



# Inquiry into local government funding and financing

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**New Zealand Productivity Commission**

**Water NZ Conference 18 September 2019**

NEW ZEALAND  
PRODUCTIVITY COMMISSION  
Te Kōmihana Whai Hua o Aotearoa



# 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
- Case study: reform of the 3 waters



# 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...

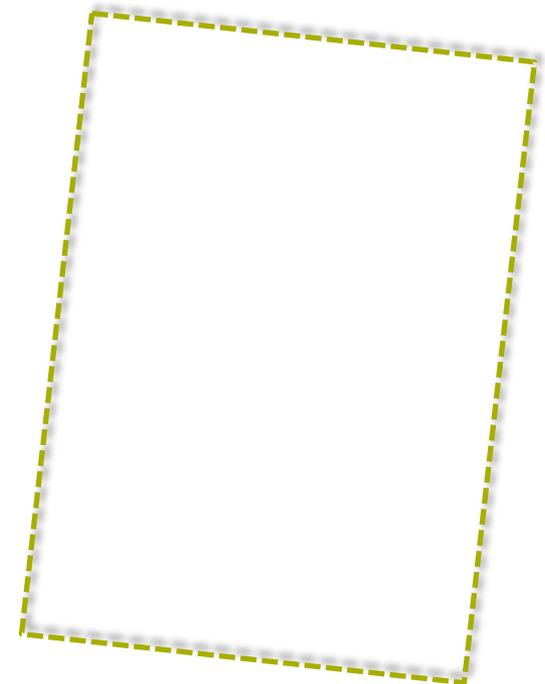
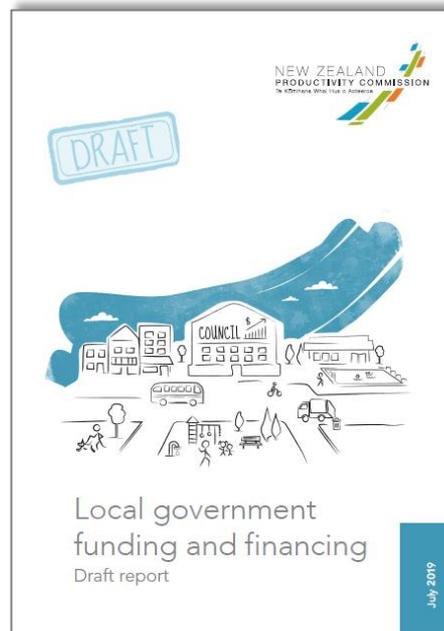
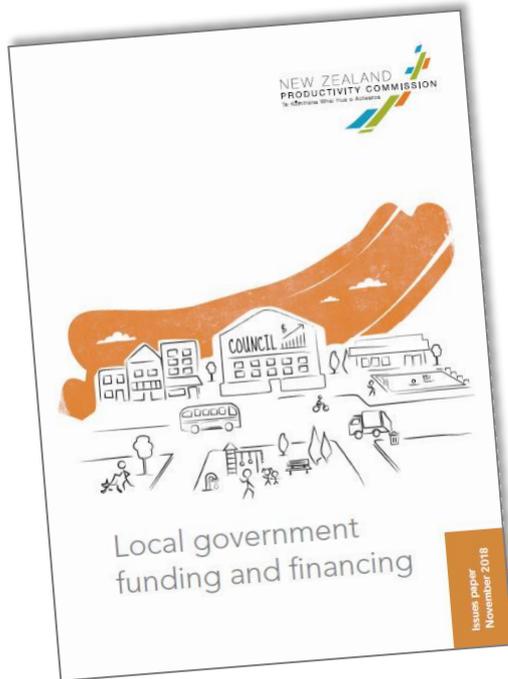
Issues paper  
November 2018



Draft report  
July 2019



Final report  
November 2019



- Over 250 submissions
- 80+ engagement meetings
- 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



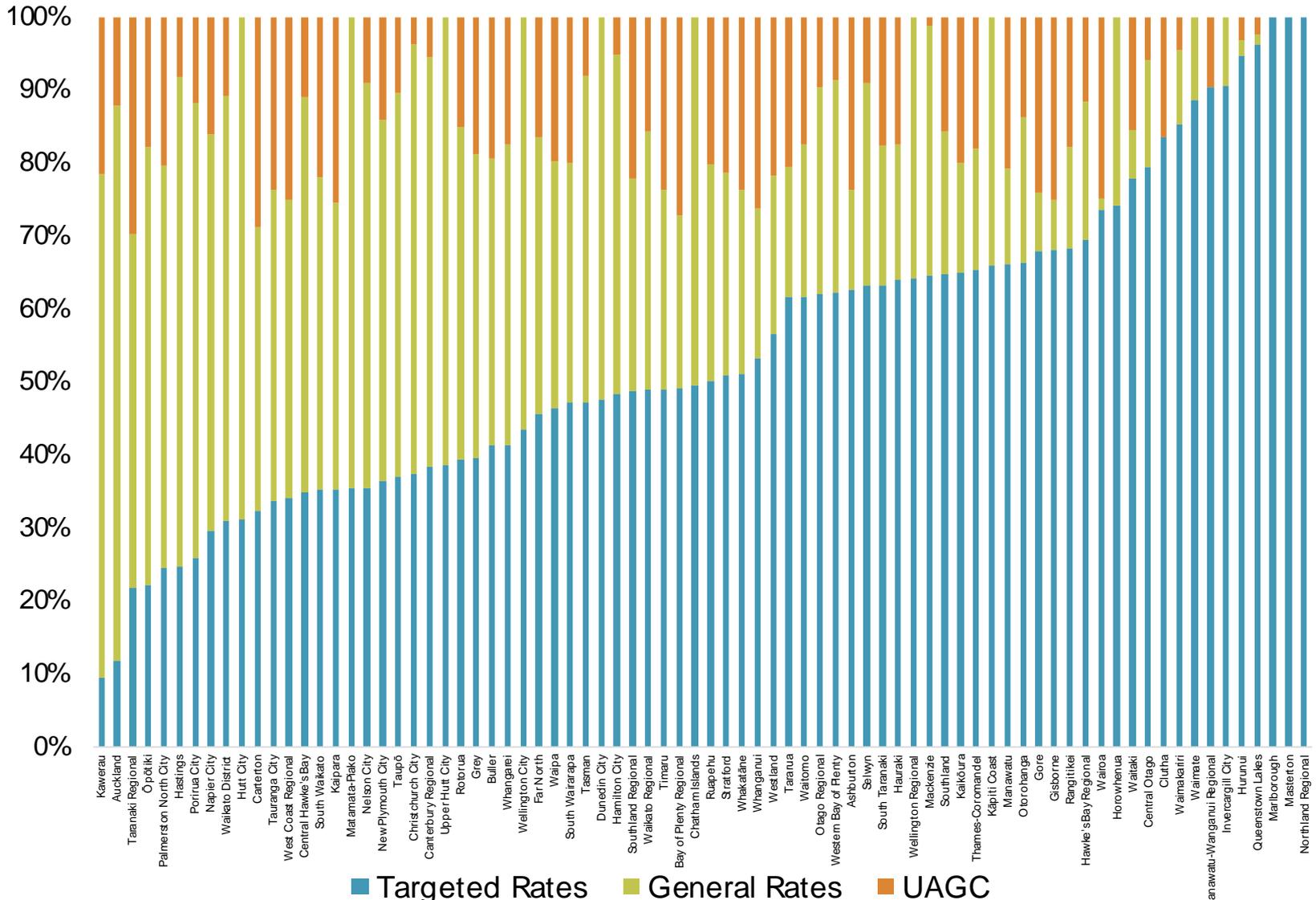
- About 20% of total revenue
- Mostly comes from central government grants (through NZTA) to cover roading and other transport costs

## User charges and prices



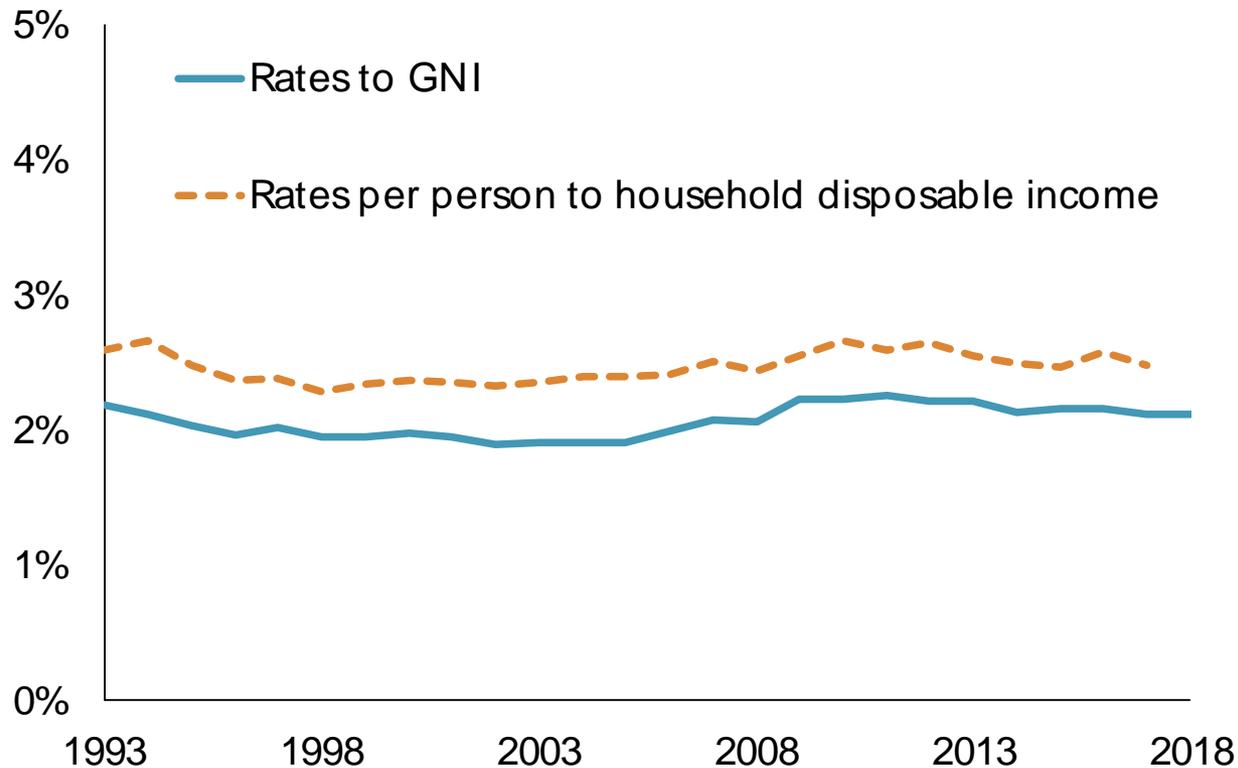
- About 14% of total revenue
- Includes revenue from water meter charges, rental income from properties and admissions charges

# Councils raise their revenue in different ways



■ Targeted Rates ■ General Rates ■ UAGC

# Rates have grown in line with incomes



- There is little or no evidence that rates have become less affordable over time, even for lower-income households

# Local government spending growth has focused on essential infrastructure

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- Rooding and 3 waters accounted for 56% of capex over the last decade
- Capex has had flow-on effects to opex (depreciation and interest)
- The prices faced by local government grew faster than those for general consumers
- Real local government expenditure growth per person has been modest (1.2% a year)
- Debt has risen significantly, but for most councils and the sector as a whole, is not a concern

# The current funding and financing framework is broadly sound

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- Radical reform is not required; and there is no clearly superior alternative to a property-tax-based system

## But...

- There is significant scope for councils to make better use of the current funding tools, and improve their performance, productivity and decision making

## And...

- There are some areas of significant funding pressure
- These are highly uneven across councils, so tailored new tools are required

# Key proposals



## Funding pressures

- 1 Meeting the demand for infrastructure in high-growth areas
- 2 Tourism hotspots
- 3 Unfunded mandates
- 4 Climate change adaptation

## Funding gaps



## Reforms and new tools

- Special Purpose Vehicles
- Volumetric charging for wastewater
- Road congestion pricing
- Value capture
- Payment based on new building work
- Accommodation levy
- Portion of the international visitor levy
- “Partners in Regulation” protocol
- Extend NZTA model to relocate at-risk local roads & bridges
- Local Government Resilience Fund and Agency
- Nationally-led science and legal framework

Case study 3 waters performance



New regulatory regime and regulator

## Better use of existing funding & financing tools

## Equity and affordability

- Replace Rates Rebate Scheme with a national rates postponement scheme
- Statutory 2-step process for rate-setting
- Remove differentials, UAGCs and 30% cap on uniform charges

## Improved decision making and performance

- Capability building
- Streamlined Long-Term Plans
- Mandatory, independently-chaired assurance committees
- Encourage uptake of existing performance improvement and benchmarking programmes
- Fundamental review of performance reporting regime

# Case study: 3 waters

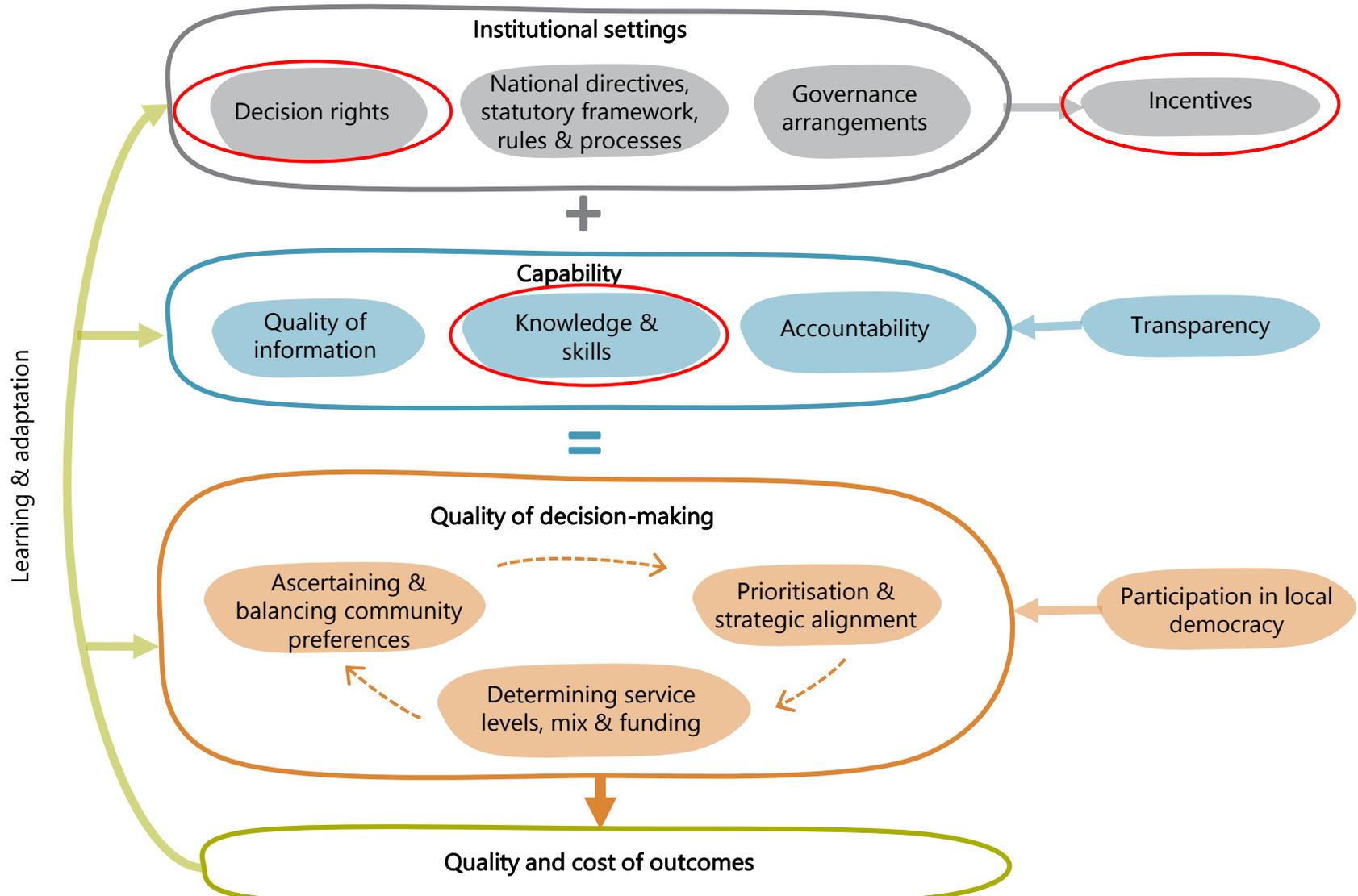


# The key problems

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- The performance of many councils is poor
- Many councils are prioritising control over performance
- Overall, providers currently have weak performance disciplines and incentives
- Councils have conflicting roles
- There is weak monitoring and enforcement

# How to lift performance?



# Lifting the performance of the 3 waters sector



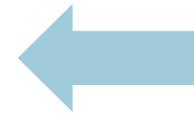
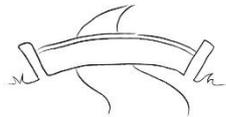
**Independent  
regulator**



**Sets minimum  
standards**

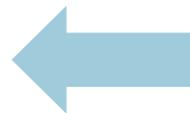
**Permissive & flexible about  
how standards are met**

**Support for small  
councils**



Minimum standards: health and environmental

**Compulsory aggregation  
and fully funded from  
consumers**



**Regulatory backstop  
if standards not met**

# Some big questions for the 3 waters...

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- When to introduce economic regulation?
- Best institutional arrangements?
- In addition to a regulatory backstop, what else is needed to incentivise the necessary lift in performance?



# Thank you

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