



# Inquiry into local government funding and financing

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**New Zealand Productivity Commission**

RCA Forum

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# Overview

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- About the Commission and its inquiries
- Terms of reference for this inquiry
- Inquiry process
- Main findings
- Summary of key proposals

# NZ Productivity Commission

- Established in 2011 as an independent Crown Entity
- Purpose – “to provide advice to the Government on improving productivity in a way that is directed to supporting the overall wellbeing of New Zealanders, having regard to a wide variety of communities of interest and population groups in New Zealand society”
- Must act independently



# Terms of reference

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- Understand the drivers of local government costs, now and into the foreseeable future
- Assess the adequacy, efficiency, sustainability, equity and affordability of the existing local government funding and financing framework
- Advise whether new or improved approaches are required

# The process so far...

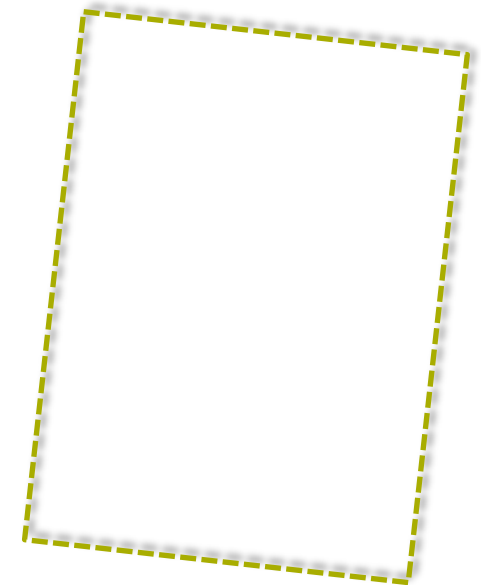
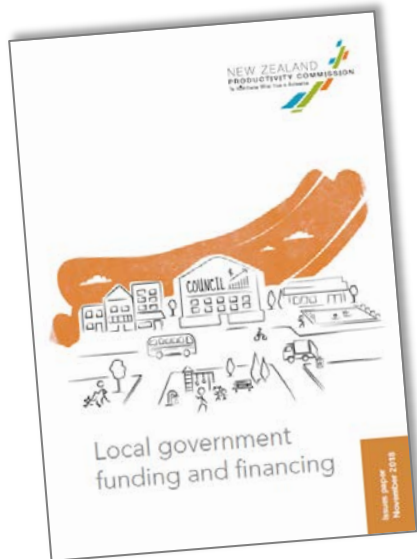
Issues paper  
November 2018



Draft report  
July 2019



Final report  
November 2019



- 271 submissions
- 80+ engagement meetings across the country

- Five in-depth case studies
- Expert advice and input

# Main findings



# Councils currently have a wide range of funding & financing tools

## Rates



- Just under 50% of total revenue
- Ratepayers include urban and rural households, and businesses
- There are three different kinds of rates

### General rates

Rates paid by all ratepayers levied on property values

### Uniform charges

A fixed rate paid by all ratepayers

### Targeted rates

Rates paid by ratepayers identified as beneficiaries of a specific service

Vested assets and development contributions



About 8% of total revenue

Interest and dividends



About 5% of total revenue

Other regulatory income



About 5% of total revenue

## Grants and subsidies



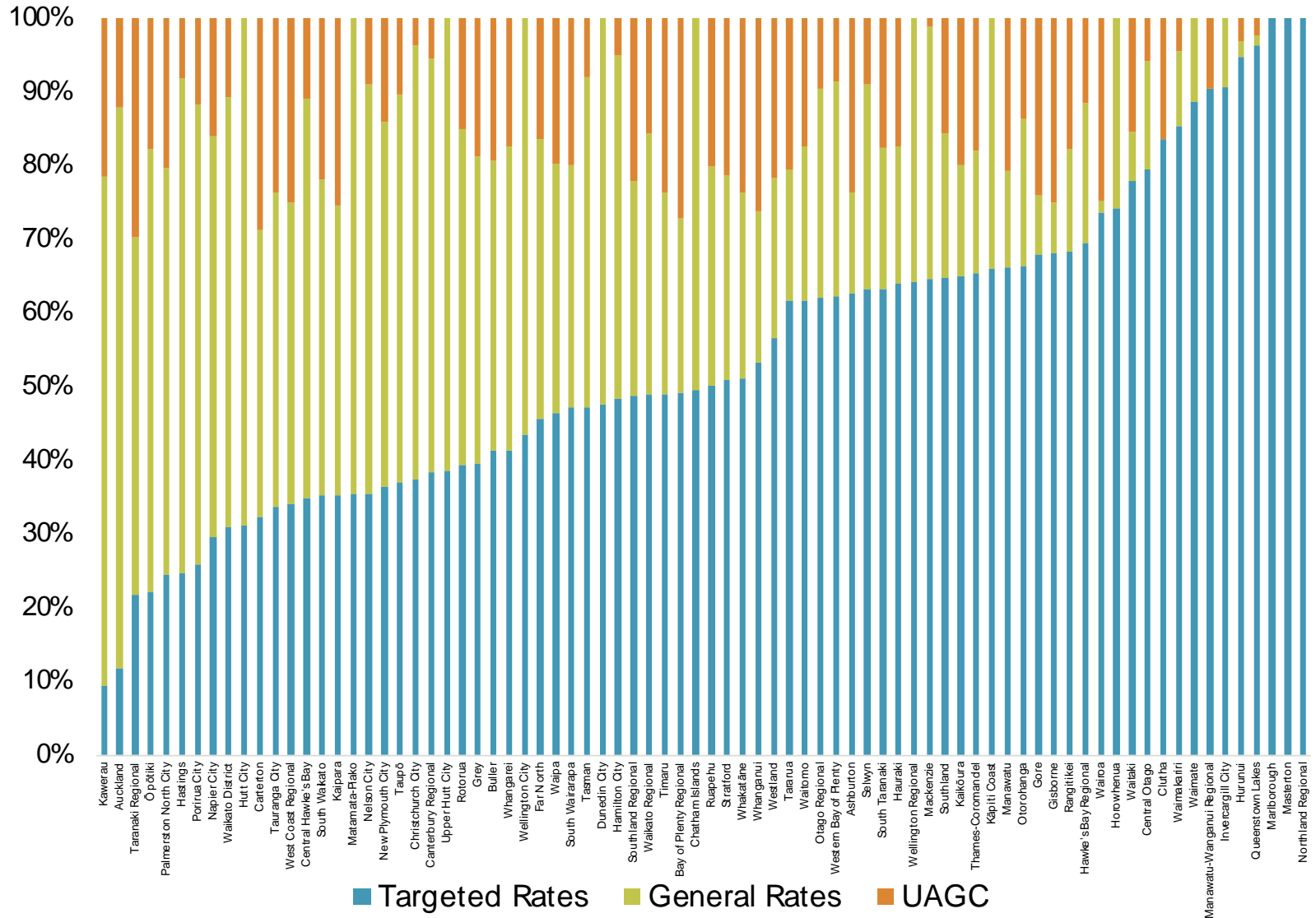
- About 20% of total revenue
- Mostly comes from central government grants (through NZTA) to cover roading and other transport costs

## User charges and prices



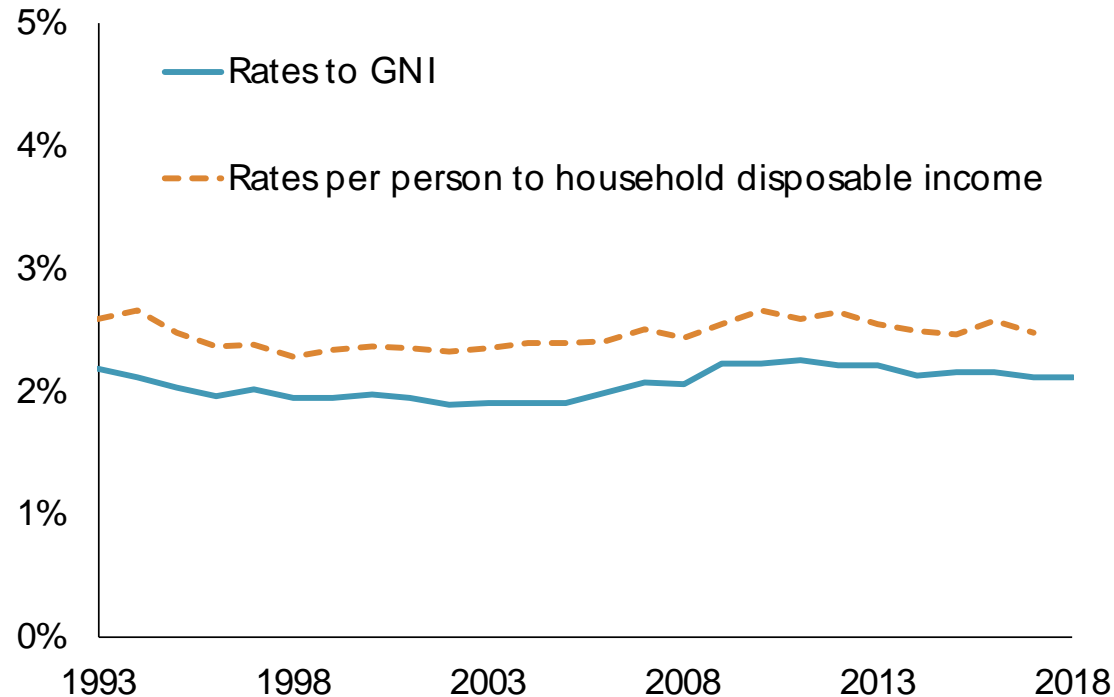
- About 14% of total revenue
- Includes revenue from water meter charges, rental income from properties and admissions charges

# Councils raise their revenue in different ways





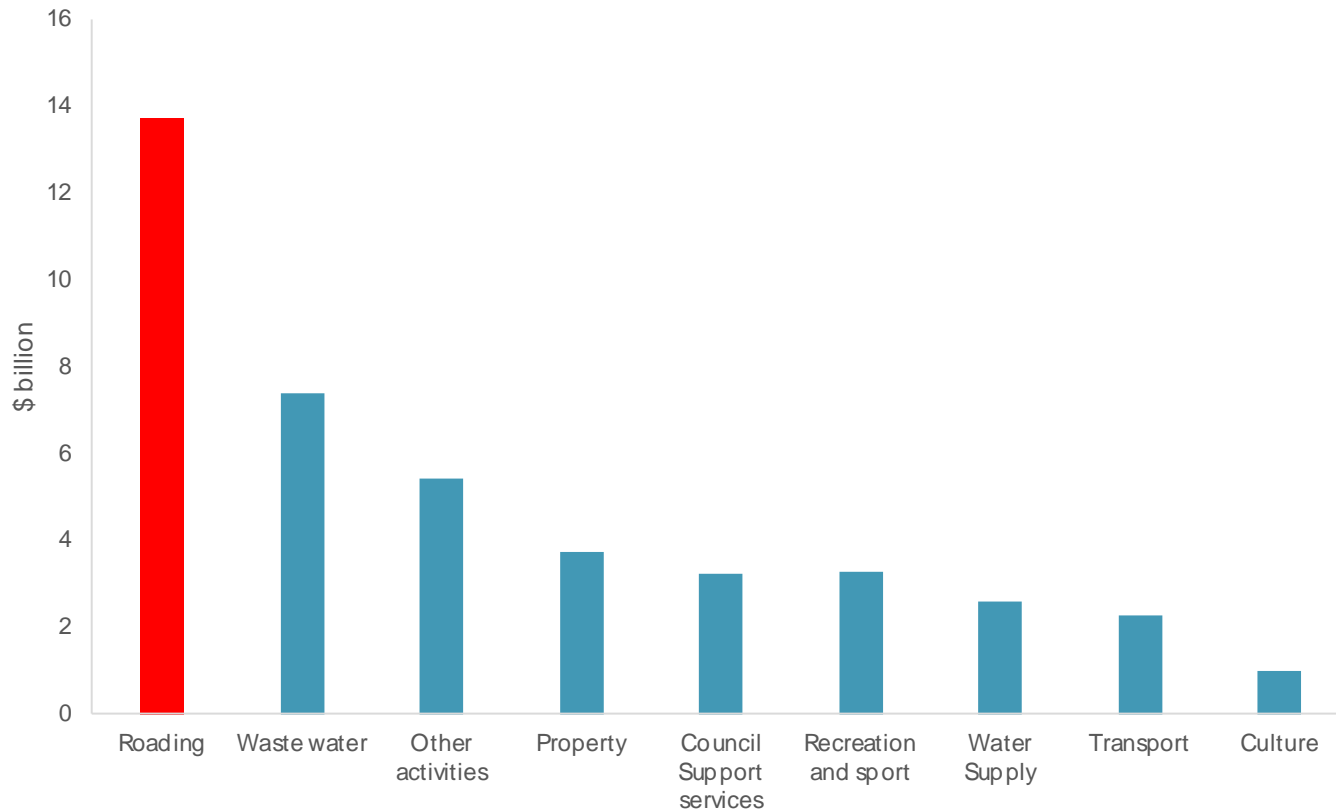
# Overall, rates have grown in line with incomes



- At an aggregate level, rates have grown in line with incomes
- However, there are marked differences across councils

# Local government spending growth has focused on essential infrastructure

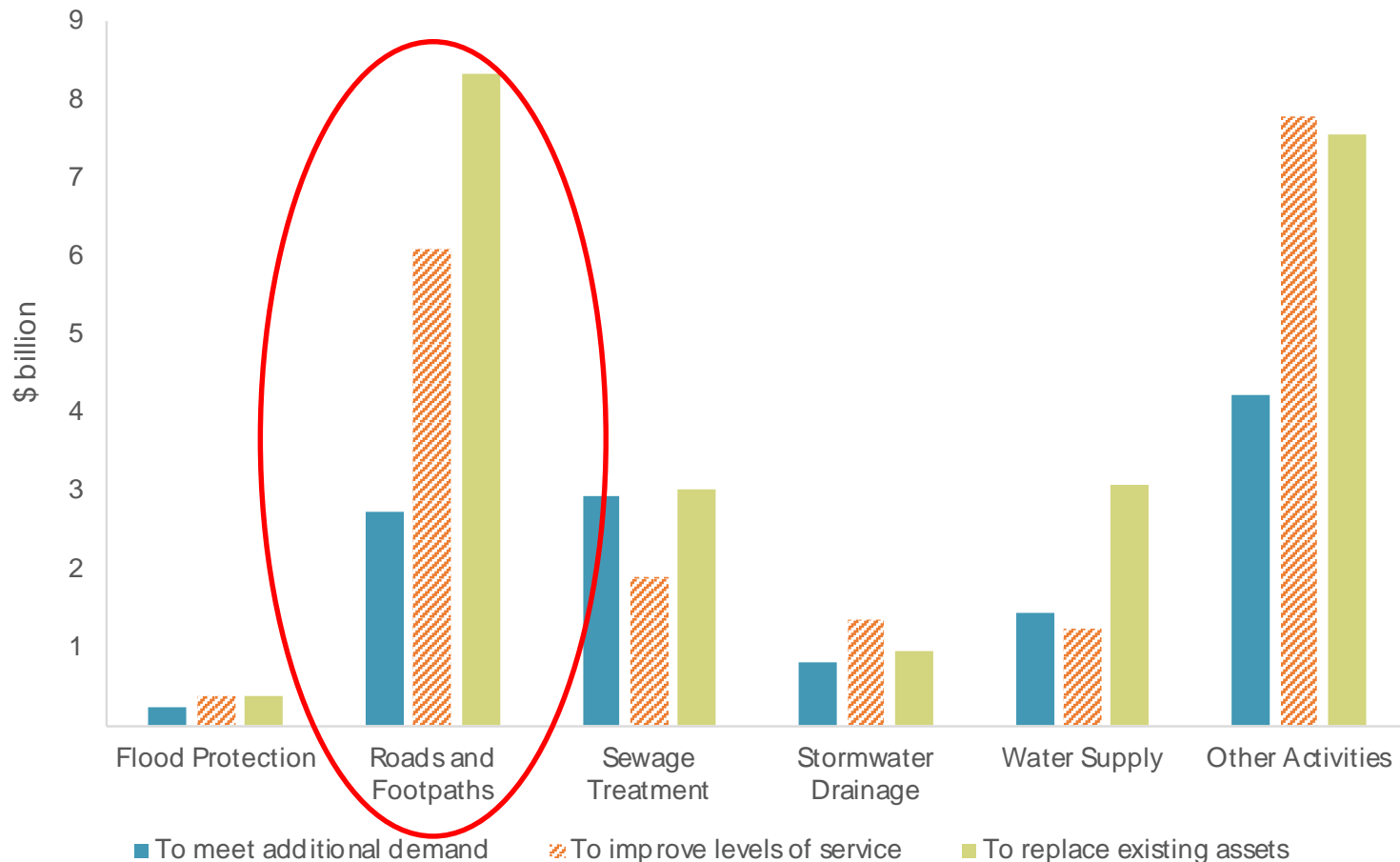
Total capital expenditure by activity, 2009-2018



- This capex has had flow-on effects to opex (depreciation and interest)

# Replacing roads and footpaths is the biggest component of future capex

Forecast capex by purpose and activity, 2019-2028



# The current funding and financing framework measures up well...

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- The current framework measures up well against a number of important principles
- Radical reform is not required; and there is no clearly superior alternative to a property-tax-based system
- The best-performing councils make good use of a range of funding tools. And some have taken the tough decisions needed to upgrade essential infrastructure
- But overall, there is significant scope for councils to make **better use of the current funding tools**, and improve their performance, productivity and decision making



## ...but there are areas of funding pressure

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- In some situations, the current system is not providing adequate, sustainable revenues and/or incentives for all councils:
  - Meeting the demand for infrastructure in high-growth areas
  - Funding local public-good infrastructure in tourism hotspots
  - Unfunded mandates from central government
  - Adapting to climate change
- These pressures are highly uneven across councils; small, rural and low-income councils are facing particular funding pressures

# Key proposals



# Funding reforms and new tools (1)

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- New tools to fund/manage growth:
  - New payment based on building work put in place
  - Special Purpose Vehicles
  - Volumetric charging for wastewater
  - Road congestion pricing
  
- Central government leadership and funding for climate change adaptation:
  - Nationally-led science and legal framework
  - Extend NZTA model to local roads and bridges at risk from climate change
  - Local Government Resilience Fund and Agency

## Funding reforms and new tools (2)

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- Funding to help small, rural and low-income councils meet minimum standards for 3 waters
- Better targeting of tourism-related funding support
- “Partners in Regulation” protocol to avoid future unfunded mandates



# Improving transparency and performance

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- Fundamental review of local government performance reporting regime – incl. financial and non-financial disclosures
- Mandatory Audit & Risk Committees
- Capability building
- Encourage uptake of existing performance improvement and benchmarking programmes
- Streamlined, more accessible Long-Term Plans

# Lifting the performance of the 3 waters sector



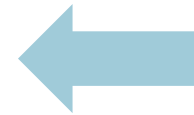
**Independent  
regulator**



**Sets minimum  
standards**

**Permissive & flexible about  
how standards are met**

**Support for small &  
rural councils**



Minimum standards: health and environmental

**Compulsory aggregation  
and fully funded from  
consumers**



**Regulatory backstop  
if standards not met**

# Thank you

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