

29 August 2019

New Zealand Productivity Commission
PO Box 8036
The Terrace
WELLINGTON 6143

Christchurch City Council submission on the draft report 'Local Government Funding and Financing'

Introduction

1. Christchurch City Council (the Council) thanks the New Zealand Productivity Commission for the opportunity to provide comment on the draft report on local government funding and financing.
2. The Council commends the Commission for the draft report and the work done to prepare it. It has been extremely useful to have Commission representatives come and present information and discuss options with the Council. The engagement opportunities provided have been very welcome.

Overall

3. Overall many recommendations in the draft report are sound and will make a genuine difference if acted upon. The report provides logical direction in terms of improving the efficiency and effectiveness of local government planning and reporting processes and provide some useful insights into the use of current and potential new funding tools.
4. However, the recommendations of the report are unlikely to address the fundamental issue councils face now and in the future – the sustainable funding of council services necessary to ensure we are able to promote community wellbeing rather than being forced to slowly erode it in pursuit of affordability.
5. The limitations of the report recommendations reflect the limited scope provided by the Minister. This has, in the Council's view, resulted in a report that lacks the ability to provide transformational change to a largely broken local government funding framework.
6. Councils must be provided with access to funding from sources other than rates. While further application of user charges and more targeted use of the benefit principle will help shift the cost burden around, new funding must come from central government in some way. The draft report tentatively suggests this. We believe it must be more clearly stated if it is to make a real difference.

Submission

7. The Council strongly supports the submissions made by the Society of Local Government Managers (SOLGM) and Local Government New Zealand (LGNZ). Both organisations provide

invaluable advice and assistance to the local government sector and the submissions contain comprehensive and well-reasoned feedback to the Commission.

8. The Council would like to make submissions on specific recommendations in the report:

Vacant land tax

- 1) In previous reports the Commission has stated that landowners withholding land from development is a symptom, rather than a primary cause, of land supply shortages. Vacant land is an issue that Christchurch is grappling with as post-earthquake redevelopment in the central city area in particular has been much slower than anticipated. In some cases development is being frustrated by land owners who are happy to sit on the vacant land indefinitely.
- 2) The Council has asked staff to investigate options for forcing owners of vacant land to address amenity issues (with many derelict, broken buildings still standing) and to increase the holding costs of land to encourage sale or development. Current legislation provides us with no tools at all to apply in these cases.
- 3) Consequently the Council is interested in seeing what might be possible in terms of a vacant land tax or the ability to levy a targeted rate on vacant land or land that is causing significant negative impacts on local amenity.
- 4) The Council agrees that the potential issues raised in the SOLGM submission regarding administrative and legal challenges of a vacant land tax would need resolution. The Council also notes the Government has announced it believes a vacant land tax is not feasible.
- 5) Despite this the Council strongly endorses the SOLGM recommendation that a vacant land tax is monitored and explored to ascertain efficacy in achieving the desired outcomes.
- 6) The Council also recommends that SOLGM and DIA undertake analysis to see if using a land value basis for rates would reduce the incidence of land banking and/ or facilitate faster development. There are theoretical claims that this would be the result but we have yet to see clear evidence.

Rates

- 7) This Council strongly supports the SOLGM submission opposing the recommended removal of the Uniform Annual General Charge and the use of rates differentials. Councils must be able to consider the full range of rating mechanisms and make decisions on their use that best suit their communities.
- 8) Councils need the ability to require rates from neighbouring districts whose residents benefit from using our infrastructure. This is a significant issue for Christchurch with our ratepayers funding significant assets and services that directly benefit residents from Selwyn and Waimakariri districts.

Development contributions

- 9) The Council believes there may be some scope for standardisation of some elements of development contributions policies but that it is highly unlikely that a high level of standardisation would be possible or even desirable. Councils have evolved approaches

to development contributions that suit their development needs and realities and need to be able to tailor their policy approaches to these.

- 10) Council staff have met with DIA officials regarding their current review of development contributions issues. The matters raised with DIA are likely to have a much more significant impact on this Council's funding and financing than the standardising of policies. The issues raised are:
 - The Crown must pay development contributions. There is no rationale for the current exemption and the impost it puts on our ratepayers to pick up the cost. This situation is all the more urgent as Kainga Ora comes into being.
 - Councils need the ability to charge development contributions on development in neighbouring districts that create growth demand on our infrastructure. This is a significant issue for Christchurch with our ratepayers funding significant growth capacity in our road network to cater for the thousands of commuters who come into the city from Selwyn and Waimakariri districts each day. A similar situation exists with what are essentially regional assets, such as stadia, performance venues and other assets that draw users from beyond the city boundaries.
 - Councils need to be able to recover the administration costs associated with development contributions from developers. The costs incurred to maintain an effective development contributions regime and to collect the right funding from the right developers is significant when compared to revenue. The costs could be recovered from developers either through administration costs being included in the development contribution charge, through a surcharge or through a separate administration fee.

Adapting to climate change

- 11) Christchurch has high exposure to risks from climate change with the urban area to the east of the city prone to coastal erosion and inundation, exacerbated by from sea level rise, and an agricultural hinterland expected to experience drier weather.
- 12) It is absolutely vital, therefore, that there is a funding and regulatory policy framework at the national level providing consistent national guidance that enables the Council to make good decisions.
- 13) We therefore support the recommendation that Government and local government work together to establish two separate centres of knowledge and guidance about climate change adaptation for Councils. To a large extent we would want these to be well integrated with the proposed Climate Change Commission role, under the Climate Change (Carbon Zero) Bill as noted in the SOLGM and LGNZ submissions.
- 14) The Productivity Commission report also recommends a range of funds/funding sources be established to help councils address the costs of mitigating and adapting to the impacts of climate change. Given the level of risk that Canterbury is exposed to, we endorse the concept of financial support. Preferably there is excellent integration and alignment between funding streams and (a) the Climate Change Commission and (b) any centres of knowledge and guidance.
- 15) Councils need to be able to control development in at-risk areas, passing an appropriate level of risk on to property owners without there being a risk of this being overturned.

Councils need to be able to plan for those communities vulnerable to climate change. The current national policy vacuum has paralysed councils at a time when planning for future action is essential.

- 16) Consideration needs to be given to how and to what extent the costs of climate change adaptation are socialised across the community. If all our community will need to share some of the costs then we need to be able to initiate this as soon as possible. It's not clear whether the Local Government (Rating) Act enables councils to rate for a (climate-induced) rainy day fund. We need to have the ability to start this now at a low level of rating (say \$10 or \$20 per property per year) so some funding is available when it is needed.
- 17) Insurance providers are increasingly lifting their prices or declining cover in areas regarded high-risk for their business. Given the forecast widespread impacts of climate change, it may become appropriate for government to step in – possibly requiring the nationalisation of insurance services. This is intrinsically linked to local government funding and risk associated with climate change. If our residents can't protect themselves from financial risk (at least to some extent) then who will do this. Our whole sense of community is at stake. We simply can't walk away from each other.
- 18) The existing arrangements for natural disaster insurance through EQC could be extended to assist with adaptation to climate change, particularly the impacts of sea levels rise. Significant impacts from erosion and inundation on coastal properties are most likely to occur as a result of storm events providing an opportunity for a deliberate policy of managed retreat triggered by such events. Following an event affected property owners could be paid out for the capital value, including the land, and not be allowed to rebuild in high hazard areas – similar to the Christchurch residential red zone process and the ongoing buyout at Matata.

Local and central government need to work in partnership

- 19) The Council strongly supports recommendations 6.9 – that central government should generally limit its funding to where there are national benefits and should not expect local government to act simply as its regulatory agent – and 6.10 – that central and local government should strive to achieve a more constructive relationship and effective interface.
- 20) Part of recommendation 6.9 could be more usefully worded as 'central government should generally provide funding where there are national benefits. Examples of functions best carried out by local government but should be funded in full or in part by central government include:
 - Climate change initiatives
 - Drinking water scheme upgrades
 - Wastewater scheme upgrades (particularly treatment and disposal)
 - Regional destination marketing and management (including provision of cruise ship facilities)
 - Regional economic development (including innovation hubs)
 - Recycling and reuse programmes/ initiatives
 - Public and active transport (significantly increase funding)

- Access to and promotion of increased physical activity (facilities and programmes)
- Health promotion (alcohol, smoking, green prescription, social services, social housing)
- Regulatory compliance for activities that deliver national benefits (e.g. freedom camping)
- Environmental education in schools

- 21) Transport expenditure accounts for a significant proportion of infrastructure budgets for both central and local government. While co-funding from the NZTA is a welcome and vital tool for investing to support growth, general rates are the mainstay for council capital and operating transport expenditure. This Council agrees with finding 6.7—that giving councils powers to raise revenue through value-capture and congestion charges could be effective and efficient ways to recover the costs of growth and relieving pressure on household rates. The Commission should explore the ways and means by which this could be implemented with LGNZ, NZTA and the Ministry of Transport.
- 22) Not only would government funding for these activities reduce council rates (perhaps by 3 – 5 per cent) but it would enable local government to deliver much more in terms of community wellbeing improvements. Local government will increasingly be unable to deliver these services as costs and rates resistance increase. This would be a significant opportunity lost.
- 23) Central government also needs to recognise the costs it puts on local government from engagement with councils that is poorly signalled and/ or expects councils to engage within unreasonable timeframes. The recent proposed National Policy Statement on Urban Development is a case in point. Councils weren't given adequate warning of the proposal, given it fundamentally impacts on a core function of councils, and the requirement to respond over the local election period makes it virtually impossible for councils to give the proposal the considered and detailed response it requires. This is a clear example of central government simply not considering the costs it passes on to councils.

Other matters

- 24) The report avoids the issue of non-rateable land. Removing legislative limitations to rate particular types of land would enable councils and communities to decide for themselves which types of land (and land owners) should be non-rateable. This is especially important for councils with large areas of non-rateable crown land.
- 25) The return of some categories of GST revenue to communities would be welcomed. Returning GST revenue from international visitor spend to communities to fund provision of infrastructure to service visitor demand is a current example. There may also be a case for returning or reinvesting or foregoing GST on rates.

Conclusion

1. There have been several investigations and reports into local government funding and financing in recent years and none have delivered meaningful change. The Commission will need to be bold in its findings if this report is to deliver change.

2. The presentation to this council from the Commission indicated that central government had been clear that the transfer of tax funding to councils was a non-starter. This is simply not tenable. The Commission must raise this forcefully in this report.

Thank you for the opportunity to provide this submission.

For any clarification on points within this submission please contact Diane Brandish, Head of Financial Management.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Lianne Dalziel', with a long horizontal flourish underneath.

Mayor Lianne Dalziel
Christchurch City Council