

Timaru District Council

Submission on the Productivity Commission's Funding and Financial Issues Paper

To the Productivity Commission

Introduction

1. The Timaru District Council thanks the Productivity Commission for the opportunity to comment on the Local Government Funding and Financing Issues Paper.
2. This submission is made by the Timaru District Council, 2 King George Place, Timaru. The contact person is Damon Odey, Mayor of the Timaru District. I can be contacted at Timaru District Council, phone (03) 687 7200 or PO Box 522, Timaru 7940.
3. The Timaru District Council is a local authority in the South Island serving over 47,000 people in South Canterbury. The main centre is Timaru, with other smaller towns of Geraldine, Pleasant Point and Temuka. The economy of the district is strongly agriculturally based
4. The Council is composed of a Mayor and nine Councillors serving three wards. Geraldine, Pleasant Point and Temuka are represented by Community Boards.

General

5. Timaru District Council welcomes the Productivity Commission's Inquiry. Council supports submissions to the Issues Paper made by Local Government New Zealand (LGNZ) and the Society of Local Government Managers (SOLGM). Our submission will highlight issues and cost drivers which particularly impact and concern Timaru District Council.
6. This inquiry follows a long history of debate about the options for funding services provided by local government. The most prominent piece of work in this debate has been the 2007 Local Government Rates Inquiry, colloquially known as the Shand Inquiry.¹ This comprehensive inquiry resulted in 96 recommendations, many of which have never been progressed as government policy. Additionally, over the years, there has been numerous ad hoc changes aimed at various aspects of the local government funding and rating systems.
7. The inquiry is timely and reflects a concern we have highlighted in our Long Term Plan 2018/28: the increasing cost of providing services. In that document, and now, we note increasing costs of goods and services that impact on Council in the same way they are impacting households. We aim to continually balance the affordable provision of high quality services against the needs of our community and continuing to build our District's future. Yet for Council though, these rising

¹ Local Governemnet Rates Enquiry, (2007), *Funding Local Government*.

costs occur with an expectation of doing more, to a higher standard, with less.

8. Many of the drivers of these increasing costs are largely beyond Council's control, including: changing central government policy and regulatory settings, growth and decline in population and changing demographics, climate change mitigation and adaptation, transition to a low-emission economy, and the lack of revenue streams available.
9. Ultimately, these challenges, some of which are discussed below, lead Council to the conclusion that the funding and financing system for local government is fundamentally broken, and unsustainable heading into the future. It is appropriate therefore that central government, with the assistance of the Commission, assess the drivers of cost and price escalation and recommend appropriate funding and financing solutions.
10. The paper under discussion is thorough in its identification of the issues, and sensitive to the different circumstances faced by councils across New Zealand. Yet Council believes that are a number of challenges, central to both the Timaru District, and all local authorities, which need further investigation and emphasis as the inquiry advances.

Impact of central government legislation, standards and regulatory requirements

11. By leaned heavily on work undertaken by LGNZ in 2012, Council believes that the Commission's examination into the impact of expanding local government responsibilities is too narrow. The commentary does not adequately recognise the true cost of both enforcing, and complying with, new and heightened policy and regulations for councils.
12. The discussion, which minimised the financial impact of regulatory creep, is based on dated information and fails to account for a slew of recent and costly legislative changes.² The cumulative effect of these changes on councils cannot be under estimated.
13. Since the *Towards better local regulation* report was published by LGNZ in 2013, councils have waded through Local Alcohol Policies, the Food Act 2014, Health and Safety at Work Act 2015, Earthquake Prone Buildings, service delivery reviews under section 17A of the Local Government Act, the Building (Pools) Amendment Act 2016 and implementing new planning standards under the Resource Management Act, to name only a few.
14. The time and resource required by councils to analyse proposed policy or legislative changes adds to the already mounting costs of enforcement and council's own compliance with these changes.
15. These changes, handed down from central government, are rarely accompanied by adequate funding mechanisms. This is undoubtedly driving up council costs, and is ultimately recovered from ratepayers and users. As a result, councils frequently bear an unfair amount of blame for the costs associated with many of its

² New Zealand Privacy Commission (2013), *Towards better local regulation*, 2013, p.54. The regulatory expenditure referenced in the conclusion that "no significant increase in regulatory expenditure within local authorities was apparent in the previous 10 years" cover the period between 2002/3 and 2011/12.

regulatory functions.

16. As SOLGM state in their submission “increasing standards are the coming storm.”³ Looming large on the horizon for many councils is the outcome of the Department of Internal Affairs’ Three Waters Review, and the cost of complying with the National Policy Statement on Freshwater Management. Further, a community’s increased awareness and expectations of a higher standard of environment and wellbeing outcomes are not always linked with its desire or ability to pay for the capital costs associated with meeting these outcomes.
17. The Commission notes that “if councils struggle to deal with rising costs this can lead to uncomfortable compromises”, providing examples of the cost of meeting drinking water and waste water standards resulting in non-compliance.⁴ Timaru District Council does not want to ever be in a position where uncomfortable compromises, sparked by the cost of compliance, become the norm in decision-making.
18. We urge the Commission to reconsider its assessment of the impact of increased responsibilities, regulatory creep and rising standards on local government. It is imperative that central government is aware of the true cost to councils and ratepayers when amending policy and legislation and incorporates appropriate funding mechanisms.

Effectiveness of current funding tools

19. While the Local Government (Rating) Act 2002 does provide some flexibility in funding mechanisms, it remains a limited toolbox and does constrain some funding choices for local government.
20. Examples of constraints include the inability to charge above a 30% cap for Uniform Annual General Charges and targeted rates set on a uniform basis, the limited opportunity to tax on a local basis and the unwillingness of central government to share nationally collected taxes with local government (e.g. road user charges).⁵
21. Councils are not, nor can be, profit-driven entities, but are still required to provide services to a high level, which inevitably means a significant base cost to ensure community health, safety and wellbeing.
22. As discussed above, we believe that where councils are delegated responsibilities on behalf of central government departments, or where central government dictates service level standards beyond which ratepayers are willing, or able to pay, there must be corresponding funding streams for government.
23. Council is heartened by the government’s attention to issues including freshwater management, tourism and climate change. However, it is essential that any local level reform directed by central government goes hand-in-hand with appropriate funding mechanisms. Ratepayers cannot be expected to wholly fund central government-led projects, dictated by nation-wide aims and outcomes.

³ Society of Local Government Managers, (2019), *Contribution to the Productivity Commission Inquiry*, p.4.

⁴ New Zealand Productivity Commission, (2018), *Local Government Funding and Financing: Issues Paper*, p. 3.

⁵ Local Government (Rating) Act 2002

Responding to population and demographic changes

24. The inquiry raises important issues around population growth and decline. The cost of renewing, upgrading and expanding infrastructure for growth councils is as pressing an issue as the challenges of maintaining service levels and replacing aging assets in councils with declining rating bases and ageing populations.
25. Timaru District is one of the districts in New Zealand that will face a sharply ageing population over the next 10-15 years. Current population projections anticipate our population will slowly grow in the short to medium term, and then begin to decline.⁶ Population growth in Timaru District is now largely driven by migration.
26. This is a situation familiar to many New Zealand councils, and all recognise that for many elderly people living on a fixed income, rates may prove to be increasingly unaffordable. Demand for certain services, including public transport, recreational and cultural facilities, are also likely to be impacted in many areas.
27. It is essential then that this inquiry looks, not to solve the issues of population change, but rather to identify funding and financing mechanism which are both flexible to changing demographics and resilient to long term variation in these trends.

Impact of funding depreciation on Council assets and rising community expectations

28. Many of the assets (e.g. water supply and sewer assets) managed by local government have been in the ground for decades, and as such are a product of historical standards and materials. Dedicated funding to replace these assets realistically has only been in place since amendments to the Local Government Act in 2002 required councils to fund their replacement via depreciation funding. This, coupled with increasing standards, technological changes and higher community expectations for levels of service, has meant the cost of replacing these assets has been climbing. Present and future ratepayers are having to bear the burden of all of these circumstances.
29. As these assets come to the end of their useful lives there is a bulge of expenditure that is occurring over a short period, leading to increases in rates paid by current and future generations, in order to fund their replacement.
30. In addition to this, higher expectations mean that the cost of providing these services is rising, for example via new government regulations or standards and through developing, providing and maintaining the technologies (which is ever evolving) needed to deliver these services.
31. Through prudent asset management, Timaru District Council is working to address the 'bulge' in infrastructure renewals. It has been identified that in some cases, often as a result of changing environmental standards, significant redesign and modernisation of infrastructure is required. In these instances, there can be a considerable gap between depreciation and the actual cost of development or renewal.
32. Council acknowledge there is always scope for improvement, and asset knowledge,

⁶ Statistics New Zealand, (2017) *Subnational population projections: 2013(base)-2043 update*

asset management systems and processes are improving constantly. However, realistically this also contributes to the cost of providing these services.

Funding Climate Change Adaptation

33. Responding to the increasing occurrence of extreme weather events including heavy rain events, high winds, fires, droughts and storm surges, is a significant and growing cost to local government. There is little debate that these cost will grow in the future. As a result, climate change has become an important consideration in most councils' long term planning processes.
34. Timaru District Council's 50 year Infrastructure Strategy considers the potential impacts of climate change on all assets, and plans accordingly. Capacity upgrades, particularly for stormwater, have been programmed to ensure ongoing network resilience. Council has also identified coastal erosion and inundation as a threat requiring close monitoring. This will be reflected, along with all climate change effects, in the Timaru District Plan review, currently underway.
35. We recognise the ongoing effects of climate change will vary considerably across New Zealand and will differ between communities levels understanding, attitudes towards the climate change and preferred courses of action. Some communities may currently face minimal damage to assets, and will therefore be less willing to bear the cost of mitigation efforts. Other communities may face substantial damage and a repair bill they are unable to afford. The spectre of billions of dollars of local government infrastructure and community assets at risk of sea level rise doesn't necessarily haunt inland residents, or weigh so heavy on the minds of communities still cleaning up from recent flooding events or facing drought conditions.
36. Where central government's response to natural disasters has been ad hoc and inconsistent in the past, it is essential that a national policy is developed to ensure all future assistance is appropriate and equitable.
37. The unsustainable nature of a "post-event" focus to climate change is becoming glaringly obvious to many local authorities, yet funding preventative interventions, risk minimisation and adaptation methods remains an incredibly hard sell to ratepayers.⁷ For any traction to be achieved central government must provide guidance, incentives, and tangible resources for local government to start implementing climate change adaptation.
38. Council fully endorses SOLGM's recommendation that priority be given to establishing a Climate Change Adaptation Fund. The fund should incentivise responsible and sustainable adaptation policy including the protection for water/roading assets, creation of natural hazard areas, managed retreat and Council's emission reduction work along with communications to ensure communities are well informed and engaged.
39. Without an equitable and consistent, nationally mandated approach to climate change adaptation, local authorities are likely to struggle with community buy-in

⁷ Jonathon Boston and Judy Lawrence, (2018), *Funding Climate Change Adaptation: The Case for a New Policy Framework*, Policy Quarterly, 14(2), pp 40-50.

for any council-led initiatives.

In Conclusion

40. The Council congratulates and thanks the Productivity Commission for their work on this report.
41. To conclude, Council notes the terms of reference, scope and aims of this inquiry, particularly that “where shortcomings in the current system are identified, the inquiry is to examine options and approaches for improving the system of local authority funding and financing.” Council looks forward to the final report of the inquiry providing clear findings and recommendations for both central and local government. We also look forward to the implementation of practicable solutions that achieve equitable and resilient funding and financing for local government.⁸

⁸ New Zealand Productivity Commission, (2018), *Local Government Funding and Financing: Issues Paper*, p. 73, 75.