Productivity Commission - LG funding and financing

On the 4th of July the New Zealand Productivity Commission released a draft report on Local Government Funding and Financing.

This report is the result of the Government's request for the Productivity 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.

While there were a number of suggestions made, the draft report found the current framework is broadly sound. The Commission Chair stated "The current framework measures up well against the principles of a good funding and financing system for local government. It is clearly separated from the central government's tax base which is an important feature. It is relatively simple and economically efficient. It also provides a high degree of flexibility for councils to shape how they raise their revenue."

Existing tools
The report notes that councils can make better use of the tools they already have access to, and there is room to improve organisation performance, transparency and decision making that will help to relieve cost pressures. These existing tools include rates, fees are user charges, development contributions, central government funding and debt.

The Commission favours the "benefit principle" as the primary basis for deciding who should pay for local government services. Those who benefit from a service should pay for its costs. Additionally, where local services benefit national interests, central government should contribute. User charges or targeted rates should also be utilised.

The Commission found that there is no clear evidence that rates have become less affordable over time, despite this being one of the key reasons the inquiry was undertaken. Overall, rates have continued to broadly align with population and income growth over the past 3 decades, but have not become relatively more burdensome.

Cost pressures and new tools

The report noted some new tools are needed to help councils deal with some specific cost pressures. The highest priority pressures have been identified as:

- **Supply of infrastructure to support rapid urban growth**: the failure of high growth councils to supply enough infrastructure to meet demand is a serious social and economic problem.
- *New tools*: special purpose vehicles; central government funding; tax on vacant land; volumetric charging of wastewater; road congestion pricing; and value capture for property owners who enjoy "windfall gains".

- **Climate change**: rising sea levels and more intensive rain events threaten infrastructure, particularly roads and waste / storm water infrastructure. These risks are large and unevenly distributed across the country.
- *New Tools*: Extended NZTA model; Local Government Resilience Fund and Agency; and more national leadership in developing and providing high-quality and consistent data, information, guidance and legal frameworks.

- **Tourism**: the increasing number in tourists has led to pressure on several types of services and infrastructure in districts that are popular tourist destinations. Tourists are using mixed-use facilities without making a direct contribution.
- *New Tools*: A tourist accommodation levy; and provide local councils with a share in the new international tourist border levy.

- **New standards and requirements from central government**: e.g. meeting health and environmental standards in the three waters sector is a major challenge for many councils, and the Commission makes the case for significant reform of the sector.
- *New tools*: development of a "Partners in Regulation" protocol to improve the state of relations between central and local government.

Submissions on the draft report are open until 29 August 2019. The final report is ultimately a recommendation to the Government and will not be bound by the results of the report. It is set to be released on 30 November 2019.