

Property Council New Zealand

Submission on the Review into the Future for Local Government's draft report

27 February 2022

For more information and further queries, please contact

Logan Rainey
Logan@propertynz.co.nz
021410787

Submission on the Review into the Future for Local Government’s draft report

1. Summary

- 1.1. Property Council New Zealand (“Property Council”) welcomes the opportunity to submit on the Review into the Future for Local Government Draft Report October 2022 (“the draft report”). Property Council understands the importance of the local government sector and has long championed reforms to local government that would contribute to thriving cities, infrastructure and communities.
- 1.2. We have prepared a list of recommendations to influence better, fairer outcomes for all. Comments and recommendations are provided on issues relevant to Property Council’s members.

2. Recommendations

2.1 At a high level, Property Council recommends:

- Retention of the current Annual Plan and Long-Term Plan processes;
- Retention of the current consultation requirements for local government decision making in the Local Government Act 2002, such as Section 82;
- The purpose of local government is to deliver core, local, public goods and services;
- Reform to the consenting system, that would cap liability of local authorities;
- Introducing a national consenting authority for complex commercial/industrial consents;
- Developing recommendations to enhance the relationship between local government and the private sector;
- That the beneficiary principle is applied by the Review Panel to their recommendations for the future funding and financing system;
- The abolishment of rating differentials as a funding tool; and
- Further engagement with relevant stakeholders, including both the public and private sector, occurs on proposed changes to funding and financing.

3. Introduction

- 3.1. Property Council is the leading not-for-profit advocate for New Zealand’s most significant industry, property. Our organisational purpose is, “Together, shaping cities where communities thrive”.
- 3.2. The property sector shapes New Zealand’s social, economic and environmental fabric. Property Council advocates for the creation and retention of a well-designed, functional and sustainable built environment, in order to contribute to the overall prosperity and well-being of New Zealand. We advocate for regulatory and tax settings that are both fit for purpose and fundamentally equitable.
- 3.3. Property is New Zealand’s largest industry and fastest growing source of employment. There are nearly \$1.6 trillion in property assets nationwide, with property providing a direct contribution to GDP of \$41.2 billion (15 percent) and employment for around 200,000 New Zealanders every year.

3.4. Property Council is the collective voice of the property industry. We connect over 10,000 property professionals and represent the interests of over 550 members organisations across the private, public and charitable sectors.

4. General Comment

4.1. Property Council welcomes the Review into the Future for Local Government. There is a clear need for reform within New Zealand's local government sector. Local government currently has a wide range of responsibilities, from acting as consenting authorities to the delivery of public infrastructure. These responsibilities not only shape outcomes for the property sector but directly impact the welfare of all New Zealanders.

4.2. We support the intent of developing solutions to improve the local government sector and deliver improved outcomes to stakeholders. However, we wish to raise our broad concern that the scope and focus of the Review's draft report has not placed sufficient emphasis on some of the core, practical challenges facing local government.

4.3. Such challenges have a direct impact on the everyday lives of New Zealanders. For example, the current failure of local government to efficiently manage the consenting system has had a direct and negative impact on housing supply and affordability. Another example is local councils inadequately maintaining existing public infrastructure whilst delivering new infrastructure, and public services such as public transport.

4.4. Decisions on maintaining (or creating new) assets have a measurable impact on factors including national productivity and climate emissions. It is vital that along with addressing democratic topics, the review also identifies solutions for these additional challenges. We would also like to see a greater focus on funding and financing in the final report.

5. 'Chapter 1: Thriving Local Government is Vital for Aotearoa New Zealand'

5.1. This chapter identifies five 'key shifts' that the panel considers important to achieve in order to ensure a more viable future for local government in New Zealand. These are:

- I. Strengthened local democracy.*
- II. Authentic relationship with hapu/iwi and Māori.*
- III. Stronger focus on wellbeing.*
- IV. Genuine partnership between local and central government.*
- V. More equitable funding.*

5.2. Property Council supports the key shifts of a '*genuine partnership between local and central government*' and '*more equitable funding*'. In our view, achieving success in both these areas will be critical for the future of local government. Our perspective on this matter will be explored in greater detail in our comment on Chapter's 6 and 8.

5.3. Property Council welcomes the intent of encouraging '*strengthened local democracy*', and an '*authentic relationship with hapu/iwi and Māori*'. However, you cannot legislate for "meaningful" engagement or authentic relationships. It comes down to people and personalities establishing mutual trust and respect. We would be wary of legislating consultation requirements that results in 'tick box' exercises instead of authentic conversations and meaningful engagements.

5.4. Property Council is concerned that the draft report proposes to place a *'stronger focus on wellbeing'* at the expense of a focus on local authorities delivering core services such as wastewater. In many cases, local authorities are already struggling to deliver core services efficiently and effectively, any shift in priority for local authorities could have unintended consequences for both communities and the property sector. Our perspective on this matter will be explored in greater detail in our comment on Chapter 4.

6. 'Chapter 2: Revitalising citizen-led democracy'

6.1. Property Council welcomes the intent of ensuring greater civic participation in local democracy. While many of the proposals to do so are outside our remit as an organisation, we would note the importance of ensuring that the private sector is actively engaged in local government decision making. This is due to the significant effect that local government decisions can have on the private sector, as well as due to the crucial role of the private sector in delivering infrastructure, urban development, and employment.

6.2. We would also like to raise a concern regarding the potential for over-consultation with communities. The public have a finite capacity to engage with local government and we are worried that certain proposals around participatory democracy/budgeting might not see representative engagement from the public. Property Council believes that there needs to be a balanced approach to engagement to with both the wider community and the private sector.

6.3. To that end, we recommend the retention of the current Annual Plan and Long-Term Plan processes, as they enable the private sector to be heard on key decisions made by local government. In principle, we further recommend that the consultation requirements for local government decision making in the Local Government Act 2002, such as Section 82, are also retained.

7. 'Chapter 4: Allocating roles and functions in a way that enhances wellbeing'

7.1. Property Council acknowledges the critical role of local government in advancing the interests and welfare of communities, businesses and the country as a whole. To best deliver meaningful outcomes and maximise value for ratepayers, we believe that it is important to ensure that local government in the future has a clearly established purpose and direction.

7.2. Property Council supports a purpose and direction for local government that places emphasis on delivering core, local, public goods and services. As we will discuss in our comment on Chapter 5, we are concerned that local government has lost focus on delivering and maintaining core, local public goods and services. It is also somewhat difficult to define the future purpose and direction of local government at greater depth, in light of ongoing uncertainty regarding the ongoing central government reform programs of Three Waters and the Resource Management system.

8. 'Chapter 5: Local government as champion and activator of wellbeing'

8.1. The draft report proposes that local government should place a greater focus on the four wellbeing's (social, environmental, economic and cultural) as the 'purpose' for local government in New Zealand. The view that councils are too narrowly focused on core services is also expressed.

- 8.2. Property Council does not support the proposed approach of the Review Panel. In our view, local government is currently struggling to deliver core public services to the level that can and should be expected by stakeholders.
 - 8.3. Some examples of this include the current shortfall in infrastructure investment and maintenance, significant issues and delay in the consenting space as well as the generally poor delivery of public transport in urban areas.
 - 8.4. Instead, Property Council strongly recommends that the purpose of local government is to deliver core, local, public goods and services. There should be a clear and agreed understanding between central and local government on what each party is responsible for delivering to the public. The high-quality delivery of core, local, public goods and services is an important step towards improving the well-being of the community at large.
 - 8.5. We believe that there is a critical role for local government moving forward, in delivering goods and services to the community that otherwise might not be provided for by either central government or the private sector.
 - 8.6. For instance, we would welcome reform to the local government sector that would see improvement to the consenting system by capping local government liability. We also favour a national consenting authority which would handle large and complex commercial/industrial consenting applications. These changes would streamline the consenting process.
 - 8.7. We note that the draft report poses a question on how to better achieve intergenerational wellbeing. This a key topic of interest for Property Council and our members, particularly in terms of funding infrastructure that supports residential development.
 - 8.8. As a case study, Auckland Council has proposed a development contribution policy for the Drury area that would see development contributions collected upfront for new infrastructure promised over a 30-year period. This would see new homes in Drury pay upwards of \$83,251 (compared to a current average across of Auckland of \$21,500) for infrastructure that they might very well never see, utilise or benefit from. This creates significant inter-generational inequities, as well as placing further pressure on housing affordability and supply.
 - 8.9. Property Council has long supported funding models that ensure a fair division of the costs of development and that operate on a beneficiary pays model. Ensuring inter-generation equity in infrastructure funding should be an important consideration for local government moving forward.
- 9. 'Chapter 6: A stronger relationship between central and local government'**
- 9.1. It is critical for New Zealand's long-term prosperity to ensure that the roles and functions of central and local government are well aligned and that they serve as effective partners to each other. Each tier of government fulfils a vital, and unique, role in providing public goods and services to New Zealand businesses and communities.
 - 9.2. The current relationship between central and local government is characterised by a lack of understanding and trust. Overtime, this dynamic has resulted in sub-par policy outcomes that effect businesses and the wider community through under-investment in infrastructure and public asset management.

- 9.3. Property Council supports the intent of seeking to develop a stronger relationship between central and local government. We support outcomes that will lead to a greater degree of collaboration and ‘joined up thinking’ between central and local government, in order to deliver tangible benefit to businesses and the wider community.
- 9.4. Property Council shares the Review Panel’s concern at the burden on unfunded mandates placed upon local government by central government. We support the measures proposed in Chapter 8 to address this issue.
- 9.5. Holistically, we would also note the significant importance of also ensuring that there is a robust and healthy relationship between local government and the private sector. The private sector plays a critical role in shaping the built environment, delivering infrastructure and funding local government initiatives (through mechanisms such as rates or public-private partnerships). Accordingly, we recommend that the review panel develop recommendations to enhance the relationship between local government and the private sector.

10. ‘Chapter 7: Replenishing and building on representative democracy’

- 10.1. Property Council supports both the proposed establishment of a mandatory professional development program for elected members and the proposal to improve elected members remuneration. Elected members play a vital role in local government and efforts to support them in carrying out their responsibilities should be encouraged. In our view, part of this program should include engagement with key stakeholders such as the business or property sectors.
- 10.2. We also support the establishment of a shared executive professional development and secondment program between central and local government. In our view, this would support the objective of improving the relationship between central and local government.

11. ‘Chapter 8: Equitable funding and finance’

Holistic comment on funding and financing

- 11.1. Many of the aforementioned challenges facing the local government sector stem from issues relating to funding and financing. The current system of local government funding and financing provides for a range of constraints that make it difficult for local government to adequately respond to urban growth pressures. Improperly funded growth contributes to ongoing issues with housing supply and affordability.
- 11.2. There are a range of considerations at play when it comes to ensuring a more equitable approach to local government funding and financing. One such consideration is that local government entities already have a wide range of funding and financing tools available to them, but often are not used effectively or at all.
- 11.3. Longstanding tools that are available include general and targeted rates, fees and user charges, development contributions and debt/asset recycling. More recent funding tools have also been developed such as the Infrastructure Funding and Financing Act (“IFF Act”), which introduced alternative funding tools such as Special Purpose Vehicles (SPVs) to help local government fund much needed new infrastructure.
- 11.4. Property Council has consistently advocated for local government entities to make more efficient use of existing funding and financing tools. However, we also strongly believe in the

need for further reform to establish additional funding and financing options. We are currently in discussions with central and local government on value capture as an option for funding infrastructure that enables new urban growth.

- 11.5. There are also existing equity issues within local government funding and financing that we believe require reform. Property Council supports the beneficiary pays principle, where practical to do so. We note that this principle aligns with the findings of the Productivity Commission, who found that funding models for local government should take “account of who benefits from local government services”¹. We recommend that the beneficiary principle is applied by the Review Panel to their recommendations for the future funding and financing system, in order to better achieve equitable outcomes in the future.
- 11.6. There are also numerous examples of rating differentials being imposed with little evidence or objective analysis, particularly of the service and benefits derived. Business ratepayers often pay a level of rates disproportionate to the level of services rendered. This is an inequitable outcome and a short-sighted revenue raising mechanism. We note that the current approach to rating differentials is fragmented across local authorities, which often results in negative effects on local businesses. Property Council recommends that the review panel adopt the abolishment of rating differentials.
- 11.7. Furthermore, while we support development contributions as a means of developers paying a share of the cost of urban growth, we believe that over time it would be more equitable to move towards alternative funding and financing tools such as SPVs or user charges. This is due to the equity impact of development contributions on homebuyers.

Comment on the draft report vis a vis funding and financing

- 11.8. Property Council shares the Review Panel’s concern regarding the imposition of unfunded mandates by central government on local government. As a first step toward rectifying this, we support the proposed requirement for central government ‘Regulatory Impact Statements’ to include the funding implications on local government.
- 11.9. We welcome the draft report’s recommendation to enable greater use of central and local government co-funding, including the emphasis on central government to make funding provisions according. However, in our view that priority should be on the delivery of core, local, public goods and services. We further note that the current approach to central government funding support for local government is fragmented and ad hoc, with potential for streamlining.
- 11.10. In principle, Property Council welcomes the proposal for a national fund for climate change adaptation and mitigation. Local government has a critical role to play in delivering funding for climate change mitigation and adaptation. However, we note the need for greater information and clarity on how this proposed fund would operate, be funded and guidelines around who would be the beneficiaries.
- 11.11. Property Council strongly endorses the proposed recommendation that central government should pay local government rates and charges on all property. This would enhance equity by achieving parity between private and public landowners. It would also help alleviate funding

¹ New Zealand Productivity Commission. (2019). Local government funding and financing: Final report. Retrieved from https://www.productivity.govt.nz/assets/Documents/a40d80048d/Finalreport_Local-government-funding-and-financing.pdf

shortfalls for local government. We note that the same principle should also apply to Fire and Emergency Levies as well.

11.12. We also support the proposed review of legislation, to better enable councils to introduce new funding mechanisms. It is critical that New Zealand has an up-to-date system for funding and financing local government, based on best practice. We welcome the draft reports proposed focus on new funding mechanisms such as value capture, congestion charges, visitor levies, revenue bonds and volumetric charging. We recommend that further engagement with relevant stakeholders, including both the public and private sector, occurs on the implications and implementation of these proposals.

12. 'Chapter 9: System design'

12.1. In principle, we support the recommendation for central and local government explore and agree to a new structural and system design for local government. However, Property Council would note that it is somewhat difficult to ascertain the overall system design for local government without clear understanding and broader agreement on the scope and purpose of local government. We reiterate our support for a purpose for local government that focuses on delivering the provision of core, local public goods and services.

12.2. Property Council supports the proposal for a program that identifies and implements the opportunities for greater shared services collaboration across local government entities. It is important that our local government entities deliver outcomes in an efficient and effective manner that delivers value for ratepayers. We further support the proposed establishment of a 'Local Government Digital Partnership' to develop a digital transformation roadmap for local government.

13. Conclusion

13.1. Property Council wishes to thank the Review Panel for the opportunity to submit on the Future for Local Government Review. Property Council understands the importance of the local government sector and has long championed reforms to local government that would contribute to thriving cities, infrastructure and communities.

13.2. While we are supporters of the intent of the Review, and support various proposals within the draft report, we wish to raise our broad concern that the scope and focus of the Review's draft report has not placed sufficient emphasis on some of the core, practical challenges facing local government.

13.3. Comments and recommendations are provided on issues relevant to Property Council's members. Any further enquiries, please do not hesitate to contact Logan Rainey, Advocacy Advisor, via email: Logan@propertynz.co.nz or cell: 021410787.

Yours Sincerely,



Leonie Freeman

Chief Executive - Property Council New Zealand