

Government response to the New Zealand Productivity Commission report on local government funding and financing

Background

In July 2018 the Government commissioned the Productivity Commission's (the Commission) inquiry into local government funding and financing (the Inquiry). The Commission was asked to examine the adequacy and efficiency of the existing local government funding and financing framework, with specific reference to:

- factors driving local authority costs;
- the ability of current funding and financing models to deliver on community expectations and local authority obligations and options for new local authority funding and financing tools; and
- whether changes are needed to the regulatory arrangements overseeing local authority funding and financing.

During the Inquiry, the Government also asked the Commission to consider whether a tax on vacant land would be a useful mechanism to improve the supply of available housing for New Zealanders.

This response is presented under Standing Order 381.

There have been significant changes in the local government environment since the Commission reported

The Commission presented its report in November 2019. Since then the COVID-19 pandemic has dramatically changed Government priorities and New Zealand's economic landscape. The long-term effects of the pandemic on our society and the Government's fiscal position are yet to become fully clear.

The Government is also progressing several reform programmes that have a significant effect on local government. The single biggest driver of financial pressure on local authorities over the last three decades has been issues relating to the three waters sector (water supply, sewage treatment and disposal, and stormwater drainage). The Government is working through a reform programme that includes transferring three waters services to multi-region water entities. This will substantially change the financial circumstances of local authorities

The Government has passed the Urban Development Act 2020 and the Infrastructure Funding and Financing Act 2020. These Acts provide new avenues for urban development, and in particular in this context, alternative funding and financing paths for urban growth infrastructure.

The Government has also received the report of the Independent Resource Management Review Panel (the Panel). The Panel has recommended the enactment of a Natural and Built Environments Act, a managed retreat and Climate Change Adaptation Act and a Strategic Planning Act. The Strategic Planning Act would set long-term strategic goals and facilitate the integration of legislative functions across the resource management system. These would include functions exercised under the new Natural and Built Environments Act, the Local Government Act, the Land Transport Management Act and the Climate Change

Response Act. This legislation is intended to integrate land use planning with the provision of infrastructure and associated funding and investment.

Regional spatial planning will play a critical part in delivering the intended outcomes for the resource management system. The new legislation would include:

- strategic planning for urban growth and responding to change;
- measures to reduce emissions and respond to the effects of climate change; and
- the identification of areas unsuitable for development due to their natural values or importance to Māori.

The Government is working to implement the Panel's recommendations.

The Commission's Findings

The Commission concluded that the property rates-based system of funding local government remains appropriate for New Zealand but there are areas of funding pressure. The Commission concluded that in some situations, the current system is either failing to provide councils with adequate revenues or is unlikely to be sufficient in the near future. These situations are:

- adapting to climate change;
- passing of unfunded mandates from central government to local government;
- meeting the demand for infrastructure in high-growth areas; and
- coping with the growth in tourism.

Next steps

The successful implementation of the reform programmes discussed above will reshape the role of local government in our society, as well as its financial needs and pressures. The Minister of Local Government is establishing a Ministerial review into the future for local government (the Review). The objective of the Review is to identify how New Zealand's system of local democracy and governance needs to evolve over the next 30 years. The scope of the Review will include a future looking view of the following:

- roles, functions and partnerships;
- representation and governance; and
- funding and financing.

The Productivity Commission's report will provide valuable insights and assistance into the funding and financing element of that work.