



**PSA Submission on the
Productivity Commission local
government funding and financing
issues paper**

February 2019

PSA submission to Productivity Commission on the on the local government funding and financing issues paper.

About the PSA

The New Zealand Public Service Association Te Pūkenga Here Tikanga Mahi (the PSA) is the largest trade union in New Zealand with over 70,000 members. We are a democratic organisation representing members in the public service, the wider state sector (the district health boards, crown research institutes and other crown entities), state owned enterprises, local government, tertiary education institutions and non-governmental organisations working in the health, social services and community sectors.

People join the PSA to negotiate their terms of employment collectively, to have a voice within their workplace and to have an independent public voice on the quality of public and community services and how they're delivered.

The PSA is the principal local government trade union, representing 7,560 local government workers. We are one of the few organisations that has a solid overview of the local government sector, not only from the perspective of local government workers and union members, but also from a civil society perspective through our 70,000 members who work in other sectors and who are residents and ratepayers in every part of the country.

General comment

1. The PSA welcomes the Productivity Commission's review of local government funding and financing and the opportunity to contribute to this issues paper. We would also welcome the opportunity to meet with the commission to discuss the issues further.
2. Local government has an essential democratic role, and its legitimacy as a tier of government should be constitutionally protected, as it is in many European Union states, and in the post-apartheid constitution of the Republic of South Africa.
3. The PSA supports strong and vibrant local government services as an essential pillar of strong communities. The reinstatement of the four well-beings into the Local Government

Act is welcome and we look forward to the passage of the amendment bill currently before parliament. The bill restores many of the important principles of the 2002 Local Government Act in recognising the pivotal contribution local government can and does make to the wellbeing of communities and the environment.

4. We are disappointed at the way in which the Productivity Commission's issues paper represents the question of 'non-core' expenditure (p.37). In our view, the inclusion of one highly ideological view on what constitutes the 'core' activities of local government – that of the self-interested lobby group the Local Government Business Forum – without a counter-view is unbalanced and undermines sensible consideration of the widely varying opinions on this topic.
5. The Local Government Business Forum favours minimal public provision of local government services– preferring that this be undertaken by the private sector – and the use of user-pays for services (April 2018). The forum's approach is heavily influenced by the individualist, neo-liberal economic orthodoxy that prevailed in New Zealand during the 1980s and 1990s and that has been attributed to several subsequent negative social and economic outcomes, including vastly widened inequalities, the erosion of public infrastructure and of the quality and availability of public services, and a reduction in labour rights.
6. The inclusion of the LG Business Forum's highly biased view on core council activities without critique gives the impression of Productivity Commission's support for this view, which is concerning to the legitimacy of this review.
7. Contrary to the LG Business Forum, the PSA takes a broad view of council services. We argue that local government – as the democratic mechanism closest to communities – has a broad and central role in contributing to community social, economic and cultural wellbeing. Library services, parks and recreation, community and economic development, are just a few of the services that we support as being core to local government activities, delivered most effectively, efficiently, and fairly by the public.

Cost pressures

Employment conditions

8. As a union the PSA is concerned with improving the employment terms and conditions of our members working in local government. As well as negotiating for general wage increases in bargaining, the PSA is involved with two campaigns that aim to significantly boost the wages of our lowest paid members in the local government sector: the living wage campaign and equal pay. Successful resolution of these campaigns will have cost implications for councils.
9. Many of our members working in local government earn below the living wage and struggle daily to meet the cost of living. The PSA is part of the living wage coalition of unions, churches and community organisations and we have been actively campaigning for local government employers to pay the living wage to all employed and contracted staff. While the campaign has been successful in gaining agreement from some large local government employers to pay the living wage as minimum, some small councils may find this difficult.

10. The elimination of gender and ethnic wage discrimination is a strategic goal for the PSA, and a priority for the current Government. The PSA is concerned that the wages of many female workers in local government may suffer from gender-based discrimination, which is illegal under the 1972 Equal Pay Act. This includes staff working in female dominated occupations - such as library workers - whose work is likely to have been historically undervalued and underpaid.
11. Since 2016, the PSA has successfully settled two significant equal pay claims, for people working as care and support workers in the aged care and mental health and addictions sectors, and social workers at Oranga Tamariki. The equal pay settlements affected close to 60,000 workers, at a cost of over \$2 billion dollars over five years.
12. Both these occupations were heavily dominated by women workers, whose work had been undervalued and underpaid for decades. The size of the eventual wage increases – both in the region of 30% - reflects the scale of this undervaluation.
13. Paying the living wage as a minimum and rectifying wage discrimination will require higher than usual wage settlements. While this will be a cost to councils, local communities are likely to benefit from the increased spending power of low-income workers. Low income earners lack the ability to spend on many necessary basic items, including sufficient food, clothing and personal care. Boosts to low wages provide additional disposable income to meet these basic needs and can thus boost a local economy.
14. The pressure on local authorities to meet infrastructure maintenance and development costs has at times been used as a reason why local government employers will not fund improvements to employment conditions. This is neither fair nor reasonable: local government workers should not be expected to bear the burden of public infrastructure costs through their wages.
15. Technology-driven changes to how and where people work also need to be considered by the review. Large-scale closure of, or reductions in, local production activities affect the ability of people to remain in their local communities. Local government has a large role to play in responding to these changes by supporting workers and businesses to remain in their communities.
16. The last decade has seen a significant increase in the use of private consultants to undertake core local and central government work, at the expense of directly employed staff. While local government expenditure on private consultants is not easily available, in 2017 government departments spent \$550m on contractors, close to double what they spent in 2009 (Rutherford 2018). The replacement of permanent employees with consultants is a form of privatisation. It is costly and undermines the knowledge base, the capacity and the integrity of public services. Spending on direct employees rather than private consultations is both more cost effective and more conducive to building strong public services.

Climate change

17. The PSA is concerned that the issues paper pays insufficient attention to the impact of climate change on local government. Climate change will be one of the largest – if not *the* largest – determinants of local government future planning, investment and funding decisions. The profound cost implications of climate change to local government shouldn't be underestimated.

18. Planning for the impact of climate change on future funding and cost pressures needs to consider several factors including, but not limited to:
- movements of local, regional, national and international populations in response to rising sea levels;
 - changes in land use – for example the need to relocate food production;
 - the protection of safe drinking water as sea waters rise;
 - changes to waste management
19. We agree that climate change is of national significance and requires a national strategy to support the work of local government.

Funding/meeting cost pressures

20. The PSA agrees with the finding that many local authorities struggle with the costs required to adequately maintain and develop public infrastructure and to deliver public services. Nonetheless, ensuring that our communities are well served by modern, safe, and high-quality services, facilities and infrastructure is essential to our social and economic wellbeing.
21. The PSA disagrees with the principle of user pays for public services and opposes any extension of their use in local government, unless rigorous mechanisms are put in place to protect fair and universal access to services. Charges for water use, for example, could be levied only on high users, rather than on necessary and 'usual' household consumption usage. Without these protections user pays are a regressive means of paying for public services that disproportionately impacts people on low incomes and can be a barrier to them accessing services.
22. Rating of Māori land is a big issue in many communities and needs to be considered as part of the review.
23. We support greater partnership between central and local government, both in the planning and funding of local infrastructure and services. This is particularly important when the local cost is likely to have national benefit, and where an initiative or approach is being driven by central government policy preferences. We welcome the inclusion of local government planning and funding considerations as part of the terms of reference information the Government's newly established Infrastructure Advisory Unit.
24. The PSA opposes the use of public private partnerships and urges public entities to avoid the use of public private partnerships (PPPs) in the development and delivery of new infrastructure. We argue instead for increased investment in public service capacity and capability.
25. Research published in October 2018 by the European Network on Debt and Development (Eurodad) analysed the impact of 10 PPP projects in developing and developed countries. It found that PPPs were associated with: high fiscal costs and risks to the public; inadequate transparency and democratic accountability; and poor social, economic and environmental outcomes. It recommended that decision makers "resist the encroachment of PPPs and to

push instead for high-quality, publicly-funded, democratically-controlled, accountable public services.”¹

26. Public-public partnerships – such as between two or more local authorities or between central and local governments – should be investigated and pursued as a preference to public-private partnerships to fund and develop infrastructure and deliver services.
27. We consider there is greater scope for central government to assist in the providing finance for the development of local infrastructure and that this could take the form of low – or no- - interest loans. The PSA would also like to see an expansion of local government’s involvement in the provision of low-cost social housing. This is an area where central government could assist in the provision of low-cost finance. Similarly, the essential investment required to develop our water and waste-water infrastructure could benefit from a public-public partnership between central government and local government authorities.
28. Weaknesses in the use and application of depreciation are well canvassed in the paper and we agree that improvements need to be made to the regime. In some councils depreciation is used as a form of asset-stripping, with the depreciation allowances of some assets redirected to pay for other non-related services, at the expense of the original asset.
29. The PSA does not have a preferred form or mix of funding for local government but believes that the following points need to be considered when designing a funding regime:
 - In general, PSA members support the concept of rates: because of the link with property values, it is a transparent and broadly equitable way of raising revenue. Having said that, however, we also believe that, in a time of rapidly rising property values and with local government budgets under unprecedented pressure, there is a limit on how much funding can sustainably be raised through rates, and so funding from other sources needs to increase.
 - The PSA does not believe that tinkering with the current system will solve the underlying issue: local government funding is inadequate for the job it must do, and additional funding must be found.
 - Government should compensate local government for any costs incurred when transferring central government responsibilities to local government or requiring new functions of them, or when the community expects local government to fill gaps in services not provided by central government.
 - There should be greater ability to raise funds locally, but any new revenue measures should be progressive rather than regressive. This should limit the application of user charges (for example, for services that carry any social or public good benefit) and local consumption taxes
 - The collection of locally raised revenue should be simple to administer
 - Local authorities should not consider privatisation of assets as a means of raising income or reducing debt

¹ Eurodad (2018), “History RePPPeated - How public private partnerships are failing”, accessed 24 October 2018 from <https://eurodad.org/historyrePPPeated>.

- It is worth exploring ways in which visitors who utilise services or facilities in a locality can contribute to the costs borne by residents and ratepayers
- Any discussion of funding must also address the raising of finance, the cost of debt servicing and intergenerational equity associated with spreading debt for new infrastructure. Borrowing to invest in important infrastructure is a legitimate tool for local government.
- Central government has a role to play in sharing revenue with vulnerable councils and should not look to amalgamations as the automatic solution when local authorities' revenue base is insufficient to provide an appropriate range of services
- It is worth exploring other forms of revenue sharing, such as sharing the taxes collected on economic activity in a region with local authorities in that region

References

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For further information, please contact:

Sarah Martin
 Senior Advisor
 Policy and Strategy
 New Zealand Public Service Association
 PO Box 3817
 Wellington 6140

Phone: 04 816 5040

Email: sarah.martin@psa.org.nz