

Office of the Minister of Local Government

Chair
Cabinet

Local governance for community wellbeing

Proposal

1. This paper invites Cabinet to agree to consider the future role of local governance in New Zealand in delivering intergenerational wellbeing for all New Zealanders, delivering regional growth objectives, strengthening local democracy and instilling greater trust and confidence in local governance. This paper also seeks agreement for funding to escalate a programme of local government sector-related work through to 30 June 2019.

Executive summary

2. The local government landscape is changing. Local government is facing increasingly complex challenges, expectations from their communities are increasing and at the same time local government is facing growing financing and debt constraints. In practice, communities depend on local government to provide them with a broad range of services and quality of life, all of which contribute to people's sense of wellbeing. Communities and central government also depend on local government to manage the risks of natural hazards, and lead the response and recovery to local emergencies.
3. The Government is committed to a broad agenda of wellbeing reflected in the focus on wellbeing in Budget 2019. The wellbeing agenda has been reinforced by the Government's steps to reinstate in legislation the requirement on local government to promote the social, economic, environmental and cultural wellbeing of communities. Intergenerational wellbeing and regional prosperity will require a joint commitment and undertaking between central and local government.
4. Current funding and debt constraints are creating a barrier to local government delivering optimal services and achieving good outcomes in communities. Current and forecast rates are becoming increasingly unaffordable. Rates, as a proportion of the cost of living, are forecast to continue to rise at a faster rate than inflation, with the greatest part of this increase is forecast to occur in the next three years.
5. This Government has responded to funding issues raised by local government by instructing the Productivity Commission to review why New Zealand councils' costs are so high and what can be done to raise revenue a decade after the Shand Inquiry of 2007. The Government has also initiated a Three Waters review of our critical water systems and is reviewing current infrastructure funding and financing models available to local government.
6. At the Central and Local Government Forum 2018 central and local government leaders agreed to work together effectively for the social, economic, environmental and cultural benefit of citizens and communities. Leaders from both levels of government committed to a set of four priority areas being regional growth, housing and urban development, community resilience and water infrastructure.

IN CONFIDENCE

7. While difficult to make a direct comparison due to different models of local government, New Zealand's current system of local government is an outlier compared to other OECD countries. Unlike many other countries, local authorities in New Zealand play a more significant role in infrastructure provision than other countries.
8. I wish to consider how our two levels of government may work together to deliver intergenerational wellbeing.
9. I intend to share some initial thinking with key relevant Ministers in December 2018 and report back in April 2019 with a set of guiding principles anchored in the goal of intergenerational wellbeing. This will inform the basis of my engagement with the local government sector.
10. My local government work programme cuts across multiple portfolios and is growing in terms of scale and breadth of impact. A system wide approach will be required to solve many of the issues playing out in the Local Government arena and to support the programme of work I wish to advance. In this paper I also seek funding through to 30 June 2019 to escalate this important work.

Wellbeing as a joint aspiration for central and local government

11. The Government's commitment to a broad agenda of wellbeing and specifically the focus on wellbeing in Budget 2019 has been reinforced by the intention to reinstate the requirement on local government to promote the social, economic, environmental and cultural wellbeing of communities, and enable democratic local decision-making by and on behalf of communities. Intergenerational wellbeing requires a joint undertaking between central and local government.
12. There is clear alignment between local government's imperatives to deliver on the four wellbeings (cultural, social, economic, environmental), and the Living Standards Framework's four capitals (natural, social, human, financial) and 12 wellbeing domains. This alignment creates a significant opportunity to harness local government's strengths and proximity to its communities. Local government is also able to take a practical, delivery-oriented approach to the wellbeings. People and place connect at the local level, and this is where 'wellbeing' will be translated into lived experience.
13. The bringing together of intergenerational aspirations held by central government, local government and iwi/Māori will build on and leverage local opportunities to drive investment and growth in the regions, and also in the post-settlement context.

The challenges being felt by local government

14. With the support of my officials I have developed a picture of the local government landscape and a good understanding of how well-known issues (such as growth and climate change) are experienced at the local level. What is clear is that this Government's priorities – housing and urban development, regional development, social issues including child poverty and wellbeing, freshwater quality, drinking water quality and infrastructure, and climate change mitigation and adaptation – are mirrored at a local government level. Our issues and our challenges are the same, and we need local government to be a critical partner in addressing them.

IN CONFIDENCE

15. Communities are expecting more from local government. This includes in the areas of: environmental stewardship; regionally driven economic development; employment opportunities; tourism; strategic relationships and partnerships with Maori; moving to a zero-carbon economy (net emissions being reduced to zero); addressing homelessness, and young people not in employment, education or training.
16. Our communities and central government also depend on local government to manage the risks of natural hazards, and lead the response and recovery to local emergencies. Local government plays a fundamental role in community resilience which is a key factor in regional growth and consequently will also play a significant role in the mitigation of, and adaptation to, climate change.
17. There is a growing trend for communities to expect local government to find local solutions to the social issues causing distress in our communities.
18. Adding to these growing expectations are a number of reforms underway that will also impact on local government. Achieving the Government's ambitious targets in relation to homelessness, housing affordability, water quality, resilience and transitioning to a zero carbon economy simply cannot be achieved by central government alone and we are at risk of overloading local government without the necessary support.
19. Cutting across these complex challenges are significant funding and debt constraints. Current and forecast rates are becoming increasingly unaffordable. Over the past 10 years, rates have decoupled from salary and wage growth, household living costs and the Local Government Cost Index (LGCI). While the household living cost price index increased by 15.1% between 2008 and 2018, rates increased by 43.5 % over the same period. Rates, as a proportion of the cost of living, are forecast to continue to rise at a faster rate than inflation according to council LTPs. The greatest part of this increase is forecast to occur in the next three years.
20. This Government has responded to funding issues raised by local government by instructing the Productivity Commission to review why New Zealand councils' costs are so high and what can be done to raise revenue a decade after the Shand Inquiry of 2007. The Government has also initiated a Three Waters review of our critical water systems and is reviewing current infrastructure funding and financing models available to local government.
21. This broader set of challenges and the opportunity that our respective commitment to wellbeing presents, lends itself to consideration about the future of local governance in New Zealand and a different way of working together.

Central and Local Government Forum 2018 – agreement to key priority areas

22. Central and local government's shared challenges were discussed at the annual Central and Local Government Forum 2018, at which representatives from both sectors reframed the relationship to one of 'partnership' and agreed to work together effectively for the social, economic, environmental and cultural benefit of citizens and communities. It was agreed that the relationship between the two levels of government would be guided by the key principles of respect, reciprocity and trust.
23. At the Forum it was agreed that central and local government would work together on the four key shared priority areas of water, climate change, regional development and housing, with a number of next steps and recommended actions identified.

IN CONFIDENCE

24. The Department of Internal Affairs has reframed its approach to the local government sector to providing system stewardship across the central government system and working alongside the local government sector to develop a more collaborative and joined-up way of addressing our respective priorities.
25. In practice, there are multiple points across government where central and local Government objectives intersect and where collaboration and partnership between the two is critical for achieving government's priorities and the wellbeing of our communities. The broader local government work programme I wish to escalate will enable my officials to:
- 25.1 identify options and possible solutions to challenges with our three waters system so that New Zealanders can have safe, reliable drinking water, resilient well-managed infrastructure and swimmable lakes, rivers and beaches. The Three Waters programme creates the right environment in which to broaden our consideration of local governance for community wellbeing;
 - 25.2 support the Government's Urban Growth Agenda and specifically a new joint spatial planning approach in Hamilton and Queenstown and partnership approach to identifying priority areas in Auckland Council's Development Strategy to deliver better planning outcomes;
 - 25.3 lead a whole of Government approach to building community resilience to natural hazards and climate change to develop more sustainable settings for management of natural hazards, including those exacerbated by climate change. s9(2)(f)(iv)
 - 25.4 work alongside the Treasury to address the barriers and constraints on Infrastructure funding and financing including the development of alternative financing models to address funding and financing constraints in the local government sector;
 - 25.5 lead a cross government process to assist Government's response to the Productivity Commission's Inquiry into Local Government's Costs and Revenues;
 - 25.6 lead a digital partnership across a number of councils to establish a common strategy for participating councils and a cooperative approach to the development of citizen focused digital channels;
 - 25.7 work with agencies to explore how central government can better support the relationship between Maori and local government, including how to ensure Treaty settlement redress is implemented well to protect the durability of the settlement process and give effect to kaitiakitanga rights of mana whenua over resources managed by local government; and
 - 25.8 weave into these initiatives a common objective of enhancing citizen participation in local democracy.

The role local government currently plays in our communities

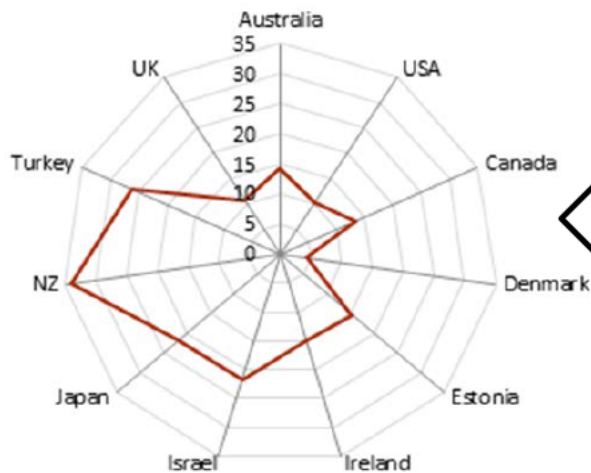
The current purpose of local government

26. The current Local Government Act 2002 states that the purpose of local government is:
 - 26.1 To enable democratic local decision-making and action by, and on behalf of, communities; and
 - 26.2 To meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.
27. There are 78 local authorities in New Zealand and hundreds of council controlled organisations. Councils vary widely in area, population, infrastructure assets, community priorities, rating base, and financial resources.
28. Communities depend on local government to provide them with a significant range of services, all of which contribute to people's sense of wellbeing. This includes: safe drinking water and treated waste water; safe towns and cities; catchment management that supports healthy rivers and lakes we can swim and play in; safe and well-maintained roads; good waste management practices; provision and maintenance of parks, reserves, sports fields, swimming pools and libraries; and good, reliable public transport. Communities look to local government to tell and celebrate the stories of their people, history and region.
29. Central and local government operate within different but complementary authorising legislative and regulatory frameworks. We share in common the spirit of public service and goals of improving lives and fostering prosperous regions. Importantly, local government operates at the critical nexus between people and place.
30. Local government contributes 3.8% of New Zealand's GDP. As at June 2016, local government owned over \$112 billion in fixed assets and collected over \$8.9 billion in operational income annually. In comparison, this is double the combined asset base of the three largest portfolios owned by central government – transport, social housing and primary and secondary education. Local government makes a significant contribution to the New Zealand economy as an employer, purchaser of goods and services and in providing the infrastructure that supports business.

Our model of local government is an outlier compared to other OECD countries

31. A key underlying challenge is to find the right balance between local democracy and national policy settings. While direct comparisons are difficult due to different models of local government, New Zealand's system of local government is an outlier compared to other OECD countries. By way of international comparison:
 - 31.1 Local government in New Zealand is responsible for a comparatively low proportion of total government expenditure;
 - 31.2 New Zealand is unusual in the OECD in that local government does not play a significant role in health, education and social welfare. Although local government per se is not directly involved in the provision of these services, many are devolved and locally accountable, with locally-elected boards. This makes local governance in New Zealand a richer and more complex space than in many countries;

- 31.3 Local authorities in New Zealand play a far more significant role in infrastructure provision compared to other countries, demonstrated by a relatively high (34%) proportion of its expenditure being capital expenditure; and
- 31.4 While the international data on local government functions indicates New Zealand plays a role in 'economic development', in practice this is essentially limited to the role it plays in transport and advocacy and facilitation.



In NZ, capital expenditure makes up 34% of all local government expenditure

32. While New Zealand local authorities have a relatively high level of administrative and political decentralisation, the level of fiscal decentralisation¹ is small. In New Zealand central government has an 89 percent share of public expenditure – the OECD average is 44 percent, with Switzerland at the opposite end of the spectrum at 13 percent.

A reinvigorated advocacy for 'localism'

33. My consideration of the future role of local governance in New Zealand in improving intergenerational wellbeing for all New Zealanders is occurring against a backdrop of a reinvigorated advocacy led by Local Government New Zealand around 'localism'.
34. 'Localism' is a concept underpinned by the principle that "public services should be provided by the sphere of government which is as close as possible to the people who use and benefit from the services, unless there are reasons why they should be provided by governments at a regional or national sphere".
35. This is not a new concept, however its reinvigoration reflects concerns in communities about their sense of powerlessness and lack of resources to address serious social issues that are seen and felt at a local level. Underpinning the advocacy of this concept is the sense that 'top down', 'one size fits all' approaches to policy and decision-making have not worked given the complex and multi-faceted challenges facing New Zealand, and that a more devolved model of local government will lead to better services and stronger democracy.

¹ "Fiscal centralisation" means the ratio of taxation controlled and allocated by local government in comparison to that controlled and allocated by central government.

36. I am not proposing we endorse a devolutionary-model. The consideration of local governance for community wellbeing will enable the Government to reach our own definition of how best to deliver at a local level and provide greater context for the Government to engage with the sector on the localism agenda.

Exploring the future of local governance

37. Aside from the challenges set out in this report, there are a number of headwinds facing local government. There are some capability and capacity issues throughout the sector, low engagement and voter turnout and questions around how truly representative and reflective of their diverse communities local governors are including of Māori. However I wish to take a strengths-based approach and start with what local government and communities do well.
38. I intend to focus on the opportunity to better leverage the strengths and intergenerational goals of iwi/Māori and recalibrate the relationship between local government and iwi/Māori.
39. I will take a principle-based consideration of the role local leadership could play in delivering intergenerational wellbeing for all New Zealanders, strengthening local democracy, instilling greater trust and confidence in local governance and supporting regional development.
40. I propose to explore a paradigm of local governance that is empowered to develop localised initiatives to tackle areas of concern such as hazard and risk management, social enterprise, young people not participating in trade, work or education, barriers to employment, and homelessness and social housing.
41. There are already examples of local government rising to the challenge and rethinking their role in their communities. These include Hutt City Council working alongside central government on integrated social housing proposals, and the Southern Initiative in South Auckland, which creates, fosters and support innovative social change by identifying local change-makers, encouraging social enterprise, building community capability and amplifying community-driven initiatives.
42. I propose to work with key Ministers to consider how our two levels of governance can work together to deliver intergenerational wellbeing and support regional growth and prosperity, and what evolving role and function local government could play in the future of New Zealand. As part of this conversation I intend to engage with the local government sector on its role and function in the future.
43. I intend to share some initial thinking with key relevant Ministers in December 2018. I propose to report back in April 2019 with a set of guiding principles anchored in the goal of intergenerational wellbeing, which will inform future engagement with the sector and its communities. This broader conversation could take place from May to June 2019.
44. Leading this conversation forward requires an investment of time, resource and effort. The Department has identified the Central Local Government Partnership work as a departmental priority, but has been unable to identify funding beyond December 2018. The Group has been recognised as highly successful in terms of building a collaborative cross-system work programme with the sector. The Partnerships Group are well positioned to support me in this work - with investment.

Budget and delivery of the local government work programme

45. DIA have established the appropriate capability to advance this work, in terms of the Central Local Government Partnerships Group, but have been unable to identify funding beyond December 2018. I seek Cabinet's support to fund this work through to June 2019. Beyond this, I will be seeking resource from Budget 2019 to deliver this significant reform programme.
46. My reform programme seeks to reposition local government with a stronger more wellbeing focussed role within our communities; strengthen the legitimacy of local government and the level of civic participation within our communities; and importantly, to manage the cost pressures faced by local government to make rates more affordable – particularly in terms of the provision of water infrastructure.

s9(2)(f)(iv)



Proactively released by the Minister of Local Government

s9(2)(f)(iv)

Consultation

52. The following departments were consulted on this paper: State Services Commission, The Treasury, Te Puni Kōkiri, Ministry for the Environment, Ministry for Business, Innovation and Employment, Ministry for Culture and Heritage, Ministry of Health, Ministry for Primary Industries, Department of Conservation, Ministry for Social Development, Ministry of Education, Land Information New Zealand, Statistics New Zealand, Ministry of Transport, Ministry of Defence, Ministry of Civil Defence and Emergency Management, Education Review Office and the Ministry for Women. The Department of the Prime Minister and Cabinet and Crown Law Office were informed.

Financial implications

53. To effect the proposal outlined above, an increase in funding over the remainder of 2018/19 to the Policy Advice – Local Government category of the Policy Advice Multi-Category Appropriation in Vote Internal Affairs is proposed to provide for a 6-month Central/Local Government work programme, as set out below. This associated increase in expenses will have a corresponding impact on the operating balance and net core Crown debt, and be a charge against between-Budget contingency established as part of Budget 2018.

IN CONFIDENCE

54. A budget for the Central/Local Government work programme has been prepared by the Department, and the costs are set out in the table below.

Table Two. Funding required for the Central/Local Government work programme

Item	2018/19 Half-year funding (\$million)	2019/20 (\$million)	2020/21 (\$million)	2021/22 (\$million)	2022/23 & Outyears (\$million)
Central Local Government Partnerships	2.000	s9(2)(f)(iv)			
Three Waters Reform Work	0.700				
Total	2.700				

s9(2)(g)(i)

Human rights / gender implications / disability perspective

59. No human rights, gender or disability implications arise as a result of this paper.

Legislative implications

60. This paper has no legislative implications however any proposals and recommendations that come out of this conversation may have legislative implications.

Regulatory impact analysis

61. A regulatory impact analysis is not required for this paper.

Publicity

62. Consistent with the partnership approach this government wishes to take in terms of its relationship with local government, I intend to release this Cabinet paper in the context of a broader communications strategy with appropriate redactions.

Next steps

63. Subject to Cabinet agreement to the recommendations in this paper, I will report back in April 2019.

Recommendations

64. The Minister of Local Government recommends that Cabinet:
1. **confirm** this Government's commitment to taking a partnership approach to working with local government;
 2. **note** the range and scale of government programmes that depend upon local government and that this provides an opportunity to work in partnership with local government to achieve the Government's goal of intergenerational wellbeing and regional growth;
 3. **note** the Government's commitment at the Central and Local Government Forum 2018 that the relationship between the two levels of governance would be guided by the key principles of respect, reciprocity and trust;
 4. **agree** to consider the future role of local governance in New Zealand in delivering intergenerational wellbeing for all New Zealanders, strengthening local democracy, instilling greater trust and confidence in local governance and supporting the protection and enhancement of the natural environment and sustainable regional growth;
 5. **invite** the Minister of Local Government to share some initial thinking with key relevant Ministers in December 2018;
 6. **invite** the Minister of Local Government to report back to the relevant Cabinet Committee in April 2019 with a set of guiding principles anchored in the goal of intergenerational wellbeing, which will inform a future conversation with the sector and its communities;
 7. **agree** to increase funding in Vote Internal Affairs in 2018/19 to meet costs associated with the Central/Local Government work programme;
 8. **note** that the funding for the Central/Local Government work programme is urgent, cannot be met from Vote Internal Affairs' baselines, and cannot be deferred until Budget 2019;
 9. **approve** the following changes to appropriations to meet the first-year costs associated with the Central/Local Government work programme, with a corresponding impact on the operating balance and net core Crown debt:

IN CONFIDENCE

	\$million – increase/(decrease)				
Vote Internal Affairs Minister of Internal Affairs	2018/19	2019/20	2020/21	2021/22	2022/23 & Outyears
Multi-Category Expenses and Capital Expenditure: Policy Advice MCA Departmental Output Expense: Policy Advice – Local Government (funded by revenue Crown)	2.700				

10. **agree** that the proposed change to appropriations for 2018/19 above be included in the 2018/19 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
11. **agree** that the expenses incurred under recommendation 10 above be charged against the between-Budget contingency established as part of Budget 2018;

s9(2)(f)(iv)

Authorised for lodgement

Hon Nanaia Mahuta

Minister of Local Government

s9(2)(f)(iv)



Proactively released by the Minister of Local Government