These areas are as follows:

- Rates are complicated
- Rates are becoming unaffordable and don't reflect latent demand for funding of services and infrastructure
- Beneficiary pays principle
- Rates don't take account of ability to pay
- Local government doesn't have incentives in the right places
- Solutions might sound simple but they are difficult to deliver easily and have funding implications for local government
    a. Rates rebate and rates postponement
    b. Kāpiti's rates remission policy
    c. The Accommodation Supplement
    d. Rates postponement impact
    e. Special Purpose Vehicles
    f. Special value capture.

Rates are complicated

16 The Commission's report states that compared to alternatives, property taxes are simple and efficient to administer, and wholesale change to a radically different model would be highly costly, disruptive and uncertain (p. 4). The Council would argue that rates are complex, and accordingly are regulated by specific legislation, being the Local Government Rating Act (2002). In addition, local authorities are subject to an annual audit of their rates-setting process by the Office of the Auditor General. The complexity of rates is further illustrated by the shortcomings of the Local Government Rating Act (2002) regarding the inability of local authorities that levy volumetric water charges to fully comply with the statutory requirement to provide complete and accurate annual rates assessments to their ratepayers. We would also argue that rates are sometimes inefficient in terms of being able to target areas where affordability is an issue.

17 We would also add that while rates revenue is largely predictable in aggregate, at a community level the effects of three-yearly revaluations can be substantial for those properties with valuations at or below average revaluation increases, requiring significant work by councils to moderate the effect of changes at an individual property level.

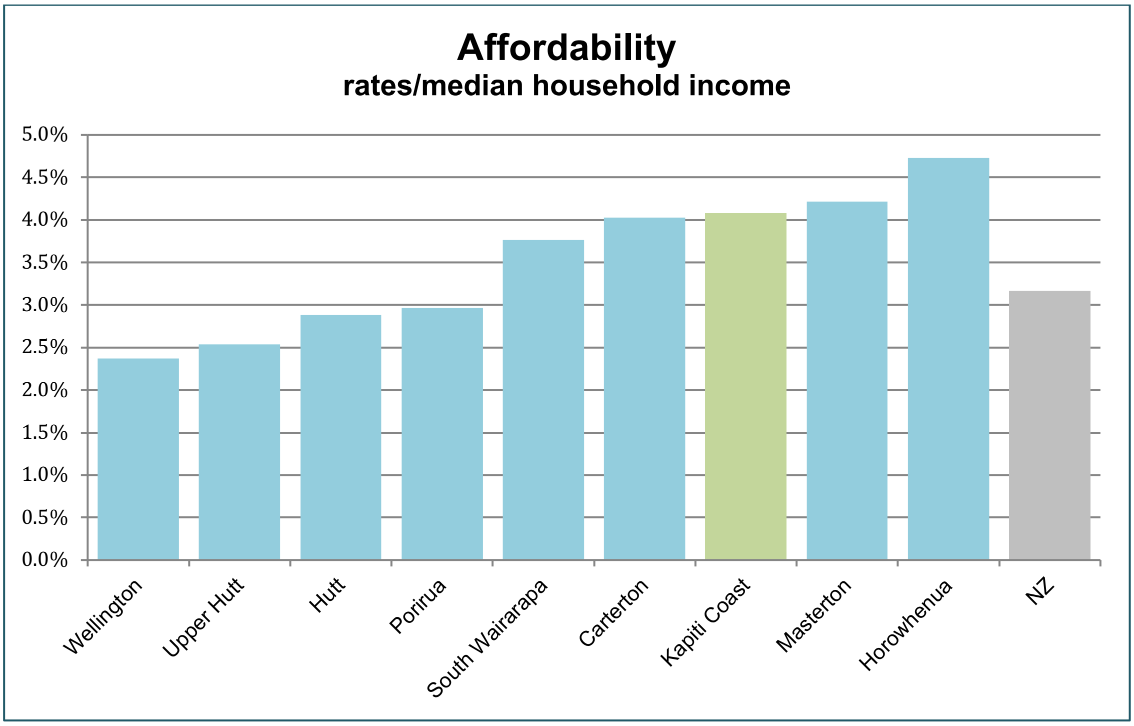
18 Despite these complexities, the Commission's report recommends retaining this system and making better use of existing tools, which we believe misses the point that fundamental changes are needed to the way local government is funded and financed.

Rates are becoming unaffordable and don't reflect latent demand for funding of services and infrastructure

19 The Commission's draft report states that increases in local government revenue and rates have roughly matched increases in national and household income (Finding 3.1, p. 39) and that rates revenue per person, council expenditure per person and income per person have grown at similar rates, suggesting that "the current funding system has proved adequate

and sustainable" (Finding 6.3, p.151). We strongly disagree with this and question the evidence base for this conclusion.

20 In our submission to the Commission in March we explained why the main driver of the affordability constraint for Kāpiti is household income, not rates expense. By this measure, Kāpiti is shown to be one of three districts in our region with the worst affordability.



21 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.

22 Conservative increases in rates should not be interpreted as meaning there isn't a need to increase them further. Keeping rates increases low is a choice we make because of our community's desire to keep rates affordable. Due to having fewer income-generating assets than other local authorities, our reliance on rates at 78% of our revenue is significantly higher than the national average of 47% (Figure 2.10, p. 32). This means we are very focused on how we manage our money and where and when we invest in new initiatives. While this puts us in a good position for the challenge of planning a sustainable long-term future for our district, it means our elected members are forced to make difficult choices and trade-offs every year to keep rates as low as possible.

23 Our focus is on operating as efficiently as possible and, as the graph below shows, we have demonstrated our efficiency with the second lowest operating spending per ratepayer amongst all New Zealand councils. Operating spending includes all our day-to-day costs for providing services and maintenance. However, our rates are not as low as we'd like them to be, and there is also more that the community would like us to do.

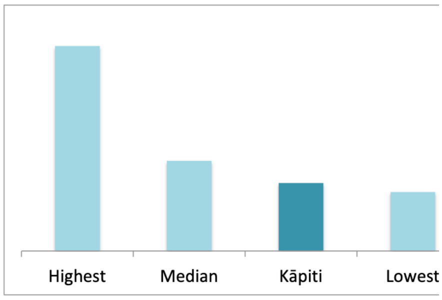
24 An example of the trade-offs we must make to keep our rates increases acceptable to our community is the Paekākāriki seawall. The box below explains the process of getting community agreement on the design, and the challenges of budgeting for this overdue work which equates to more than 25% of our CAPEX budget across the two years it will be built (2020/21-2021/22).

Operating spending per ratepayer

Kāpiti coast is

second lowest

at **$2,678** for 2016/17



Source: NZ Taxpayers' Union, 2018 Ratepayers' Report

Paekākāriki seawall

The timber sea wall at Paekākāriki is over 20 years past its 'use by' date and has deteriorated to the point where it has needed regular repairs for a number of years. Parts of the seawall remain at very high risk of failure in a storm. It requires a major upgrade to continue to protect The Parade and other public infrastructure effectively.

Council decided that the sea wall is an important part of Kāpiti infrastructure and had allocated a budget of $10.9 million in the 2015-35 Long term plan. Because the wall is of particular interest to the Paekākāriki community, Council engaged with the community during the concept design development stage. Council decided to proceed with a concrete, timber and rock design recommended by engineers and preferred by the community design group. Rock revetment was considered the more cost effective option, but this design did not proceed to the resource consenting phase because it was widely opposed by the community.

In December 2015, the Council applied for resource consent to proceed with the wider community's preferred design. The consent was approved in May 2016 but, during the detailed investigation phase, it was revealed that the cost estimate for the community's preferred design significantly exceeded the allocated budget of $10.9 million.

This has subsequently led to a re-assessment of the timing of the seawall project. The Paekākāriki seawall design got underway in 2018/19 and the wall is scheduled to be built between 2020/21 and 2022/23 with an allocated budget of $17.7 million.

25 Another example of the trade-offs we have made to keep our rates increases low is the investment we have committed to improving our three waters infrastructure.

Investment in water infrastructure
The Commission refers in Finding 9.1 (p. 240) to Kāpiti Coast District Council as an example of a council that has taken tough decisions needed to improve the performance of its three waters sector. We had a positive review by the Office of the Auditor General and now have 50 years of capacity in our drinking water supply. However, the investment we have made in prioritising our drinking water infrastructure also has an opportunity cost. For affordability, we have had to defer investment needed in other activities over 30 years in our Long Term Plan. The deferral of investment in wastewater means it is costing us more to maintain and exposes us to increased risk until we are able to complete our planned upgrades in 2023/24. This points to rates alone as insufficient for significant infrastructure like water and reinforces the challenges of balancing priorities across infrastructure and services, from limited revenue.

26 The Commission states “That the foundations of the system should remain largely the same reflects the soundness of land and property rating as the main revenue-raising tool for local government. Rating is an efficient and effective tax that generally yields a stable, predictable and adequate stream of revenue for councils while supporting local autonomy and accountability.” (p. 181). We disagree as we believe continuing to fund based on property is completely outdated. We have done as much as we can through our rates review to address affordability, but rates are still a blunt tool. While capital value may be the best proxy for wealth, land tax doesn’t incentivize land use for its best and highest purpose.

27 We are not proposing getting rid of rates, rather keeping them and finding a more sustainable long-term funding partnership with central government for our residents.

Beneficiary pays

28 The Commission’s draft report recommends “…the benefit principle should play the primary role in determining who should pay for most council-supplied goods and services. This follows from the assumption that redistribution is the primary responsibility of central government.” (p. 142)

29 We believe ‘beneficiary pays’ is a good principle but it doesn’t address the overall issue of costs being unaffordable. Some examples are swimming pool entry fees and library charges, which are significantly subsidised by rates. If we were to increase user fees we would likely see less use of these services.

30 It could be argued that swimming pools provide a wide range of benefits – including health and water safety skills – that benefits not just individuals in our community but also national interests. However, there is a lack of financial incentives for local government to provide swimming pools and it is difficult to see how the assumption of redistribution by central government applies here.

31 If the prinicple of beneficiary pays is taken too far, it could result in outcomes that undermine the expected benefits. The recent announcement by central government to not toll Transmission Gully is an example of both long-term thinking and common sense in applying the principle. Tolling of the road would inevitably undermine the expected benefits of Transmission Gully by resulting in significant continued use of local roads; that it is not being tolled provides both relief and opportunity to the affected councils through reduced congestion, less noise and air-borne pollution, less financial impacts to Transmission Gully users, and therefore better long term health and financial outcomes.

32 The draft report acknowledges the role of councils in striking a balance between fairness concepts of who should pay: "…councils may be well-placed to seek what they see as better outcomes for their communities by shifting some of the funding burden of some council-supplied services from those who benefit to those with greater ability to pay" (p. 142). While we agree with this sentiment, we believe the fundamental flaw is that however we shift the allocation between benefit and affordability at a property or individual level, there is still an overall shortage of funds available to local government. This means we either continue to do less than is desirable, or put our rates up and increase community frustration, or receive assistance from central government to ease the financial pressure. We favour the last option as it will enable us to do more and keep rates increases minimal.

Rates don't take account of ability to pay

33 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.

34 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 generally increase proportionately for people as they reach retirement due to them building up significant value in their properties, which is the basis on 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.

35 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).

36 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.

37 While the Council has 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.

38 The Commission reports concerns from many submitters on the impact of an ageing population, with more older residents on fixed incomes leading to concerns about affordability of residents to pay rising rates (p. 61). Across our community, we have a relatively low number of working people, and a high number of people on fixed incomes and on incomes below the national average, as the statistics in boxes show.

Proportion of non-working age people

Kāpiti coast is

third highest

at 80.1%; NZ average is 52.8%

Source: Infometrics (Statistics NZ estimates 2018)

39 We also have higher than average home ownership rates, particularly among our older residents who are more likely to be on fixed incomes and effectively 'asset rich but cash poor'.

Household income

Kāpiti coast median is **$53,300**;
NZ median is **$63,800**

Source: Infometrics (Statistics NZ estimates 2013)

40 The disproportionate impact of rates affordability on these households and our reliance on rates for 78% of our revenue will become more of an issue because of our ageing population. Increasing life expectancies and a static age of superannuation (until 2040[3]) are only going to compound the problem. This in turn constrains the ability of councils, including ours, to increase rates as the proportion of our population on fixed incomes increases.

41 The result is that funding to pay for rising costs faced by local government must come from elsewhere.

Local government doesn't have incentives in the right places

42 New Zealand is the most centralised country in the world, with 89% of all government spending by central government (Building Nations Symposium, 21 August 2019). New Zealand rates poorly on measures of how much localism contributes to economic growth (ibid, 21 August 2019). When a new town centre is built, it is central government that benefits from the increased tax revenue. To encourage local government to provide infrastructure for growth, we need to shift the funding and incentives to enable them to do that.

Payments for new building work

43 Recommendation 6.4 of the Commission's draft report recommends payments for new building work put in place as a way of shifting incentives and revenue to local government while maintaining local autonomy and accountability. While this idea sounds like it would be beneficial in linking local growth and development to council revenue, until the level of payments and what they would be based on is determined by central government, it is difficult to assess the advantages and disadvantages of this proposal.

44 The draft report acknowledges that the introduction of payments for new building work is a novel proposal and that there is still much work to be done to understand the advantages and disadvantages, and the best design for this mechanism. We believe it is essential that the mechanism is simple, to facilitate uptake and avoid bureaucracy that could undermine the objectives of introducing a new mechanism.

45 In the Council's view, developers should still pay the costs of infrastructure, and the new payments could be used for all the other associated costs – that is, payments shouldn't be used to swap out consent fees or development contributions, as this wouldn't be in line with increased use of the 'user pays' approach advocated for by the Commission.

46 The Council would welcome the opportunity to be involved in exploring this idea further.

Solutions might sound simple, but they are difficult to deliver easily and have funding implications for local government

47 A number of the proposals contained in the Commission's draft report sound simple, but we believe would be impractical to implement and/or would have a negative impact on local government funding. The Council agrees with the Commission's five principles for funding

[3] https://www.beehive.govt.nz/release/nz-superannuation-age-lift-67-2040

and financing (p. 137) and proposes adding a sixth: that funding and financing tools should be simple and easy to apply. A number of existing and proposed tools will potentially be difficult and/or bureaucratic to administer. These are discussed below.

Rates rebates and rates postponement

48 "The Commission considers that a revamped national rates postponement scheme would better fulfil the purposes that the RRS is designed to address… Once a successful national rates postponement scheme is in place, the RRS should be phased out." (p. 11).

49 While we are supportive of rates postponement, we are not in favour of removing the rates rebates scheme. The Council undertook an affordability assessment as part of the rating review that was completed for the 2018-2038 Long Term Plan. The Shand report on rates suggested that rates should not be more than 5% of household income. The research we undertook showed that in some areas of the district, in particular Otaki, Waikanae West and Paraparaumu Central, rates are likely to be more than 5% of household income. This is usually because of lower income levels in these areas rather than higher rates. Based on the analysis we undertook, around 2,700 – 3,600 households across the district are likely to have rates affordability concerns. This is before rates rebates and remissions are considered.

50 The following table shows the effect of rebates and remissions on rates as a percentage of median income. The data in this table is for the 2017/18 year.

Area	Median income	Median rates	Rates as % of income	Government rebate	Council remission	Rates after rebate/ remission	New rates as % of income
Otaki	$36,600	$2,290	6.3%	$620	$175	$1,495	4.0%
Waikanae West	$42,200	$2,919	6.9%	$620	$250	$2,049	4.8%
Paraparaumu Central	$46,500	$2,609	5.6%	$620	$175	$1,814	3.9%

51 Once rates rebates and remissions are taken into account, net rates are generally below five percent of household income.

52 The Kāpiti Coast District Council was one of three councils to participate in the DIA Innovation Lab aimed at making the rates rebate application process easier. This was mostly an online application trial. The objectives were to remove the need for customers to prove their income and make the application simpler to complete. The current system costs the Council between $50,000 and $150,000 to administer per year ($20-$60 per application) for each council. Although this is a sunk cost (employee salaries), there is still an administration cost.

53 We support the suggestion discussed in the Commission's report (p. 204) that greater administrative efficiency would be achieved if a central government department, such as the Ministry for Social Development, takes over administering the rates rebate scheme. We believe there would be significant efficiencies in administering this nationally because MSD has access to information on incomes and well-developed systems for processing applications and updating information on applicants – most of whom they already hold records for. Local government would just need to supply rating information each year, which could be done through Land Information New Zealand.

54 The Commission's draft report discusses central government's role in redistributing income (e.g., p. 136) but removing the rates rebate scheme, which is one example of this in action, would seem to be counter to this principle.

55 In addition to the government rates rebate, the Council has its own rates remission that is provided to more than 600 households annually (usually on top of the government rebate). Kāpiti are one of few councils to offer rates remissions to ratepayers struggling to pay. The Council's remission budget for this year is approximately $200,000 for hardship. During preparation of our Long Term Plan we reviewed our rates remission policy to increase the uptake for low-income ratepayers and renters. Changes were made to our remission policy so that more were eligible to apply and we encouraged them to apply. When this assistance is taken into account, rates are generally much closer to, or even below, 5% of household income. The Council believes removing the government rates rebate scheme will result in significant hardship for some of our community. Central government says it is their role to bolster affordability but it is difficult to see evidence of this.

The Accommodation Supplement

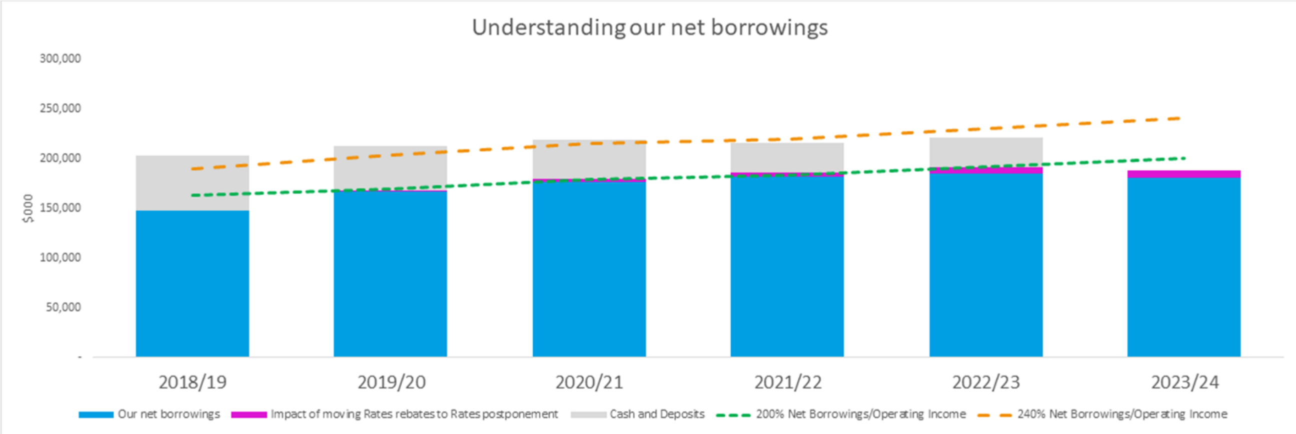
56 The Commission found that the Accommodation Supplement is a well-tested programme that is more efficient and equitable than the Rates Rebate Scheme (Finding 7.8, p. 206), however it also acknowledges that most older homeowners may not qualify for the Accommodation Supplement because they own their own homes – and yet many on fixed incomes may still find it difficult to pay rates bills. The Commission suggests that improved arrangements for postponing rates offers "an obvious way to tackle such difficulties" (p. 206), however we are not in favour of this as an alternative due to the impact on the Council's borrowings and green line strategy. In addition, Council-owned social housing is not eligible for the Ministry of Social Development's IRRS (income related rent subsidy) as this is only available to community housing providers.

Rates postponement impact

57 In regards to the Commission's recommendation of phasing out rates rebates and instead promoting rates postponement, while the Council understands the suggestion, we are not in favour of this because of the direct impact it would have by transferring the cost of this onto our borrowings. The Council currently spends $150,000 per year to administer approximately $1.4m of rates rebates on behalf of the Crown to ensure people with affordability issues are better able to pay for rates. If this $1.4m was instead shifted into rates postponement (basically adding the rates onto the borrowings and amount people owe and then getting the money back when they die or sell their house) this would add an additional $1.4m per year to the Council's borrowing balance.

58 It is interesting to note the Council has had a rates postponement policy in place for over ten years and in the last ten years there has been $0 uptake. The reasons for this are unclear.

59 The graph below shows the impact of removing rates rebates and instead promoting rates postponement on our net borrowing and green line strategy. Our green line strategy is about managing our borrowings to fund future infrastructure replacement. We have committed to a programme of reduced capital expenditure that prioritises infrastructure for resilience and growth and frees up funds to enable the Council to pay back debt earlier than previously forecast, so that we can ensure we are in a good position to replace infrastructure when it is due for replacement at 2045. If the Council is forced to absorb the cost of moving to rates postponement we would breach the Council's green line strategy and aim of keeping borrowings below 200% of operating income, which would occur in 2021.



60 It in unclear from the draft report what the Government would do with the funds it would save from the proposed removal of the rates rebate scheme.

Special Purpose Vehicles

61 One of the suggested solutions proposed in the draft report is further use of Special Purpose Vehicles (SPVs). The only example of this to date is the Milldale development in Auckland, where through a partnership between Crown Infrastructure Partners and Auckland Council, an alternative financing model enabled the delivery of infrastructure to support the building of 9,000 homes. Our concerns about this include a number of limitations and issues being considered as the model for SPVs evolves and the fact that the cost is simply added to rates bills for these homeowners, pushing up their rates by $650 +2.5%pa (for an apartment) or $1000 +2.5%pa (for a house) annually for 35 years until the loan is repaid[4], which could create a rates affordability issue in those areas.

62 At this stage, SPVs and infrastructure bonds are still experimental and rely on large scale projects. They require new legislation, which could be years away.

Special value capture

63 Special value capture is another idea offered to assist in allocating costs to property owners who benefit from windfall gains in property prices caused by infrastructure improvements. The Commission made this suggestion in 2017 as a “feasible, efficient and fair” way of enabling councils to levy targeted rates on changes in land value. The Government has not responded to date to this recommendation, which would require legislative change.

64 The Council believes value capture would be complicated and contestable. While the principle is good, it is very complex to set equitable policy. For some areas in our district there may be a reduction in property values due to climate change and coastal hazards. This raises the question of whether the value capture would be reversed i.e. would we be required to make payments to property owners for a decrease in value? Another complication arises if we invest in a seawall or a new library. Where and how would the Council draw the boundaries in terms of who benefits? How would the Council attribute value increase between what is due to seawall/ library and what is due to normal market increases? This could potentially be highly controversial and could end with lengthy and costly legal challenges.

[4] https://www.crowninfrastructure.govt.nz/wp-content/uploads/2018/11/Milldale-Fact-Sheet_FINAL-12-Nov.pdf

Part 4: An Alternative Funding Solution for Local Government

65 The Commission's draft report states that central government should generally limit its funding of local government to where there are national benefits, to avoid undermining the autonomy of local government. The Council believes central government can and should be sharing more revenue with local government, and supports the position of LGNZ that it is quite possible to design revenue-sharing models that redistribute tax revenue to local government based on formulas that do not impinge on autonomy[5].

66 Requiring that central government co-fund standards or activities with national benefits would more fairly reflect the distribution of benefits, reduce the cost that local government has to bear in implementing such standards, and provide central government policy makers with a fiscal incentive to ensure that any standards or requirements were appropriate and cost-effective. This funding would not be a "subsidy" – rather, it would be a co-investment, recognising that a share of the benefits are national, and therefore a share of the costs should also be national.

67 As discussed above, the current funding and financing model for local government is disconnected and not sustainable. Critical to the longevity of an effective local government framework and delivery model is both security and sustainability of additional central government funding. Across the OECD, sub-central governments receive about 29% of all personal income tax revenue. In New Zealand, **all** personal and corporate income tax goes to the national level.

68 There are good economic, political and philosophical arguments for increased localism. Local government is closer to the people it serves and better able to reflect the needs of local communities. Localism is important for the health and vitality of democracy. Local government can be more efficient in the services it provides. Arguably, it could also provide them at a better quality within a system of competitive localism.

69 A central tax-gathering system already exists and could be used to efficiently serve both central and local government. The Council proposes central government passes a portion of taxes gathered back to local government to decide how it's spent. Local government already works closely with its communities to plan comprehensively where funds are spent. Strong mechanisms of accountability already exist through our long-term planning process and annual reports. There is potential for central government to make more use of this information, which would make it easy to confirm whether or not we have met our objectives.

70 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 ($ millions)	79,427	82,444	85,291	88,631	91,810	94,280
		4%	3%	4%	3%	3%

[5] Local Government Funding and Financing: LGNZ's initial response to the Productivity Commission's draft recommendations and findings

71 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**
Central Tax Revenue ($ millions)	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 ($ millions)	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									

72 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.

Total Crown operating balance before gains and losses (OBEGAL)		
	% 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
Source: The Treasury		

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

74 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 government's existing surpluses (without the need to increase planned central tax revenues). Local government already has sound mechanisms of accountability in place to ensure good use of this funding.

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 $5.3 million for 2019/20, which is more than the increase in rates for this year, of $3.4 million.

c. In future, this could mean that Kapiti Coast could cover its extra requirements (for example, stormwater upgrades, economic development and health) 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:

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

75 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 seven cents in the dollar of planned income taxes to be collected.

76 Notwithstanding the above, in ten years' time, a fixed rate of seven 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 of the sector's total revenue requirements from 2029 onwards, as illustrated below.

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

77 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.

Part 5: Adapting to Climate Change

78 The Kāpiti Coast has 1800 homes and businesses located along its 42 kilometres of coastline at potential risk from sea level rise and coastal erosion. As such, it is a community particularly vulnerable to a wide range of of environmental challenges. Severe storms, extreme tides and rising water tables may cause damage and disruption which have both financial and human costs. Other challenges relate to the environment itself, with biodiversity under threat due to invasive pests and weeds and loss of habitats for our native plants and animals.

79 The Council is committed to a programme of work in this area and are proactively involved in progressing ways to combat the wide range of environmental challenges we face. This year the Council has:

- passed a resolution to pursue a goal of carbon neutrality by 2025;
- become the 3rd Council nationwide to declare a climate change emergency;
- agreed to a 2-year community-led and regional approach to developing a coastal hazards adaptation strategy; and
- made submissions on The Climate Change Response (Zero Carbon) Ammendment Bill: recommending specific clauses allowing for adequate consultation with local government, consideration of how central government can provide support to local authorities on emission reduction/ environmental adaptation strategies, streamlined data collation and in support of a Climate Change Commission which provides ongoing, independent, expert advice on mitigation and adaptation which works alongside local government to provide support for the monitoring, development and implementation of adaptation strategies.

80 This is in addition to our ongoing programme of work associated with maintaining and improving resilience of our stormwater network and maintenance of existing coastal structures that protect Council assets. All of which come at signficant cost pressure. Protection of Council assets are a primary focus as they benefit the whole community. However, inevitably some sectors of the community face a disproportionate cost and are poorly equipped to deal with the impact of climate change. Appendix 1 outlines the overall costs of this programme of work.

81 The Council supports overall the recommendations of the Commission on assisting local government with adapting to these pressures. In particular, we strongly support development of a central resource for data and science and believe adaptation funding from central government is critical.

82 However, the recommendations fall short of addressing the full cohort of support required or the interdependencies in alleviating those pressures in a cost-effective, consistent, timley and sustainable manner for local authorities.

Specific areas of comment

Commission proposal: Centres of knowledge and guidance

83 The Commission has recommended central and local government work together to establish centres of knowledge and guidance about climate-change adaptation for councils. One centre should be an authoritative and up-to-date source of advice on science and data while another should be a source of specialist advice on policy, planning, risk management, legal issues and community engagement.

84 The Council strongly supports this recommendation. An authoritative central resource will strengthen a nationwide approach to climate change by providing a cohesive, cost-effective and credible foundation from which Dynamic Adaptive Pathway Planning and Real Options Analysis can be driven.

85 Another consideration approaches is the role a centralised body of data, knowledge and guidance can play when local authorities find themselves in the position of making a decision informed by best practice or expertise which is unpopular with the wider community.

86 It can alleviate the risk of difficult political decision making by enabling elected members of local authorities to do in a safe and informed manner. It also would help to limit the risk of legal challenge and to set a precedent for other local authorities making similar decisions. This is exemplified in the case study used by the Commission on our experience with volumetric metering and pricing. Whilst the long term value in this project is outlined we note that this was not initially a popular decision in the wider community. Further, we suggest there is an opportunity to be explored in the centres of knowledge and guidance providing a regulatory or mediation function similar to that provided through channels such as Ministry of Business, Innovation and Employment with regard to The Building Act.

87 The Commission's report, however, does not expand on the reasons for creating two centres. The Council believes these functions could be managed effectively by a single body – or, some functions could be taken on by an existing body and the remainder provided by a new body. It is also unclear how these centres might fit together with the recommended establishment of a Local Government Resilience Fund Agency.

Commission proposal: Anticipatory and flexible approaches

88 The Commission has recommended that national and local authorities should adopt anticipatory and flexible approaches to climate-change adaptation, in line with recognising the constantly changing nature of the risks.

89 While Dynamic Adaptive Pathway Planning and Real Options Analysis are accepted approaches, the Council strongly believes that significant support from central government is essential as these are emerging areas of practice which local authorities have limited capacity, skills and funding to effectively adopt and implement in these early stages. Expectations on local councils to feed into statutory processes need to take into account the range of support required, including guidance, staffing, planning, implementation, science, and costs of legal challenge.

90 The Council has agreed to a community-led and regional approach to developing adaptive coastal management pathways for the Kāpiti Coast. Other examples of such approaches have engaged a regional cost sharing model. However, this model has been difficult to implement in our region due to timing and fiscal pressures for other local authorities.

91 As a result, without any alternative match funding or financial appropriation from regional or central government, this programme of work will proceed within slower timeframes than desired by the Council or community, to align the work programme with available budget.

Co-funding by NZTA

92 The Commission has recommended that Government should extend the New Zealand Transport Agency's role in co-funding local land-transport infrastructure to include assistance to councils facing significant threats to the viability of local roads from sea-level

rise and more intense storms and flooding due to climate change. We support this recommendation and we would like to see this principle extended with a wider application to other infrastructure/ assets, which may be delivered through the Local Government Resilience Fund or delivered through the three waters review.

Summary

93 In addition to the core programme of ongoing work associated with stormwater management and maintenance of coastal structures, the Council is working proactively on a number of levels on climate change adaptation. Through engaging with:

- central government consultation processes;
- our regional local authorities as a member of the Greater Wellington Regional Climate Change Working Group; and
- our local community through a community-led adaptive pathways coastal adaptation strategy.

94 Meeting our core work programme, feeding into statutory processes and proactively engaging in anticipatory and flexible approaches all come at significant cost- financial resourcing, external expertise, legal challenge, political risk and Council reputation.

95 We welcome the proposal of providing central government assistance to councils to provide advice and meet the financial demands of adapting to climate change. However, using the same funding tools will not yield better results. Greater funding from central government, clearer direction supported by a recognised body of expertise which proactively works with local authorities to understand their localised issues to provide guidance and support (particuarly, around emerging practice) is required.

Appendix 1: Climate Change Adaptation Programme Costs

1 As stated in the report, *"Councils are the owners of a large amount of the infrastructure that is directly at risk from the impacts of sea-level rise and other adverse weather events".*

2 Kāpiti Coast District Council is facing such challenges, particularly in relation to costs associated with stormwater management and the maintenance of existing coastal structures. Below is an outline of the overall costs of this work, of which coastal is 100% rates funded and stormwater has an element of development contribution funding.

3 Due to climate change, high sea level rise and increased storm events in the recent past, Council has spent around $200,000 (on average) each year to maintain the seawalls which are well overdue for replacement (originally built in the 1970s).

Overall costs

4 **$489 million** of capital expenditure is required to protect the district from severe flooding events (identified following heavy rainfall events in May and June 2015). The Council intends to undertake $89.7 million of these projects over the next 20 years. During the 2018 Long Term Plan (LTP) Council was presented with a prioritised capital works programme with 240 projects (28 projects to alleviate habitable floor flooding) and three options for programme delivery (delivered over 25 years, 30 years or 45 years) and the Council selected the 45 year programme.

5 **Allocated budget of $17.7 million** for a new Paekākāriki seawall. The existing timber sea wall at Paekākāriki is at very high risk of failure in a storm, and requires a major upgrade to continue to protect The Parade and other public infrastructure effectively. Following extensive community engagement, a new seawall has now been designed (completed in 2018/19) and the current plan as described in the 2018 Long Term Plan is to build the new wall between 2021/22 and 2022/23.

6 **Budget of $3.3 million** for work on a long-term solution for the Wharemauku block wall area and the modifications to the existing Marine Parade rock revetment. A one-in-30-year storm event hit the Kāpiti Coast in July 2016, causing significant damage at a number of locations along the district's coastline. Immediately south of the Marine Parade Rock Revetment was one of the locations severely damaged in that storm event. There was a risk of causing severe damage to Council's sewer line along that part of the coast and, to protect the sewer, a 170-metre-long temporary protection wall (known as the Wharemauku block wall) was built with concrete blocks within three days of the storm. In July-August 2016, Council spent nearly $200,000 on building this temporary block wall and carrying out repairs to other coastal assets damaged by the storm. The strengthening work to this wall was completed in 2018/19 at a cost of $340,000.

7 **Budget of $1.9 million** allocated ($0.72 million in 2024/25 and $1.18 million in 2027/28) to assist with community engagement and consenting processes associated with the Raumati community seawall replacement. This 3km long seawall was built in the 1970s under emergency by residents severely affected by storm surge with a central government subsidy and has been maintained by the Council since then. In 2016, Council carried out a condition assessment of the existing Raumati community seawall, which suggested that some parts of the wall had a residual life of only 0–5 years and were at risk of failure. The majority of the wall was assessed as having a residual life of 10–20 years. The Council will continue to maintain the wall until replacement arrangements are determined.

8 **$19.8 million estimated replacement cost** to coastal structures (including beach outlets, rock revetments, and seawalls) located on public land from Ōtaki to Paekākāriki. This

excludes the cost of the Wharemauku block wall, Marine Parade Rock Revetment, Paekākāriki seawall and Raumati community seawall. The Council engaged a consultant to carry out coastal structure condition assessments and a renewal programme was then prepared based on the condition and the risk of failure. The Council plans to spend $2.8 million during the first six years of the 2018–38 Long term plan and the remainder over the following 14 years.