Local Government Funding Review

10 point plan: incentivising economic growth and strong local communities

July 2015

We are.
LGNZ.

Contents

Foreword

Our vision is: local democracy powering community and national success. This is based on the premise that strong local economies underpin national economic prosperity, and that local government is an important contributor to local economic success, but the right incentives and resources must be in place to enable it to drive growth.

In our discussion paper released earlier this year, we addressed these issues, and the need to ensure that all local governments around New Zealand have access to a mix of sustainable and appropriate funding sources to meet the challenge of New Zealand's rapid demographic and economic changes.

More than 25 councils, 25 stakeholder groups and a dozen individuals submitted written comment and suggestions on the Local Government Funding Review discussion paper. From these submissions - over 400 pages - LGNZ has distilled four key themes which summarise what New Zealand communities want from local government, and specifically from a local government funding regime. These are:

1. **An effective partnership between local and central government** around shared goals and strategies, pragmatic testing of new ideas, and strong incentives for both arms of government to perform;
2. **Recognition of the value of the private sector and community** by recalibrating relationships with those sectors to incentivise partnerships and the achievement of shared goals;
3. **A local government which is open to innovation** in service delivery, funding and financing (within an environment of strong fiscal discipline); and
4. **A diverse set of funding tools for New Zealand communities** to respond to the different challenges they face, with property rates as a cornerstone supplemented by revenue sources that equip local communities to meet current and future opportunities.

LGNZ recognises that property rates will continue to be the cornerstone of local government funding for the foreseeable future. However, it is also clear that communities require more flexible funding tools to meet current and future challenges.

For this reason, we consider rates will need to be complemented by a stronger set of incentives and revenue sources that better match the needs of these communities – now and in the future. The aim is not to increase the tax burden but rather to look at the optimum mix of funding tools for local government.

LGNZ is committed to delivering its vision where local government contributes to strong local economies and national success. Achieving excellence is not just a case of ensuring councils possess funding mechanisms that correspond appropriately to their functions. A broader approach is required, which involves increasing public understanding of local government services; seeking a strong community mandate; efficient and effective performance of services; and strong partnerships with local volunteer organisations, local businesses and central government.

This paper outlines the range of funding options and solutions that we consider will deliver stronger local communities and economies, and describes the steps LGNZ will now take.

We look forward to a productive and constructive relationship between local and central government, business and communities, to address the proposals and to implement the solutions that we as communities need.

Lawrence Yule
President
Local Government New Zealand

The 10-point plan: initiatives to support a prosperous New Zealand

10 point plan: incentivising economic growth and strong local communities

This paper is purposely short and is not intended to be a comprehensive analysis of how local governments are funded in New Zealand. Rather, it is an outcome of LGNZ's Local Government Funding Review, which was undertaken to stimulate discussion about funding opportunities and constraints for meeting the future needs of New Zealand's communities.

The 10-point plan is designed to succinctly outline the case for local government to have access to a broader and improved range of funding tools to assist them to fund the tasks councils have to deliver to in order for the nation to succeed and prosper.

This paper starts the conversation on the document's four "key themes", outlined in the Foreword. An engaged and constructive discussion on these four themes is necessary to ensure local communities can meet their needs into the future and to ensure that our nation's desire for sustainable local, and consequently national, economic prosperity can be progressed. The paper highlights the important function of shared goals and strategies, pragmatic testing of new ideas and the role of incentives that may be used to re-set relationships with central government, local communities and the private sector. Further, it outlines the range of funding tools that need to be put in place to achieve this.

Local governments must both improve their performance and reputation and have access to an expanded range of fit for purpose funding tools so that they can prudently meet increasing and changing demands in an era where concern about rates affordability within the local government sector and beyond is becoming increasingly prevalent. Both goals can be achieved through mutually beneficial cooperation with central government, businesses and local communities."

Malcolm Alexander, Chief Executive, Local Government New Zealand

LGNZ is advocating for the following key proposals:

1 > **An agreed priority and action plan to advance "special zones" for growth to test new ideas and drive economic prosperity:** a flexible regime to allow innovative ideas and approaches to be trialled in some areas should be considered. Such an approach allows a policy to be tested in a location or region without consequent results affecting the entire country.

2 > **When new centrally imposed costs are considered (and particularly where national benefit applies) a cost benefit analysis and agreed cost sharing with central government should be mandatory:** local government shares an interest with central government in meeting and exceeding standards, environmental or otherwise, which benefit the nation as a whole. However, the cost of new standards often outstrips local benefit and communities may be required to carry a cost they cannot afford.

3 > **Mandatory rating exemptions should be removed:** although there is considerable economic diversity across local councils, legislation prescribes that specific categories of organisations are exempt from rates. All beneficiaries of council infrastructure and services should pay their fair share and any exemptions should be the responsibility of individual councils and made only after consultation with their communities.

4 > **The application and administration process of the rates rebate scheme should be simplified to increase uptake:** rates rebates are designed to enable low income households to meet the cost of local authority rates. However, the existing system does not have a high uptake primarily due to the complexity of the application process.

5 > **Better guidance is needed to assist councils make decisions on trade-offs about whether to fund services from prices (user charges) or taxes:** local authorities are regularly faced with making difficult choices between affordability and the provision of services - choices made onerous by limited resources. Such guidance and 'best practice' can be shared across councils.

6 > **Road user charges, targeted levies and fuel taxes should be allowed where it is economically efficient:** population growth can place extreme pressure on council infrastructure, undermining traditional approaches to funding development and maintenance. Councils facing such challenges need a wider range of tools.

7 > **Councils should be able to retain a share of any value uplift arising from additional economic activity related to local intervention and investment:** we need to provide additional incentives that will encourage councils to invest in growth, whether through investment in new infrastructure and amenities or different planning rules.

8 > **Local authorities should receive a proportion of any mineral royalties attributed to local activities:** some councils are faced with managing the disproportionate impacts of boom and bust activities, such as mining. While the financial benefits of such activities are limited, the community retains responsibility for growth and ongoing maintenance of the resulting infrastructure.

9 > **Allow councils to levy specific charges and taxes on visitors where economically efficient:** some communities make a significant economic contribution to the country as a whole but have to deal with dramatic population changes due to seasonal visitors. Providing services to visitors increases the demand on local infrastructure, which is currently met by residents.

10 > **Reconsider the decision to limit the range of community amenities funded through development contributions:** growing communities have must have the flexibility to ensure continued economic development without unfairly burdening existing residents.

Our intention in this paper is to highlight funding options that help councils and communities to say "yes" to growth. We look forward to working with central government, business and our communities to develop these ideas and put them into practice with appropriate speed and urgency.

Following release of this manifesto, LGNZ will develop a strategic advocacy and implementation plan for its key proposals.

1

The case for change

1.1 Building from a solid foundation

Our system of property rates retains many positive features as a means of funding local government: the amount of revenue raised is predictable and stable, the costs to administer and enforce property rates are low compared to many other sources of funding, property is relatively lightly taxed compared to other forms of capital accumulation, and councils have considerable flexibility in how rates are designed and implemented. For these reasons, property rates should remain a cornerstone of funding for local government. Our research, and the submissions we received, indicate that there are opportunities to improve the system to reflect the current New Zealand economy and community interests.

< There is a strong case for complementing rates with funding tools that help and encourage local communities to address emerging challenges. >

However, property rates are not the best tool to address all of the diverse challenges facing local government. New Zealand communities, our economy, and the world in which we must trade and compete are vastly different from that which existed when property rating was introduced. There is a strong case for complementing rates with funding tools that help and encourage local communities to address emerging challenges. The incentives and means for improved performance by local government can be achieved without undermining the integrity of our national tax regime.

"It is clear that rates need to be complemented by a stronger set of incentives and revenue sources that better match the needs of communities' current and future demands."

Penny Webster, Auckland Council

1.2 Incentives and performance: saying "yes" to growth

Submissions to our discussion document have made it clear that local government funding cannot be talked about in isolation: the ability of local government to partner with others to efficiently achieve shared goals, and the incentives for all parties to grow, are vital parts of the conversation.

This discussion must happen between local and central government, as well as between local government, local businesses and local community and volunteer organisations.

Fostering partnerships for growth

Internationally, there are excellent examples of councils partnering with private interests to achieve positive outcomes for their communities. In New Zealand, at present, we often seem to struggle to make these sorts of win-win deals, whether in developing new housing, funding infrastructure needed to support new and existing communities and businesses, or gaining community consent to develop local resources.

"The Nine Elms project in London, which focuses on re-development of the previously derelict Battersea Power Station and surrounding area, included a significant levy from the private developer to extend the Northern Line of the London underground to serve the new development and surrounding area."

Stephen Selwood, Chief Executive, NZCID

In this paper we focus on several areas – efficient pricing, selective taxes, development contributions, improved return to councils from increased land value, and a local share for communities from resource development – where incentives for councils to support and enable growth could be improved. Expanding the funding toolbox in these areas would allow councils to better mix and match funding sources, offering the potential to increase community support for projects that might otherwise have had to be funded through increased rates, or foregone altogether. Our intention is to highlight funding options that help councils and communities to say "yes" to growth.

< Councils need to partner with community and voluntary organisations and private industry, whose activities and contributions improve community life, from caring for streams to providing social support services. >

Councils don't just work with the private sector, and growth is not only about economic development. Councils also need to partner with community and voluntary organisations and private industry, whose activities and contributions improve community life, from caring for streams to providing social support services.

Putting in place incentives for councils

> **In New Zealand, unfortunately, we have separated the public costs and benefits of development. Taxes on economic activity – income, profit and sales taxes – typically end up in central government's coffers. Yet costs associated with increasing economic activity – infrastructure spending but also losses of amenity – are borne locally.**
>
> **It is this disconnect that makes central government a pro-development force and local government an obstacle to growth almost by definition. This affects all sorts of development, whether it is about residential housing, new businesses or, still more controversially, oil and gas exploration and mining.**
>
> ***Dr Oliver Hartwich, Executive Director, The New Zealand Initiative***

Councils should constantly strive to improve their performance. Communities rightly expect that councils will spend their funds wisely, and undertake their core duties as effectively and efficiently as possible. In this paper we offer several suggestions for areas where council decision-making on funding and financing could be improved. Better and clearer decision-making about funding and financing, along with community engagement on those decisions, should lead to greater community support for council activities and spending.

Council incentives in other areas – such as the flexibility and openness to innovation of planning rules, the speed of council processes, and the openness of councils to negotiation and new ways of doing things – also affects the ability of regions to attract private investment, and the willingness of private interests to undertake projects in a given area. Councils and communities should be as welcoming as possible to private investment in infrastructure – every project funded by private capital means one less call on council and community resources.

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The potential gains from improved council performance and more effective partnerships are large. If the actions of each local authority helped its community lift its economic performance by just one per cent per annum over what it would otherwise achieve, we would raise income levels by an additional one-third in around 30 years.

1.3 Trialling good ideas: openness to innovation

Research by LGNZ and the submissions on the discussion paper shows that communities face very different challenges and the resources available to local communities vary considerably. A single tool, property rates, could never be an efficient and effective means for addressing all of these challenges, and any new tool may not solve all problems in all communities.

< Good ideas can be trialled to identify how the approach might be adapted for other communities, without risking unexpected consequences across an entire system or many regions. >

The answer is to trial new approaches in regions where the solution is well tailored to both the problem and the potential. Stewart Island, for example, currently levies a visitor charge, which is a well-designed source of funding for a small community needing to make facilities available for the visitors that pay the levy. Good ideas can be trialled to identify how the approach might be adapted for other communities, without risking unexpected consequences across an entire system or many regions. Further, it should be noted, this is a way to address and measure anticipated outcomes and to explore unintended benefits to proposed ideas. Lessons can be learned, problems fixed, and successes replicated.

A partnership between central government and local government intending to initiate change would enable such trials to occur.

2

Improving funding efficiency

2.1 Enhancing the rating system

The current property rating system remains the cornerstone for funding local government. While still working efficiently, the burden of rates is not borne equally across or within communities. Consequently, we need to consider incremental and effective changes needed for the system. As such, we identify the following subject areas and solutions.

> **"Core Crown land is exempt form general rates. There appears to be no principled reason for this. Rating Crown land would provide agencies with the same incentives as private owners to have to use land or release it to those who will develop it."**
>
> ***Using housing for land, Productivity Commission Draft report, June 2015***

Statutory exemptions

There are currently statutory exemptions on non-rateable land which falls into five main categories:

- Conservation, health and education land, including Crown land that is used broadly for conservation and recreational purposes and land owned or used by District Health Boards or not-for-profit educational institutions;
- Land used for religious worship and religious education, or for charitable purposes;
- Land that is used for transport infrastructure (roads, wharves, railways and airports);
- Land used by a local authority for conservation and recreational purposes; and
- Maori land of various types.

Decisions by both central and local government are improved where the decision-making authority and the costs of those decisions are aligned. Statutory rating exemptions breach this principle. Central government sets the exemptions, but local communities pay for them, as the rates burden in each area is spread over a narrower base than would otherwise be the case.

These statutory exemptions should be removed and the land either become rateable in the same way as other land or a grant be paid to the local authority in lieu of the rates.

> **"Land used for education and health purposes makes up nearly 45 per cent of non-rateable land by value. Forest and passive reserves (conservation land) makes up 97 per cent of non-rateable land by land area, but only 20 per cent by capital value. Non-rateable land is not evenly distributed among regions, and these exemptions affect some local authorities (and the residents that must pay rates) more heavily than others."**
>
> ***Dr Mike Reid, Principal Policy Advisor, Local Government New Zealand***

However, we believe it is a community's right to choose. Should they wish, they may elect to provide a rate remission to a service that provides community benefit. In these cases it is their choice to do so. A grant in lieu of rates might be preferable as a transition mechanism where land previously unrated is not well defined or valued or where there is concern of potential unfair rating by the local authority (for example, if the land owner does not get to vote on the council members who set the rates).

Rating rebates

Basing rates on the value of property means that, for some individuals with reasonably valuable property but limited income, paying rates can cause financial strain. The government provides a rates rebate scheme for low-income ratepayers. A rebate is a payment from the government to cover the cost of the rates paid by a low-income ratepayer. When the scheme was reviewed in 2005 it was estimated that 300,000 households were eligible. However, the take up is well below this level with the Department of Internal Affairs estimating that in 2007 the take-up rate was 46 per cent. Anecdotal evidence suggests that there has not been a significant increase since then.

< Basing rates on the value of property means that, for some individuals with reasonably valuable property but limited income, paying rates can cause financial strain. >

There are other issues with the design of the current scheme that need to be reviewed. For example, the scheme may also have not kept pace with changes in retirement living, and there may be particular issues of eligibility for individuals who live in retirement homes. At present, the rates rebate scheme only covers "rates". This means that, if a council moves to a price-based system for water, for example, ratepayers are not eligible for a rebate on their water bill. This is a potential barrier for councils wishing to move towards a more price-based funding model, as low-income residents would be disadvantaged by not being able to claim the level of rebate they were previously entitled to.

LGNZ proposes to work with the Department of Internal Affairs to review why the take up is low and identify the best means of ensuring individuals who are entitled to the rebate are aware of that entitlement and can easily claim the entitlement if they wish.

2.2 Efficient pricing

In managing the efficiency of pricing there are several considerations. The demand for the product, the quantity required to meet demand, and the delivery mechanism, among others, may be considered. Solutions are often found in economies of scale and product delivery management. Regardless, the issue of finding an efficient price for a public service or product is difficult, evolving and controversial.

Where consumers have a choice whether or not to consume a service provided by a council, setting a price for that service helps match directly the willingness of a consumer to pay for the service with cost of providing that service.

Faced with a price, a consumer can choose whether and how much of the service to purchase. Prices send strong signals about what consumers want and how much they want. Suppliers, including suppliers of substitutes, can respond to these signals. This matching of willingness to pay with the cost of the service provides strong incentives for innovation and efficiency in service delivery. We note that some councils use targeted rates as an attempt to send a signal to ratepayers about the cost of certain services. However, targeted rates are not a price as ratepayers are required to pay them; they cannot choose to forego the service and not pay the targeted rate.

< Prices send strong signals about what consumers want and how much they want. >

Some community choices in whether to set prices for some services to replace targeted and general rates funding are constrained. They are constrained because the capability and capacity of some councils to evaluate the benefits of pricing services is comparatively undeveloped. Some councils submitted that they use targeted rates as an attempt to send a signal to ratepayers about the cost of certain services – however, as noted above targeted rates are not a price. Not all services funded by local government can or should be funded by user charges. Some services are provided for the benefit of the whole community and not an individual; for other services communities will judge it unfair to provide the service only to those who can afford to pay.

Following this review, LGNZ proposes the development of guidance notes for councils on the factors to be considered in deciding whether revenue is to be raised through rates or from user charges, methodologies for estimating the trade-offs involved (for example, the economic efficiency and distributional impacts of moving from a target rate to a price for a service) and how councils might report those trade-offs to their communities. This is part of our on-going commitment to assisting councils to improve their capability, decision-making and performance.

In Waitomo, the council is under pressure to seal the road that leads to the local section of the national cycleway, as tourists in rental cars are not usually permitted to drive on unsealed roads. Local residents will not see a significant benefit from sealing the road, as the majority of users are tourists. However, at present, the council would need to fund the cost of sealing the road through rates raised from local residents and businesses. The ability to directly charge the road users to recover the cost of sealing the road would mean that those who use the road– tourists – pay the cost.

Chris Ryan, Chief Executive, Waitomo District Council

Road user charges

In some areas of the country our roading network is under pressure. A user charge – locals or tourists paying when using the road - would help pay for these improvements.

In areas where congestion is an issue, road user charging is doubly attractive, as it not only provides funds to maintain and upgrade infrastructure, it also helps manage congestion through managing demand. Faced with prices, people will choose to travel at different times, go another way, ride share, walk, cycle or take public transport.

That means those who pay the charge will benefit through a faster trip on the motorway meaning better productivity for business and less time wasted on jammed motorways for commuters. User charges for roads, including variable charges that reflect time and current congestion status, are now a much more practical option, thanks to technological advances. Recent estimates suggest that variable charges can be implemented at a cost of around 12 per cent of the revenue raised. That is higher than the five per cent of revenue cost of existing petrol taxes, but well within acceptable boundaries.

The money raised from charges would support new investment in motorways, local roads, walkways and cycle ways and public transport services that would not otherwise be possible. The more people who choose alternatives to motorway travel because of the charges, the better it will be for motorway users who choose to pay the charge.

< Studies into options for funding improvements to the Auckland transport network found that the economic benefits of adopting motorway user charges would be more than three times greater than raising the same revenue through rates and fuel taxes. >

Studies into options for funding improvements to the Auckland transport network found that the economic benefits of adopting motorway user charges would be more than three times greater than raising the same revenue through rates and fuel taxes. The economic benefits of user charges are much higher because direct charging changes behaviour in a way that does not occur when funds are raised through general taxes.

Current legislation is therefore constraining councils to raise revenue for transport using property rates when the economic cost of doing so is three times the economic cost of user charges. For some communities, this economic cost might be worthwhile to retain a system in which all property owners pay for the roads regardless of use. However, it makes no economic sense to require local authorities to always use the higher economic cost option.

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2.3 Funding for requirements imposed by central government

Local authorities are facing an increasing cost burden from rising central government expectation and requirements. The cost of implementing these requirements must be met by councils, usually through rates increases or by reducing spending on other council activities. The Productivity Commission found in its 2013 report, Towards better local regulation, that there is a lack of consultation by central government with local government when developing new regulations for councils to implement, leading to regulations that are unnecessarily expensive.

< Local authorities are facing an increasing cost burden from rising central government expectation and requirements. >

Several examples of this type of requirement, imposed with inadequate consultation and no funding, kept coming up during our research and in the submission process. National drinking water standards require significant investment for councils to meet, sometimes out of all proportion to the benefits that small, rural communities will gain from adhering to these standards. The costs and benefits of the standards had not been properly assessed before the requirements were passed into law.

Further, national changes to funding do not always have the visibility of a policy statement, but may be hidden in procedural processes. For example, the Government recently proposed changes to SuperGold Card reimbursements. This reimbursement scheme, currently paid by central government, features reimbursement of individual fares. Introduced changes include transferring bulk funding under a five-year cap to regional councils but without analysis on projected costs against the capped bulk funding, leaving the responsibility for any shortfall with ratepayers. In addition, this decision was announced after most councils had completed their long-term plans.

Central government decision processes, including the requirement for regulatory impact statements, are intended to identify the costs and benefits to improve decision-making. Treasury has responsibility for ensuring that regulatory impact statements are properly prepared. LGNZ will ask Treasury to work with it to help identify why the Government's decision processes may be failing when it comes to properly assessing the costs imposed on local government.

Consistent with the intent of the recommendations of the 2013 Productivity Commission report, to remedy these types of situations, LGNZ proposes that central government decision-making in areas that will have cost implications for local government should be guided by two principles:

- Local government will be consulted on all proposals with cost implications for local government, and the cost benefit analysis for these proposals will include cost and benefits for local government.
- Where a policy is intended to generate national as well as local benefits (or generates only national benefits and no local benefits) central government will provide a proportionate amount of co-funding to councils to meet the implementation costs.

2.4 Income tax raised on income from local government activities

Opportunities exist to better align aspects of the current income tax regime with incentives on local government and the economic growth objectives of central government.

For example, the current income tax law which taxes (at the national level) profits from land sales where land has been re-zoned could be strengthened. Profits earned by developers from re-zoned land are, at least in intent, taxable under current income tax laws. However, the revenue raised is retained by central government.

< The income tax revenue raised from existing (and strengthened) taxes on profits from land sales should be allocated to the local authority in which the profit was earned. >

The income tax revenue raised from existing (and strengthened) taxes on profits from land sales should be allocated to the local authority where the profit was earned. This would recognise that much of the increase in land value is made possible by local authority infrastructure investment and encourage local authorities to reconsider the economic effects on land supply from zoning decisions.

If administratively efficient, a targeted levy or tax could be a valuable resource to meet the infrastructure demands of visitors in tourist or vacation areas, relieving local residents of costs that outstrip benefits.

Adam Feeley, Chief Executive, Queenstown Lakes District Council

2.5 A 'local share' for communities

Our mineral estate is a significant national asset with the potential to make a large and long-term contribution to our economic prosperity. But this potential will not be realised without active and supportive local government. Local government is vital to creating a climate for investment in responsible mining. Local government develops roads, provides services and amenities that enable extraction. Importantly, local government can facilitate discussion between investors, iwi and communities which is necessary if new projects are to gain community support.

Successful extractive industries – oil, gas, coal and mineral mining – pay a royalty (in addition to income tax); over $420 million in royalties were paid in the 2012/2013. Yet none of this money went directly to the communities which sustained these industries, who suffer any disruption, and bear much of the 'clean-up' risk if something goes wrong. The incentives are wrong, and it can be no surprise that the potential for responsible mining to contribute to our national wellbeing is not being achieved.

< A 'local share' from the royalty on new projects should be available to local communities through local government, a trust, or other resource to help build the partnership needed between investors, local communities and central government. >

A 'local share' from the royalty on new projects should be available to local communities through local government, a trust, or other resource to help build the partnership needed between investors, local communities and central government. The responsibilities on local communities before they become eligible for a local share could be designed in partnership with central government. These responsibilities might include facilitating community consultation, ensuring efficient consenting processes, and committing part of the 'local share' to projects which build a future for the community as the extractive industry wanes.

2.6 Targeted levies and taxes

There are some communities in New Zealand where visitor numbers put substantial pressure on infrastructure and services. Stewart Island, where a targeted visitor levy has been introduced, is one such example. Both large and small communities with high tourist numbers experience similar pressures. In Queenstown, for example, a permanent population of around 18,000 people receives about 1.89 million visitors.[1]

If this were to occur on a national scale, New Zealand, with a population of 4.5 million, would host over 473 million tourists. There would be few who would argue that those visitors should not make a contribution, through a visitor levy, to government funded services and to reduce the burden on residents. Of course international visitors do pay levies for airport security and other services, and are invoiced if they use a public hospital. But rarely do visitors contribute directly to local community funded services.

The concept of a local tax to help fund disproportionate costs borne by a specific community has been tested and proven in Stewart Island. The conditions which need to be satisfied for an efficient local, selective tax, can be isolated and described so that other communities which meet those requirements might have the option of introducing their own tax.

These conditions might involve a reasonably close relationship between the expenditure being taxed and the activity being funded (eg visitors and tourist related infrastructure), a tax design which involves little distortion to regional economic activity by minimising the incentives to shift production across regions simply because of the local tax, and comparatively low compliance and enforcement costs (eg Stewart Island can collect the levy at points of entry). A bed tax, for example, is likely to be a more effective way of raising revenue in a big tourism area like Queenstown where the majority of visitors stay in commercial accommodation. It may not work so well in other areas where visitor numbers swell in the summer, but where visitors largely stay in rented accommodation or their own holiday homes or baches.

In other regions, pressure on roading infrastructure might mean a local fuel tax is the best supplement to property rates. There is a reasonably close relationship between the expenditure being taxed and the activity being funded if the tax can be limited to fuel purchased for on-road use (that is, excluding off-road use such as farming). The money raised can be targeted to fund roading and public transport projects, and the tax is reasonably visible – motorists can observe that fuel prices are higher in their region than other regions and hold their elected officials to account if they disagree with the choices being made.

LGNZ proposes to work with central government to define the conditions where a targeted tax, such as a visitor levy, a bed tax or a local fuel tax, would be efficient (in a an economic sense) and justifiable from a policy point of view. These conditions might involve a reasonably close relationship between the expenditure being taxed and the activity being funded (eg visitors and tourist-related infrastructure), a tax design which involves little distortion to regional economic activity by minimising the incentives to shift production across regions simply because of the local tax, and comparatively low compliance and enforcement costs. This work will establish the basis for an informed discussion on which communities might benefit from such tools, and which tools would be the best fit for those communities.

One of the most problematic factors cited for doing business in New Zealand remains an inadequate supply of infrastructure. The Survey recommends that New Zealand facilitate greater urban infrastructure provision by diversifying revenue streams available to local governments. Better management of the demand for and use of urban infrastructure, including congestion charging to reduce urban traffic, should be considered.

OECD Economic Surveys New Zealand

1 Queenstown Facts and Statistics http://www.queenstown.co.nz/media/statistics2.md/

2.7 Development contributions

Development contributions are a charge imposed on a developer by a council to recover some of the capital costs incurred by the council when providing infrastructure services for the development and upgrading existing infrastructure where this is caused by additional demand resulting from the development. There is a general agreement that new developments should make a contribution towards the cost of the infrastructure that is required for the development. However, there has been controversy regarding what types of infrastructure should be funded through development contributions, and how to determine what portion of a 'lumpy' infrastructure cost should be attributed to a development.

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Recent legislative changes have narrowed the scope of development contributions. Development contributions now can be charged only for infrastructure that is directly related to the development in question. Councils cannot charge new developments for a contribution towards 'community infrastructure' such as swimming pools or cemeteries. Auckland Council estimated, in its submission of these legislative changes, that the narrowing of what can be recovered will result in additional impost on rates of $160 million over the next ten years.[2]

Someone must meet the additional costs resulting from new development. By narrowing developer contributions, the legislation shifts the costs of new development from the developers to existing rate payers. If those ratepayers are not willing to pay for these costs, new developments may be delayed. Where ratepayers are willing to meet the costs (or are unaware of the cost because it is a comparatively small part of the total rate bill) the primary beneficiary is likely to be owners of land suitable for development, as the relief from development contributions will be capitalised into land values.

Whether this risk materialises depends on whether councils are able to:

(a) design rating or user-charges systems that recover the costs of new community infrastructure that is not covered by development contributions from the new residents – for example, through targeted rates on new developments; or

(b) gain the acceptance of their communities for the development.

Councils have now had time to consider the changes in the legislation and prepare new development contributions policies. LGNZ considers the effect of the changes in development contributions should be reviewed, to establish whether development is being supported or delayed by these changes. Councils and developers share a goal of creating viable growth and providing for the needs of growing populations. Development contributions are an important instrument in supporting this shared goal.

2 The New Zealand Herald. "Funding study boost for struggling Auckland Council" http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=11395485

2.8 Conclusion and next steps

Local government is an important contributor to local economic success, but the right incentives and resources must be in place to enable it to drive growth. Local governments and their communities vary widely, and the existing set of funding tools does not meet their needs.

Each community, and the country as a whole, intends to ensure that prosperity is fostered wherever feasible. Our intention in this paper is to highlight funding options that help councils and communities to say "yes" to growth. We look forward to working with central government, business and our communities to develop these ideas and put them into practice with appropriate speed and urgency.

< Our intention in this paper is to highlight funding options that help councils and communities to say "yes" to growth. >

Following release of this manifesto, LGNZ will develop a strategic advocacy and implementation plan for its key proposals.

The local government sector can initiate some proposals without coordination or stakeholder assistance. Others will require agreement and coordination with central government, local businesses and communities. In those proposals requiring LGNZ to mobilise its resources and the sector, project planning will be well underway prior to the end of the calendar year, with implementation in 2016. For those initiatives that require partnership and coordination, efforts may take longer. It can be expected that by early 2016, key proposals will be prioritised and implementation will be underway.

We are. LGNZ.

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We are.

Ashburton.
Auckland.
Bay of Plenty.
Buller.
Canterbury.
Carterton.
Central Hawke's Bay.
Central Otago.
Chatham Islands.
Christchurch.
Clutha.
Dunedin.
Far North.
Gisborne.
Gore.
Greater Wellington.
Grey.
Hamilton.
Hastings.
Hauraki.
Hawke's Bay Region.
Horizons.
Horowhenua.
Hurunui.
Hutt City.
Invercargill.
Kaikoura.
Kaipara.
Kapiti Coast.
Kawerau.
Mackenzie.
Manawatu.
Marlborough.
Masterton.
Matamata-Piako.
Napier.
Nelson.
New Plymouth.
Northland.
Opotiki.
Otago.
Otorohanga.
Palmerston North.
Porirua.
Queenstown-Lakes.
Rangitikei.
Rotorua Lakes.
Ruapehu.
Selwyn.
South Taranaki.
South Waikato.
South Wairarapa.
Southland District.
Southland Region.
Stratford.
Taranaki.
Tararua.
Tasman.
Taupo.
Tauranga.
Thames-Coromandel.
Timaru.
Upper Hutt.
Waikato District.
Waikato Region.
Waimakariri.
Waimate.
Waipa.
Wairoa.
Waitaki.
Waitomo.
Wanganui.
Wellington.
West Coast.
Western Bay of Plenty.
Westland.
Whakatane.
Whangarei.

LGNZ.