



SUBMISSION TO THE PRODUCTIVITY COMMISSION ISSUE PAPER: LOCAL GOVERNMENT FUNDING AND FINANCING (NOVEMBER 2018)

Engineering New Zealand (formerly IPENZ) is New Zealand's peak professional body for engineers. We are New Zealand's strongest and most influential voice on engineering issues. Our membership is growing, with more than 22,000 members who want to help shape the public policy agenda.

This year we released [*Engineering A Better New Zealand*](#), which sets out an expert engineering vision for a healthier, more prosperous New Zealand – and the steps we must take together to get there. Community resilience sits at the heart of this vision – a more resilient and sustainable New Zealand that can thrive in the face of climate change, natural disasters and the effects of growing urbanisation. This means valuing resilience and creating buildings, infrastructure and processes that protect people and property.

Local government is a major infrastructure provider and yet there are significant limitations in its ability to finance, fund and deliver the resilient infrastructure New Zealand needs. We want to see more coordinated infrastructure investment at the scope and scale required to deliver affordable and resilient infrastructure that meets the needs of all New Zealanders.

Engineers are central to meeting this infrastructure challenge. It is important that local authorities have access to the best engineering advice to support decision-making for infrastructure services. Currently, some local authorities don't have ready access to the engineering expertise they need to make the best decisions about their infrastructure, and we see this as an issue that needs to be addressed.

Please see our responses below to some of the questions posed by Commission in the Issue Paper. We would appreciate the chance to meet with the Commission to discuss our feedback.

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RESPONSES TO ISSUES PAPER QUESTIONS

Q1 What other differing circumstances across councils are relevant for understanding local government funding and financing issues?

There are many different circumstances across councils, including population size and composition, the local economy, tourism demands, variable impacts of climate change, condition of infrastructure, and current user charges.

Infrastructure presents the biggest cost and the biggest funding risk to councils. To respond to local infrastructure challenges requires engineering capability. It is important that councils have access to the best engineering advice to design and operate large-scale, long-term and high-cost infrastructure projects.

Q2 What explains the difference between the amount that councils account for depreciation and the amount spent on renewing assets? Are changes needed to the methods councils use to estimate depreciation? If so, what changes are needed?

Depreciation needs to reflect actual asset maintenance and renewal costs. In 2014 the Office of the Auditor General in found local authorities consistently spent less than they intended on capital works, including on asset renewals and a downward trend in asset reinvestment. The OAG concluded that local authorities often don't have reliable information about their below-ground assets; are likely to know more about newer assets than older assets (such as those that have been in the ground for 50 years); and are more likely to reinvest in their roading assets than their water assets. [Controller and Auditor General, Water and roads: Funding and management challenges.](#)

Part of the problem may be that there is insufficient engineering input into asset management. Engineers play a crucial role in assessing how an asset is performing over its expected lifespan. The lifespan of an infrastructure asset can be compromised if the demands increase beyond expectations. For example, the impact of climate change is a significant variable that needs to be factored into asset management plans.

Q3 In what ways are population growth and decline affecting funding pressures for local government? How significant are these population trends compared to other funding pressures?

Urbanisation has a significant impact on the viability of rural councils. A declining population may contribute to a failure to maintain and renew infrastructure assets. A rising population may result in lags in the development of the required infrastructure. Cost and funding pressures may result in deferring capital projects to reduce the impact on rates.

Q5 To what extent is tourism growth resulting in funding pressures for local government? Which councils are experiencing the greatest pressure, and how is this manifesting?

Seasonal fluctuations due to visitors leads to high peak demand and increases the risk of infrastructure failure. For example, road accidents and congestion, a lack of basic facilities, water shortages, boil water notices or a lack of wastewater treatment capacity.

Q6 Is an expansion of local government responsibilities affecting cost pressures for local government? If so, which additional responsibilities are causing the most significant cost pressures and what is the nature of these increased costs? To what extent do these vary across local authorities?

Higher mandatory standards to protect water quality and increase resilience can add significant cost pressures. For example, the current 3 waters review had found that regulations and standards need to be improved, which will increase water infrastructure costs for many councils.

Q13 What other factors are currently generating local government cost pressures? What will be the most significant factors into the future?

The variable impacts of climate change are likely to be an ever-increasing cost factor. These costs will fall unevenly with some communities likely to require relocation. Increasing storm events, drought and sea level rise all result in pressures on existing infrastructure. Heavier rainfall is already exceeding the capacity of some existing infrastructure to cope. This can result in road slips, flooding, reduced water quality, and increased risks to public health and safety. When there is no insurance the council is the provider of last resort required to meet the needs of its communities. There is no funding mechanism for the adaptation likely to be necessary to avoid natural disasters.

Q14 How will future trends, for example technological advances and changes in the composition of economic activity, affect local government cost pressures?

It is hard to predict the impact of future technology. Whilst there are potential cost savings, being able to do more can result in rising expectations and a higher level of service.

Q18 How much scope is there for local government to manage cost pressures by managing assets and delivering services more efficiently?

There are significant economies of scale and scope in the provision of infrastructure services. But local government does not always have the mechanisms to plan and deliver infrastructure regionally, which can result in disjointed investment decisions. An example of fragmentation is wastewater and drinking water services outside of the Auckland and Wellington regions.

Q22 What are the most important barriers to local government achieving higher productivity

A challenging combination of capacity, capability, funding and financing issues is most acute for smaller councils who may lack the expertise, independence, scale and scope to make and fund the optimal investments for New Zealand. We have submitted to Treasury that the proposed Infrastructure Body must support sound investment in local government infrastructure assets.

It is important that local authorities have access to the best engineering advice and have the skills to manage large scale infrastructure projects. Over time many councils have lost in-house engineering expertise, which may result in sub-optimal infrastructure investment and management decisions.

Q32 Is there a case for greater use of certain funding tools such as targeted rates and user charges? If so, what factors are inhibiting the use of these approaches?

User charges are an effective mechanism to raise revenue and as a result finance capital investment. User charges, incentivise more efficient use of resources and enable financing for long-term capital projects paid for over the lifespan of the asset. For example, volumetric charging for water and wastewater, and variable road user charges. User charges can help to ensure that costs fall fairly on those that use the services.

There can be a democratic barrier to introducing targeted rates and user charges, partly because the need for increased investment is not well understood by the public. Where there is greater community understanding there can be support for targeted rates and user charges. For example, Auckland's Safeswim model led to community demand for cleaner water even if this meant targeted rates to pay for it.