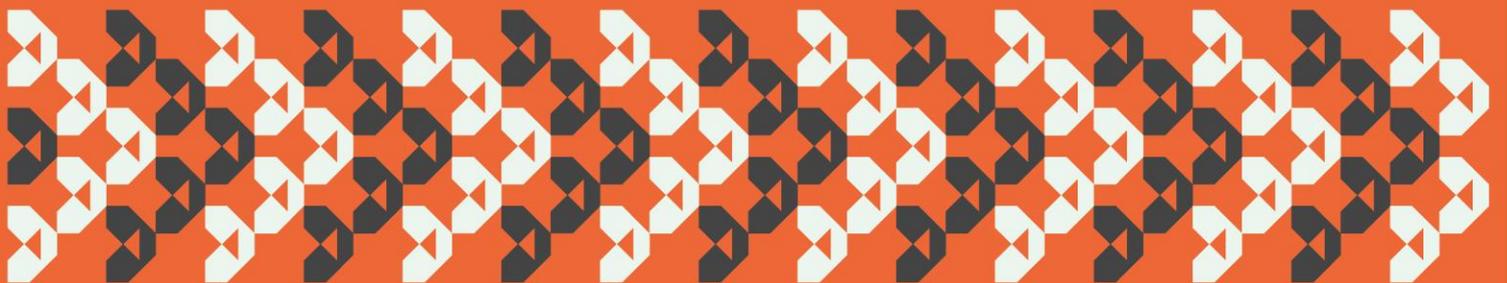




**Te Arotake i te Anamata
mō Ngā Kaunihera**
Review into the Future for
Local Government

Response to Productivity Commission report and recommendations



Response to Productivity Commission report and recommendations

Number	Recommendation	The Review's response
R4.1	The Government should commission a comprehensive, independent and in-depth analysis of costs associated with implementing Treaty settlement arrangements – to councils and to iwi. Such analysis should inform an update of Government policy on Crown contributions to support the implementation of Treaty settlements.	Support
R5.1	<p>The Department of Internal Affairs, Local Government New Zealand (LGNZ) and the New Zealand Society of Local Government Managers should work together to improve basic governance, including financial governance, skills and knowledge across elected members. In undertaking this work, they should consider:</p> <ul style="list-style-type: none"> • a range of formal and informal mechanisms, such as training, peer support, mentoring (eg, via “sister council” links), and networking; and sharing of resources and best practice; and • a variety of delivery platforms, including online media and collaboration tools. <p>LGNZ should ensure that resources and programmes are independently evaluated.</p>	Support and Consistent with FFLG draft report chapter 9 “Designing the local government system to enable the change we need”
R5.2	Local Government New Zealand should work to achieve greater participation in ongoing professional development by elected members, including new and existing members, to ensure skills and knowledge are built and periodically refreshed	Support and Consistent with FFLG draft report chapter 9 “Designing the local government system to enable the change we need”
R5.3	The Local Government Act 2002 should be amended to require all local authorities to have an Audit and Risk Committee. Councils should draw on the good practice guidance and resources that are available to develop and run their committees. Good practice suggests that Audit and Risk Committees should have an at least one independent member, to ensure they span the full range of necessary skills and experience. Independent members should be external to the Council, and appropriately skilled and qualified.	Support and Consistent with FFLG draft report chapter 9 “Designing the local government system to enable the change we need” and chapter 10 “System stewardship and support”.

R5.4	<p>The performance reporting framework of local government (including the financial disclosures, Funding Impact Statement and performance measures) should undergo a fundamental, first principles review. This review would:</p> <ul style="list-style-type: none"> • identify financial disclosures of low value to users of financial statements; • examine the mix of financial and non-financial disclosures, and recommend a revised framework that provides the most efficient, coherent and accessible way of reporting the range of information sought by users, whether in relation to financial performance or service delivery performance; • consider the interaction between the financial reporting requirements under generally accepted accounting practice (GAAP) and other requirements under local government legislation and regulation; • develop new measures for rates by category of rateable property (recommendation 7.10) and the unit costs of service delivery (recommendation 5.7); • consider the potential for new forms of extended external reporting, such as integrated reporting, to shape changes in the reporting framework; • ensure that the conclusions of the review are appropriately taken into account in the proposed review of the legislative requirements for Long-Term Plans (Recommendation 5.5); • determine how to best implement centralised publication of a set of mandatory disclosures across all councils, to support greater accessibility, transparency and comparability (eg, by using digital filing); and • be undertaken by a working group including the Department of Internal Affairs, the External Reporting Board and representatives of the local government sector and information users. The Office of the Auditor-General would be consulted. 	<p>Support and consistent with chapter 8 “Building an equitable, sustainable funding and finance system” and recommendation 24 (b): Retain rating while redesigning long-term planning and rating provisions to allow a more simplified and streamlined process.</p>
R5.5	<p>The Local Government Act 2002 should be revised to clarify, streamline and reduce the required content of Long-Term Plans so as to avoid duplication, ease the compliance costs on councils, and help make them more accessible documents. This review should incorporate the</p>	<p>Support and consistent with chapter 8 “Building an equitable, sustainable funding and finance system” and recommendation 24 (b): Retain rating while</p>

	conclusions of the proposed review of performance reporting (recommendation 5.4).	redesigning long-term planning and rating provisions to allow a more simplified and streamlined process.
R5.6	The scrutiny on long-term planning provided by the audit requirements should not be considered a substitute for internal quality-assurance processes. Councils should have robust quality-assurance procedures across their long-term planning process, including the use of expert review where appropriate (such as for highly technical or complex matters, or large and/or high-risk projects).	Support and consistent with chapter 8 “Building an equitable, sustainable funding and finance system” and recommendation 24 (b): Retain rating while redesigning long-term planning and rating provisions to allow a more simplified and streamlined process. Also see chapter 10 “System stewardship and support”.
R5.7	The review of local government performance reporting requirements should consider how to include measures of the aggregate unit costs of service delivery for a small number of essential infrastructure categories (roading, water supply, wastewater, stormwater and solid waste).	Support and consistent with chapter 8 “Building an equitable, sustainable funding and finance system” and recommendation 24 (b): Retain rating while redesigning long-term planning and rating provisions to allow a more simplified and streamlined process.
R6.1	<p>Given the limited scope of local government in New Zealand, central government transfers to local government should be restricted to the following situations:</p> <ul style="list-style-type: none"> • when local government activities have national-level benefit spillovers; • sharing risks across all taxpayers, when some communities are subject to damaging shocks (such as natural disasters); • helping low-income communities whose councils are struggling to fund essential services; and • recycling revenue collected centrally (for administrative efficiency) to cover costs incurred locally. <p>Central government payments to local government that do not have one of these principled justifications, or similar, risk undermining the autonomy and accountability of local government.</p>	Surpassed – FFLG draft report recommendation 22: agree on arrangements and mechanisms for them to co-invest to meet community wellbeing priorities, and that central government makes funding provisions accordingly.
R6.2	Given the modest scope of local government in New Zealand, the benefits of a property-tax-based	FFLG draft report recommendation 24 (a) and

	<p>system, and the absence of a clearly superior alternative, rating land and property should continue as local government's main taxing power. To help relieve funding pressures, councils should make better and more transparent use of their rating and other funding tools.</p>	<p>(b): That central government reviews relevant legislation to:</p> <p>a. enable councils to introduce new funding mechanisms</p> <p>b. retain rating as the principal mechanism for funding local government</p> <p>Note: decisions on new tools are supported by revenue principles of: Workability; Fairness and Sustainability; Incentives and National Consistency.</p>
R7.1	<p>In choosing among funding tools, rating bases and whether to charge rates as a percentage of property values or as uniform charges or some other targeted feature, councils should give close and explicit consideration to:</p> <ul style="list-style-type: none"> • promoting economic efficiency; • fairness in who pays; and • keeping compliance and administration costs low. <p>Sometimes these three goals will conflict, in which case councils must be clear and transparent about the reasons for their choices.</p> <p>Regarding fairness in who pays, councils must strike a balance between charging in line with who benefits from the service and basing payments on ability to pay. Again, it is important for councils to be transparent about their reasons for striking the balance they choose.</p>	<p>FFLG draft report recommendation 24 (a) and (b): That central government reviews relevant legislation to:</p> <p>a. enable councils to introduce new funding mechanisms</p> <p>b. retain rating as the principal mechanism for funding local government.</p> <p>Note: decisions on new tools are supported by revenue principles of: Workability; Fairness and Sustainability; Incentives and National Consistency</p>
R7.2	<p>The Government should resolve the legislative ambiguity about councils' ability to charge for their work on compliance, monitoring and enforcement (including incident response and investigation) of non-consented activities.</p> <p>The resolution could be through clear national guidance and/or a legislative amendment that explicitly provides for cost recovery. This work should be done in partnership with Local Government New Zealand, the New Zealand Society of Local Government Managers and local government practitioners.</p>	<p>Consistent with FFLG draft report recommendation 22: agree on arrangements and mechanisms for them to co-invest to meet community wellbeing priorities, and that central government makes funding provisions accordingly.</p>
R7.4	<p>The Government should give councils powers to levy:</p> <ul style="list-style-type: none"> • some form of value capture using targeted rates; • road congestion charges; and • volumetric wastewater charges. 	<p>Consistent with but enhanced in FFLG draft report recommendation 24 (a) That central government reviews relevant legislation to enable councils to introduce new funding mechanisms.</p>

	These would give councils additional means to recover the costs of growth from those who benefit from growth.	
R7.5	<p>The Government should expand the use of Special Purpose Vehicles to finance investment in growth infrastructure in fast-growth local authorities that face debt limits. If needed, the Government should promote legislation in Parliament to enable the placement of debt-servicing obligations on existing as well as new residents who will benefit from the infrastructure.</p>	Consistent with but enhanced in FFLG draft report recommendation 24 (a) That central government reviews relevant legislation to enable councils to introduce new funding mechanisms.
R7.6	<p>The Government, Local Government New Zealand and the New Zealand Society of Local Government Managers should work together to develop templates to standardise the structure and format (but not the content) of:</p> <ul style="list-style-type: none"> • councils' development contribution (DC) policies; and • council assessments of DC charges for individual property developments. <p>Councils should be strongly encouraged to use the templates.</p>	Consistent with FFLG draft report recommendation 22: agree on arrangements and mechanisms for them to co-invest to meet community wellbeing priorities, and that central government makes funding provisions accordingly.
R7.7	<p>While the general approach of local authorities to depreciating their infrastructure assets is satisfactory, three issues are of concern and may require action:</p> <ul style="list-style-type: none"> • councils' decisions about the best use of the large amounts of cash that depreciation funding can give rise to should be part of formulating their wider financial and infrastructure strategies; • councils should prioritise improving their knowledge of the condition and performance of their assets to, among other benefits, avoid the risk of under-estimating asset lives and over-estimating depreciation expense; and • the Essential Services Benchmark should be reviewed as part of the wider review of the performance reporting framework of local government referred to in Recommendation 5.4. Any reframing should avoid the implication that individual councils must invest in as much asset renewal each year as their depreciation expense. 	(Needs further consideration as part of final report)
R7.8	<p>Councils should consider the partial or full sale of commercial assets as an alternative to borrowing so they can finance needed new investment. Councils should consider each case on its merits</p>	This is part of overall community asset and balance sheet management.

	based on maximising net current and future benefit for the district or region.	
R7.9	The Government should not further advance the idea of implementing a vacant-land tax. Councils should tackle the problem of lack of housing supply by reducing regulatory and infrastructure barriers to development.	Surpassed by changes to NPS urban development and review of the RMA
R7.10	The Commission has recommended (Recommendation 5.4) a fundamental first-principles review of the local government reporting framework, including a review of performance measures. This first-principles review should consider how to implement a requirement that councils publish information on rates revenue by category of rateable property (eg, residential, business and rural), the number of rating units in each category and average and median rates per unit in each category.	Consistent with FFLG draft report chapter 8 "Building an equitable, sustainable funding and finance system" and recommendation 24 (b): Retain rating while redesigning long-term planning and rating provisions to allow a more simplified and streamlined process.
R7.11	Section 45 of the Local Government (Rating) Act 2002 should be amended to require councils to provide indicative itemised rates assessments that show ratepayers the dollar amounts they are contributing to each activity funded from each rate. Even so, councils should retain their current budgeting flexibility and should not, as a result of the amendment, be required to hypothecate the dollar amounts for particular activities.	(needs further consideration as part of Final report)
R7.12	Councils should assess rates for business properties in proportion to the cost of the council services that benefit those properties. If business rates are set simply to raise revenue without reflecting benefits, they are likely to cause productive inefficiency that is avoidable.	FFLG draft report recommendation 24 (a) and (b): That central government reviews relevant legislation to: a. enable councils to introduce new funding mechanisms b. retain rating as the principal mechanism for funding local government. Note: decisions on new tools are supported by revenue principles of: Workability; Fairness and Sustainability; Incentives and National Consistency
R7.14	The Government should pay development contributions on all projects it undertakes in line with the development-contributions policies of the local authorities in which the projects are located.	Consistent with FFLG draft report recommendation 22: agree on arrangements and mechanisms for them to co-invest to meet community wellbeing priorities, and that

		central government makes funding provisions accordingly; and recommendation 25: That central government agencies pay local government rates and charges on all properties.
R7.15	The Government should pay more than it currently pays (because of the Crown rating exemption) for the services that councils provide to Crown properties.	Consistent with FFLG draft report recommendation 22: agree on arrangements and mechanisms for them to co-invest to meet community wellbeing priorities, and that central government makes funding provisions accordingly
R7.16	The Government should find an efficient and effective means to fund councils for the cost of damage to local roads caused by heavy vehicles such as logging trucks. While the vehicles pay for their damage through Road User Charges, no effective mechanism currently exists to channel these funds to councils to cover the cost of the damage that councils bear.	Consistent with FFLG draft report recommendation 22: agree on arrangements and mechanisms for them to co-invest to meet community wellbeing priorities, and that central government makes funding provisions accordingly.
R7.17	The Government should remove the few remaining legislative limits on the fees that councils can charge to recover their regulatory costs. Consistent with provisions in the Resource Management Act 1991 and the Local Government Act 2002, it should constrain councils to charging reasonable costs only.	Consistent with FFLG draft report recommendation 24 (a) and (b): That central government reviews relevant legislation to: a. enable councils to introduce new funding mechanisms b. retain rating as the principal mechanism for funding local government. Note guidance is needed on definition of "reasonable costs".
R7.18	Central and local government should strive to achieve a more constructive relationship and effective interface through: <ul style="list-style-type: none"> • central and local government providing input (formally or informally) into each other's relevant policymaking processes, under an agreed set of principles or a protocol; • central government engaging in a meaningful dialogue with local government early in the process of developing relevant new regulations; 	Consistent with FFLG draft report recommendation 21: that central government expands its regulatory impact assessments to include the impacts on local government; and recommendation 22: agree on arrangements and mechanisms for them to co-invest to meet community wellbeing priorities, and that central government makes

	<ul style="list-style-type: none"> ● central government explicitly and consistently considering the costs to local government of relevant new regulations, and the funding of the costs, in its Regulatory Impact Assessments; ● cooperative approaches to tackling problems with implementing relevant new legislation, regulations or environmental standards; ● the creation of formal and informal feedback loops to identify problems with delegated regulations when they first appear; and ● the spread of information through the system and the sharing of expertise and knowledge. 	<p>funding provisions accordingly.</p> <p>Also see Chapter 6 “A stronger relationship between central and local government”.</p>
R7.19	<p>The Government should, in providing funding to local government for essential infrastructure (such as roading or drinking water infrastructure), take account of the rating capacity of councils in determining the level of support.</p> <p>Government funding should also be conditional on sensible infrastructure design and local co-funding. The Government should favour designs with the scale and specialisation best suited to help small communities upgrade and then maintain their essential infrastructure.</p>	<p>Consistent with FFLG draft report recommendation 22: agree on arrangements and mechanisms for them to co-invest to meet community wellbeing priorities, and that central government makes funding provisions accordingly.</p>
R8.1	<p>The Government should work with local government and suitable financial providers to develop and implement a national scheme for postponing rates. The scheme should:</p> <ul style="list-style-type: none"> ● have a single set of clear and generous eligibility rules; ● be accessible and have provisions that are easy to understand and work with; ● have moderate and transparent fees; and ● be nationally promoted. 	<p>Consistent with FFLG draft report recommendation 22: agree on arrangements and mechanisms for them to co-invest to meet community wellbeing priorities, and that central government makes funding provisions accordingly.</p>
R8.2	<p>The Government should phase out the Rates Rebate Scheme (RRS) over a defined period, such as five years, from when an effective national scheme for postponing rates is in place. Until the RRS is phased out, the current income-abatement thresholds and maximum payments should be maintained.</p>	<p>Needs further consideration as part of final report and this will depend on the funding models proposed.</p>
R8.3	<p>The Local Government (Rating) Act 2002 should be amended to remove the statutory cap on uniform charges.</p>	<p>Needs further consideration as part of final report</p>
R9.1	<p>Central and local government should jointly develop and provide a centralised source of knowledge and guidance about climate-change adaptation for councils. It should be authoritative</p>	<p>Consistent with FFLG draft report chapter 9 “Designing the local government system to enable the change we</p>

	and up to date on science and data, regulation and planning, risk management, legal issues and community engagement	need” and chapter 10 “System stewardship and support”; and recommendation 22: agree on arrangements and mechanisms for them to co-invest to meet community wellbeing priorities, and that central government makes funding provisions accordingly.
R9.2	The Government should develop and provide legal frameworks that give councils more backing and confidence to make land-use planning and infrastructure investment decisions that are appropriate in the face of constantly changing, but increasing, climate risks.	Surpassed with RMA reform process currently underway.
R9.3	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.	Consistent with FFLG draft report recommendation 22: agree on arrangements and mechanisms for them to co-invest to meet community wellbeing priorities, and that central government makes funding provisions accordingly; and recommendation 23: That central government develops an intergenerational fund for climate change, with the application of the fund requiring appropriate regional and local decision-making input.
R9.5	The Government should extend the New Zealand Transport Agency’s role in co-funding local land-transport infrastructure to include assistance to relocate or protect local land-transport infrastructure at risk from sea-level rise and more intense storms and flooding due to climate change. The amount of assistance should reflect the scale of the threat facing each council and its rating capacity. Assistance should be conditional on a strong business case and meeting engineering and environmental quality standards. It should only be available to defend existing infrastructure when business cases indicate that this option is clearly superior to other options	Needs to be considered within the context of a national climate change funding strategy. Consistent with FFLG draft report recommendation 22: agree on arrangements and mechanisms for them to co-invest to meet community wellbeing priorities, and that central government makes funding provisions accordingly; and recommendation 23: That central government develops an intergenerational fund for

		climate change, with the application of the fund requiring appropriate regional and local decision-making input.
R9.6	<p>The Government should create a new agency and a Local Government Resilience Fund. The new agency should work with at-risk councils to:</p> <ul style="list-style-type: none"> • co-fund the redesign and possible relocation and rebuilding of three-waters infrastructure when it becomes no longer viable because of sea-level rise and more intense flooding due to climate change; • co-fund the redesign and possible relocation and rebuilding of other non-land-transport local government infrastructure and assets at risk from the impacts of climate change; • work out the best way to lessen future flood risks from rivers. This could include moving to a new, more sustainable and best-practice paradigm of giving rivers room and developing multiple innovative uses of the wider river corridors. <p>Funding should be conditional on a strong business case and meeting engineering and environmental quality standards. It should only be available to defend existing infrastructure when business cases indicate that this option is clearly superior to other options. The level of funding should be based on a formula that reflects local need and rating capacity.</p>	Consistent with FFLG draft report recommendation 23: That central government develops an intergenerational fund for climate change, with the application of the fund requiring appropriate regional and local decision-making input.
R10.2	<p>Central government should explore ways to assist councils to identify properties operating as short-term rental accommodation businesses within their districts. Options to explore include requiring booking platforms to provide information to a national register of short-term rental accommodation providers.</p>	Consistent with FFLG draft report recommendation 22: agree on arrangements and mechanisms for them to co-invest to meet community wellbeing priorities, and that central government makes funding provisions accordingly; and recommendation 24 (a): That central government reviews relevant legislation to enable councils to introduce new funding mechanisms.
R10.3	<p>Councils should make better use of existing tools for funding and financing mixed-use infrastructure, including better use of debt and greater use of user charges. Councils should also make better use of efficient targeted rates, and communities</p>	Consistent with FFLG draft report recommendation 24 (a): That central government reviews relevant legislation to

	under significant pressure from tourism should introduce a broad-based targeted rate on ratepayers in business districts benefiting from tourism, levied on land value.	enable councils to introduce new funding mechanisms.
R10.4	Some central government funding for councils for tourism and mixed-use infrastructure is justified – particularly in tourist hotspots with a high proportion of day visitors. Such funding should be distributed in a more predictable, efficient and fair way by using a transparent allocation formula.	Consistent with FFLG draft report recommendation 22: agree on arrangements and mechanisms for them to co-invest to meet community wellbeing priorities, and that central government makes funding provisions accordingly; and recommendation 24 (a): That central government reviews relevant legislation to enable councils to introduce new funding mechanisms.
R11.1	The Government should actively encourage aggregation of council water businesses and better governance arrangements. It should also consider having backstop arrangements to deal with councils that fail to lift performance sufficiently to meet minimum health and environmental performance standards. The Government should place water providers under economic regulation when and where doing so would improve investment performance and minimise costs.	Surpassed with government 3 waters programme
R11.2	The Government should legislate to enable any council-owned water provider, incorporated as a council-controlled organisation, to directly charge water users for their services, with provisions similar to those applied to Watercare in Auckland.	Surpassed with government 3 waters programme
R11.3	The Government should legislate to enable councils to set targeted rates for wastewater on a volumetric basis, just as they can set volumetric targeted rates for the provision of drinking water.	Surpassed with government 3 waters programme



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