
**Review of the NZ Productivity
Commission Report on Local
Government Funding and
Financing**

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1.0 INTRODUCTION AND BRIEF

This is an independent review of the New Zealand Productivity Commission (“NZPC” or “Commission”) Final Report ‘Local Government Funding and Financing’.

NZPC has commissioned this independent review and evaluation as part of their ongoing performance improvement efforts. The review will also be used for reporting on NZPC performance.

The NZPC report was prepared in response to a Government request for the Commission to undertake an inquiry into local government funding and financing¹.

The outcome of the process was a 343-page Final Report which sets out what a future funding and financing framework should look like, and how councils can more effectively manage cost pressures, make decisions and deliver their services. The Commission also produced an Issues Paper, a Draft Report, two summary documents (‘At a glance’ and ‘One-page brief’) and commissioned 10 in-depth pieces of analysis on specific inquiry points.

For further information, including the Final Report, Issues Paper, Terms of Reference and other summary documents see:

<https://www.productivity.govt.nz/inquiries/local-government-funding-and-financing/>

1.1 Performance Measures

The NZPC seeks to evaluate its inquiries using the performance measures set out in Table 1 below. This review is structured around each performance area. Section 8 contains a summary assessment for ease of reference.

Table 1: NZ Productivity Commission Performance Measures

Performance area	How this is assessed
Right focus	The relevance and materiality of the final inquiry reports in meeting the Terms of Reference
High quality work	The quality of the analysis, guidance and recommendations in the final reports
Good process management	The timeliness and quality of the inquiry process
Effective engagement	How well the Commission engaged with interested parties
Clear delivery of messages	How well the work is communicated and presented in the final report
Overall quality	The overall quality of the inquiry taking into account all factors

¹ https://www.productivity.govt.nz/assets/Documents/b6ac854984/Terms-of-Reference_Local-government-funding-and-financing.pdf

1.2 Scope of inquiry

In July 2018 the Government requested the Commission undertake an inquiry into local government funding and financing. The context for this request is well canvassed in the Commission’s Terms of Reference and the Final Report (see Sections 2-4 in particular) and it is not necessary for this review to repeat the material. It is, however, worth reflecting on the scope of the inquiry as ultimately an evaluation of performance needs to address whether the Commission has adequately covered the requested scope and appropriately engaged, analysed, consulted, and provided coherent and high-quality recommendations consistent with the underlying questions forming the scope of the inquiry.

The Commission was asked to investigate the following:

Table 2: Scope of Terms of Reference

Cost pressures
<ul style="list-style-type: none"> • The factors (including the mix of services and investment) that drive local authority costs now and in the foreseeable future. This included an investigation of the drivers of cost and price escalation, in particular: Whether this was a result of policy, and/or regulatory settings. <ul style="list-style-type: none"> ○ The role of growth/decline in population (including visitors and other temporary residents). ○ The impacts of Treaty settlement arrangements and costs of climate change on local authorities. • In addition, the Commission was asked to have regard to current frameworks for capital expenditure decision making, including cost-benefit analysis, incentives and oversight of decision making.
Funding and financing models
<ul style="list-style-type: none"> • The ability of the current funding and financing model to deliver on community expectations and local authority obligations, now and into the future. • Rates affordability now and into the future. • Options for new local authority funding and financing tools to serve demand for investment and services. • Appraise both current and new or improved approaches considering suitable principles including efficiency, equity, affordability and effectiveness. • How the transition to any new funding and financing models could be managed.
Regulatory system
<ul style="list-style-type: none"> • Any constitutional and regulatory issues that may underpin new project financing entities with broader funding powers. • Whether changes are needed to the regulatory arrangements overseeing local authority funding and financing.
Out of scope
<p>The Government considered that some aspects of local government finance had been well canvassed and further inquiry into them would not assist in achieving sustainable local government financing. Therefore, the following matters were out of scope of the inquiry:</p> <ul style="list-style-type: none"> • The particular mechanisms for rating of Maori freehold land and Crown land. • The valuation system and practices. • Substantial privatisation. <p>The Inquiry was also not to make recommendations that would directly affect representation or boundary arrangements for Councils.</p>

2.0 THE RIGHT FOCUS

The relevance and materiality of the final inquiry reports in meeting the Terms of Reference

Key points:

- The Final Inquiry Report achieves both the “relevance” and “materiality” measures in responding to the Terms of Reference.
- Some stakeholders in the Local Government (LG) sector would have liked to have seen more exploration of Councils’ ability to develop their own funding tools on the basis of community support rather than requiring legislative fiat from Central Government (CG).
- There was an opportunity to extend the discussion on the potential impact of the reintroduction of the “four well beings” and the local government role in supporting economic development funding.
- The explicit and prevailing assumption throughout the analysis that funding from Central Government (CG) limits local autonomy and accountability constrains exploration of the role of CG funding.
- There is a view from the Local Government (LG) sector that the analysis, particularly in regard to burden sharing with CG for financing things that CG has historically funded (including a broader view of wellbeing which gets you into housing and social conditions), could have gone further.
- Some LG stakeholders are concerned the analysis did not fully account for the growing impost of rates on ratepayer budgets (beyond small, rural, low-income districts) given the large and more recent increases in e.g. regional rate bills (some as high as 40% over 2 years, but 6-7% is common across NZ). With incomes not rising that fast many stakeholders have questioned whether we may soon be facing a real ceiling on the rate burden as a percentage of income. This therefore limits the effectiveness of rates as a financing mechanism.
- More detailed forecasting that brought together estimates of the key financing demands (e.g. infrastructure provision for housing; climate change; 3-waters etc) for a select number of councils, with an assessment of how these costs would translate to/impact on rates and the use of other funding tools would have been useful.

Assessment

The Final Inquiry Report achieves both the “relevance” and “materiality” measures in responding to the Terms of Reference. The Final Inquiry Report considered all issues within scope and did not wander unduly into issues/areas that were out of scope (though some important and relevant connections were made to some issues e.g. the role of representation and council boundary arrangements).

Table 3 below provides an assessment of whether the content of the Final Report was relevant to the scope of the Terms of Reference and the extent to which it was material in addressing the underlying questions posed by the Terms of Reference.

The 'materiality' column also offers comment on whether there were particular highlights and/or areas that could have been extended in different ways.

Table 3: Right Focus Assessment of Final Report

Contents of Final Report	Relevance to scope of ToR	Materiality
1. About this inquiry	<ul style="list-style-type: none"> • Important context and outline of approach. 	<ul style="list-style-type: none"> • Sets out key principles used in the evaluation and analysis.
2. The context	<ul style="list-style-type: none"> • Sets out important current state. 	<ul style="list-style-type: none"> • Well-covered.
3. Trends in local government revenue, expenditure, prices and debt	<ul style="list-style-type: none"> • Specified in ToR scope. • A very important contribution as it provides critical baseline information. 	<ul style="list-style-type: none"> • This is detailed and well done. • Stakeholders spoken to for this review thought this was a valuable contribution. • The commissioning of the Sapere price index a useful innovation to assist with analysis.
4. Pressures on funding and finance	<ul style="list-style-type: none"> • Specified in ToR scope. • An important overview of the pressures on funding and finance. 	<ul style="list-style-type: none"> • Appropriate level of detail. Well-covered. • Again, stakeholders spoken to for this review thought this section was well done. • Usefully draws from previous inquiry work. • While the potential impact of the reintroduction of the “four well beings” is captured this discussion could have been extended. There is an active conversation taking place about the role of local government in delivering broader wellbeing objectives vis-a-vis local infrastructure provision. • It would also have been useful to see more discussion and analysis on the LG role in supporting economic development funding. This will be an area that is, arguably, increasingly hard to fund given rising pressure in other areas. Reasons for this include – attribution difficulties; contested views on the role of govt in economic development activity; and the fact this area of spend is considered a nice to have rather than a must have (in the way core infrastructure is).
5. Improving decision making	<ul style="list-style-type: none"> • Specified in ToR scope under regulatory system. 	<ul style="list-style-type: none"> • Detailed and informative analysis which usefully draws from previous inquiry work. • The summary documents could have better highlighted the issues with the elected member model not consistently delivering a mix of councillors who collectively possess the full range of skills needed being compounded by the politics of rate setting. The ToR scope may,

	<ul style="list-style-type: none"> Extremely relevant in addressing the underlying issues presenting with the current model. This analysis won't please a number of stakeholders as it's not the quick and easy funding fix many would have preferred. 	<p>however, have constrained the Commission's ability to do this (e.g. "the role of representation and council boundary arrangements" was out of scope).</p>
<p>6. Evaluation of current funding and financing arrangements</p>	<ul style="list-style-type: none"> Specified in ToR scope . A critical component of the Final Report. 	<ul style="list-style-type: none"> Detailed and informative analysis. It could have been useful to tease out the experience of past attempts at providing frameworks to assist LG decision making. The application of high-level principles (e.g. the benefit principle) has arguably been difficult at a LG level. This would have helped link the points made on elected members understanding their role and the ongoing governance-related support and guidance required. There is an explicit and prevailing assumption throughout the analysis that funding from CG limits local autonomy and accountability (i.e. if funding is controlled by CG, then LG representatives can blame CG for failures). While this makes sense at a conceptual level it is not backed by much evidence and the analysis does not consider the more detailed design choices available around such funding. This limits further exploration of this given "appropriate for government use" is a key principle used to assess the adequacy of funding and financing tools currently available to local governments in NZ. While there is a spectrum of views among the Commission's stakeholders there is a view in the LG sector that the Commission did not go far enough in its analysis of alternatives to rates on land and property. Some stakeholders in the Local Government (LG) sector would have liked to have seen more exploration of Councils' ability to develop their own funding tools on the basis of community support rather than requiring legislative fiat from Central Government (CG).

<p>7. Future funding and financing</p>	<ul style="list-style-type: none"> Specified in ToR scope. A critical component of the Final Report. 	<ul style="list-style-type: none"> Detailed and informative analysis. The Commission judged that future funding would be sustainable using current tools providing they were used better. They based this partly on the history of rates revenue staying reasonably constant as a % of household incomes and on international comparisons that the % of rates to income is much lower and steadier than CG tax revenue as a % of GNI. The Commission did identify a problem of affordability in small, rural, low-income districts. And they recommended that central government should contribute to alleviate cost pressures arising from unfunded mandates, international tourism and adaptation to climate change. There is nevertheless, a view from the sector that this analysis, particularly in regard to burden sharing with CG for financing things that CG has historically funded (including a broader view of wellbeing which gets you into housing and social conditions), could have gone further. See point above about the assumption that funding from CG limits local autonomy and accountability. It need not be designed in this way. In designing a funding system choices are made about any requirements attached to the funding stream/s. These could be light-handed (and not impact unduly on autonomy/accountability) or prescriptive (with a greater impact on autonomy/accountability). I would have liked to have seen some more detailed forecasting that brought together an estimate of the key financing demands (e.g. infrastructure provision for housing; climate change; 3-waters etc) for a select number of councils, with an assessment of how these costs would translate to/impact on rates and the use of other funding tools. This would either have helpfully confirmed the point that current tools were largely fit for purpose or suggested otherwise. I acknowledge this would have been complex and would have required a number of assumptions (including about the use of debt etc), but in its absence it has left many in the sector (perhaps unduly) discounting the conclusion that the tools currently available are (largely) fit for purpose.
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8. Affordability for households	<ul style="list-style-type: none"> Specified in ToR scope under “rates affordability now and into the future”. Very relevant. 	<ul style="list-style-type: none"> Helpfully highlights where concern about affordability should be directed. Discussion on current and future support mechanisms is well done and should helpfully inform policy. Some LG stakeholders are concerned the analysis did not fully account for the growing impost of rates on ratepayer budgets (beyond small, rural, low-income districts) given the large and more recent increase in e.g. regional rate bills (some as high as 40% over 2 years in provincial areas, but 6-7% is common across NZ). With incomes not rising that fast many stakeholders have questioned whether we may soon be facing a real ceiling on rates as a percentage of income. This therefore limits the effectiveness of rates as a financing mechanism.
9. Adapting to climate change	<ul style="list-style-type: none"> Specified in ToR scope under cost pressures. Very relevant and topical. 	<ul style="list-style-type: none"> Detailed analysis that usefully draws on work by other contributors to this topic. Case study on the Clifton to Tangoio Coastal Hazard Strategy useful and well done.
10. Responding to tourism pressures	<ul style="list-style-type: none"> Specified in ToR scope under cost pressures. Very relevant and topical. 	<ul style="list-style-type: none"> Generally well done. The Commission conclusion that “an accommodation levy based on sales revenue would be a relatively effective and principled new funding tool to cover a significant funding gap...” would benefit from greater explanation. Currently it sits a bit oddly and unexplained alongside the preceding discussion outlining the drawbacks of this type of approach.
11. Funding and financing three waters	<ul style="list-style-type: none"> Specified in ToR scope under cost pressures. Very relevant and topical. 	<ul style="list-style-type: none"> Detailed analysis that usefully draws from previous inquiry work and work underway on 3-waters.
12. Bringing it together		<ul style="list-style-type: none"> A useful summary.
Appendix A: Public consultation	<ul style="list-style-type: none"> Specified in ToR. 	<ul style="list-style-type: none"> See discussion in Sections 4 and 5 of this review.

3.0 HIGH QUALITY WORK

The quality of the analysis, guidance and recommendations in the final reports

Key points:

- The Final Inquiry Report is a high-quality piece of analysis.
- There was good and appropriate use of experts through the commissioning of specific analysis.
- This evaluation has highlighted a number of areas where additional analysis may have been useful and while there is a spectrum of views among the Commission's stakeholders there is a view in the LG sector that the Final Report missed an opportunity to really test some of New Zealand's 'sacred cows' in this area e.g. the ability of Councils to establish, with community support, their own funding tools and the use of GST raised locally as an incentive to invest in growth/wellbeing-enhancing activities.
- Nevertheless the Final Report is an important resource that will be very useful in supporting ongoing conversations in this area.

Assessment

The Final Inquiry Report is a high-quality piece of analysis. It represents a detailed and robust assessment of a number of areas of concern facing local government.

The inquiry team have also made good and appropriate use of experts through the commissioning of specific analysis. This provides critical quantitative and qualitative analysis which supports the Commission's findings.

There is a view in the LG sector that the Final Report was a missed an opportunity to really test some of New Zealand's 'sacred cows' relating to the ability for Councils to raise new and additional taxes and charges (beyond what they are currently able to do) and the use of funding streams like locally-generated GST. These views are well-canvassed in various submissions to the inquiry process but there is a sense that the Commission stopped short in exploring them sufficiently and a perception that there was strong preference to retain the simplicity of the New Zealand tax system.

This evaluation has highlighted a number of areas where additional analysis may have been useful but the inquiry team have, by and large, struck a good balance between supporting the findings and recommendations by robust analysis and not getting lost in the weeds.

Most of the guidance and recommendations contained in the Final Inquiry Report should provide both local and central government a clear basis for a work programme focussed on the addressing the main inquiry findings (see Table 4 below). Were there continues to be divergent views on approach the Final Inquiry Report should, nevertheless, be an important and useful resource to support ongoing conversations.

Table 4: Inquiry Findings

Findings
1. Radical reform is not required. The current rates-based system remains appropriate for New Zealand. International experience offers no clearly superior alternative.
2. But there are areas of significant funding pressure. These pressures are highly uneven across councils with small, rural councils serving low-income communities under particular pressure.
3. Targeted solutions are needed to tackle these pressures. Key recommendations include new tools to help councils fund and manage growth, and additional support from central government to help councils adapt to major pressures, such as climate change.
4. Councils need to lift their performance to help manage funding pressures. This includes making better use of all existing funding tools. Transparency is key, and a number of recommendations are aimed at improving the transparency of local government funding decisions and performance.
5. A better relationship between central and local government is essential. An agreed protocol would help end the practice of central government imposing responsibilities on local government, without appropriate funding. The Crown should also be paying for council services it receives on its properties and developments.
6. Regional spatial planning will better prepare councils for the future. It's a key tool for achieving more efficient use of resources, and better coordination between councils, and local and central government.

4.0 GOOD PROCESS MANAGEMENT

The timeliness and quality of the inquiry process

Summary

- The inquiry team delivered the process and reporting within the requested timeframe.
- The inquiry process was well-considered, providing a number of opportunities for interested parties to either help focus the analysis on critical aspects of the problem definition and/or provide feedback on the draft analysis and findings.
- The inquiry process was designed to meet stakeholder needs and/or to mitigate the key risks associated with consultation processes.
- The Commission should consider the benefit of a more personalised approach in acknowledging submitter effort and engagement with the process.

Assessment

The inquiry team met the Terms of Reference requirement to “present the final report to referring Ministers by 30 November 2019”. This included factoring into the analysis an additional request made by the Government on 29 April 2019 to consider whether a tax on vacant land would be a useful mechanism to improve the supply of available housing for New Zealanders.

Table 5 below captures the timeline of the inquiry process with the key milestones. The process followed previous inquiries where an issues paper and then a draft report were prepared to provide stakeholders with an opportunity to provide feedback on the suggested issues for analysis and then the draft findings and analysis. This allowed stakeholders to help shape the review and focus of analysis (within the scope of the Terms of Reference) and then engage more specifically with the draft findings.

Table 5: Timeline of inquiry process

Milestone	Date
Terms of Reference received Received request and TOR for inquiry into local government funding and financing	16 July 2018
Issues Paper released Submissions closed on 15 February 2019. A 13-week submission period.	6 November 2018
Additional request Government asked NZPC to consider tax on vacant land	29 April 2019
Draft Report released Submissions closed on 29 August 2019. An 8-week submission period	4 July 2019
Final report released	30 November 2019

Stakeholders often raise a number of issues in relation to consultation processes e.g. the length of time provided for stakeholders to make a submission; the timing of the submission periods (e.g. over holiday periods); the prescribed form of any submission (i.e. in writing, in person, in a workshop format etc), which can affect the level of engagement; and understanding of how the feedback was considered and used in the analysis and process.

Table 6 below captures these issues and provides an assessment of whether the Commission either designed the process to meet stakeholder needs or sought to mitigate the risks associated with the issues.

Table 6: Issues relating to consultation processes

Issue	Comment and assessment
Length of time provided for stakeholders to make a submission	<ul style="list-style-type: none"> An 8-week consultation period is usually considered best practice. This would typically provide enough time for stakeholders to prepare any material/thoughts they would like to submit to the process. Smaller organisations or individuals would likely still find this timeframe a challenge given the need to resource BAU commitments, however, an 8-week period seeks to strike a balance between making progress and

	<p>delivering within reasonable timeframes and providing space for genuine consultation.</p> <ul style="list-style-type: none"> • The Commission has met this standard for both submission periods outlined in the timeline above.
Timing of the submission period/s	<ul style="list-style-type: none"> • Best practice is to avoid major holiday periods and/or periods where key stakeholders will be prioritising critical commitments e.g. local government elections. • The Commission seems to have sought to mitigate the risk of overload and/or lack of engagement over the 2018/19 summer holiday period by providing a long 13-week submission period.
Prescribed form of submission	<ul style="list-style-type: none"> • The Commission's standard invitation is that anyone can make a submission and it may be in written, electronic or audio format (though no audio submissions were made). • Submissions ranged from a short letter on a single issue to more substantial documents covering many issues and these were submitted via the website, emailed and sent by post. • The Commissions met face to face with a number of organisations who had made submissions and also arranged a number of teleconference or Zoom sessions.
Understanding of how the feedback was considered and used in the analysis and process	<ul style="list-style-type: none"> • Submitters received an automated response to thank them. They are also listed in the Commission report. Some were acknowledged by being cited in the Final Report. • This can be a tricky area given how potentially time-consuming acknowledging feedback can be. Nevertheless, understanding of how feedback is considered and used in a process is often really important for submitters. People dislike talking into a vacuum and want to feel they have been heard. It also helps foster engagement with future processes where we will need community views. • The Commission should consider the benefit of a more personalised approach in acknowledging submitter effort and engagement with the process.

5.0 EFFECTIVE ENGAGEMENT

How well the Commission engaged with interested parties

Key points:

- A broad range of stakeholders were engaged through the inquiry process.
- The level of engagement from, and with, local government and its representative bodies was (unsurprisingly) high.
- Iwi engagement in the process was relatively limited. The Commission should consider an explicit engagement strategy for iwi in future reviews.

Assessment

The inquiry team have met the Terms of Reference requirement to “engage with a broad range of stakeholders, including industry and non-governmental groups, iwi, and the public”.

Appendix A of the Final Report outlines the public consultation that took place through the inquiry. The inquiry team conducted a large number of meetings with specific organisations (see pages 325-326); clusters of councils (local and regional); and Chambers of Commerce. The Commission undertook five specific case studies where a range of senior staff in the relevant organisations were interviewed, and the Commission also took the opportunity to present at a range of conferences, forums and workshops (see page 327).

Pages 321-324 of Appendix A outline the submissions that were received as part of the inquiry process. All up 269 submissions were received from a broad range of interests – local government, sector groups, business, academia, NGOs, and private individuals. These submissions provide a rich picture of the issues, views and perspectives of the people and organisations that are affected by local government activity. The Commission has made the submissions available via the following link: <https://www.productivity.govt.nz/have-your-say/view-submissions/inquiry/26>

Table 7 below captures the key interested parties by broad group and provides a high-level assessment of the nature of engagement. This is based solely on the number of submissions received, meetings held and/or case study and conference/forum opportunities pursued.

A number of points can be made:

- The level of engagement from, and with, local government and its representative bodies was (unsurprisingly) high.
- The business sector took the opportunity to convey their views and the Commission sought these out.
- There was reasonable engagement from academia, NGOs and individuals.
- The level of (at least direct) engagement with iwi was relatively low. The Commission noted that iwi can find it challenging to engage in processes given the demands on their time and their need to prioritise accordingly. This is understood. The Commission did, however, make concerted efforts to meet with Tanui and the associated Raupata River Trust, Auckland’s Independent Maori Statutory Board and Te Maruata, a grouping of Maori councillors within LGNZ.
- Overall the process met the requirement to “engage with a broad range of stakeholders, including industry and non-governmental groups, iwi, and the public”.

Table 7: Interested parties and nature of engagement

Interested party	Nature of engagement		
	Submissions	Engagement or cluster meetings	Case Study/ Conference/Forum
Local Government or local government related orgs	A significant proportion	Major focus	Major focus
Iwi	Limited (1 submission)	Limited direct engagement	Not a (direct) focus
NGOs	Reasonable engagement	Reasonable engagement	Not a focus
Business or business/industry orgs	A significant proportion	Major focus	Reasonable engagement
Academia	Reasonable engagement	Reasonable engagement	Not a focus
Wider public	Reasonable engagement	Not a focus	Not a focus

6.0 CLEAR DELIVERY OF MESSAGES

How well the work is communicated and presented in the final report

Key points

- The Inquiry Report is well written, easy to read and laid out in a logical manner.
- Good use of graphics and tables to highlight key material.
- The summary documents – ‘At a glance’, ‘One-page brief’, and the Final Report’s very useful ‘Overview’ - allow easy access for those who do not have the time to dig more deeply into the analysis.
- But some of the interesting and critical discussion around the political economy issues affecting financing decisions at a local government level could be lost to the casual observer and reader.

Assessment

At 343 pages this Inquiry Report is on the shorter side of previous Commission inquiry reports. This perhaps indicates the Commission has taken on board Government feedback about the length of its reports. It may also reflect a decision to leave more of the detailed analysis in the companion research reports the NZPC had commissioned to help inform the inquiry.

The Inquiry Report is nevertheless well written, easy to read and laid out in a logical manner. There is good use of graphics and tables to communicate critical ideas (particularly frameworks which assist decision making) and information. The key findings and recommendations flow logically from the analysis (although see the comments in Section 2 above that relate to some of the key underpinning assumptions that could have been made clearer).

Each of the sections are written and structured so that they can be read as standalone pieces of analysis. This is positive for those with specific interests and who don't want (or have the time) to read the full report. It does, however, create duplication for those with a professional interest in the overall topic and the time to invest in reading the material.

The summary documents – 'At a glance', 'One-page brief', and the Final Report's very useful 'Overview' - allow easy access for those who do not have the time to dig more deeply into the analysis.

The flip side of this is that some of the more detailed, interesting, and in fact critical, discussion around the political economy issues affecting financing decisions at a local government level could be lost to the casual observer and reader (i.e. the unwillingness of Councillors to use the levers available in pursuit of short term objectives over long term wellbeing).

This is important and relevant as the debate over whether we have the right funding 'model' continues in the public arena². It also undermines one of the key findings of the Inquiry – that it's not that the tools themselves are broken but that there's an unwillingness or inability of local government representatives to use or apply them effectively.

7.0 OVERALL QUALITY

The overall quality of the inquiry taking into account all factors

Key points:

- Overall a high-quality report and inquiry. It has done a good job of capturing the critical issues facing LG.
- The key finding that radical reform is not required and that the current rates-based system remains appropriate for New Zealand will not likely satisfy those looking for more far-reaching reform.
- This has left some in the sector underwhelmed with the work and there is a risk that some of the key recommendations that CG should contribute to alleviate cost pressures arising from unfunded mandates, international tourism and adaptation to climate change are not fully appreciated.
- The inquiry process and Final Report has, however, provided a platform for continuing discussion and analysis. A useful challenge has also been set around doing the longer term (and harder) work on improving governance and regulatory practice and using existing tools more effectively. This will build trust in the system - with the community and with Central Government.

² From 28 February 2020, Waikato Times: <https://www.stuff.co.nz/waikato-times/news/119883333/local-government-funding-model-broken-tauranga-mayor-says>

Assessment

Overall this is a high-quality report and inquiry.

It represents a detailed and robust assessment of a number of areas of concern facing local government e.g. managing the response to climate change, the impact of the unfunded mandate, funding tourism infrastructure, the need to address the respective roles of central and local government in regulation, the often complex and inappropriate compliance requirements, the need for improved governance within local government and the importance of improving local government's engagement with its communities.

The key finding that radical reform is not required and that the current rates-based system remains appropriate for New Zealand will not likely satisfy those looking for more far-reaching reform. This has left some in the sector underwhelmed with the work and there is a risk that some of the key recommendations that CG should contribute to alleviate cost pressures arising from unfunded mandates, international tourism and adaptation to climate change are not fully appreciated.

The inquiry process and Final Report has, however, provided a platform for continuing discussion and analysis. It has outlined that there are no quick and easy fixes when you apply commonly agreed funding principles to the issues. A useful challenge has also been set around doing the longer term (and harder) work on improving governance and regulatory practice and using existing tools more effectively. An implicit point is being made – do things better and you will build trust in the wider system – both with the community and with Central Government (where more funding will need to come, ideally with limited strings attached so that local autonomy and accountability is maintained).

8.0 SUMMARY ASSESSMENT

Performance measures		Key points
Right focus	The relevance and materiality of the final inquiry reports in meeting the TOR	<ul style="list-style-type: none"> • The Final Inquiry Report achieves both the “relevance” and “materiality” measures in responding to the Terms of Reference. • Some stakeholders in the Local Government (LG) sector would have liked to have seen more exploration of Councils’ ability to develop their own funding tools on the basis of community support rather than requiring legislative fiat from Central Government (CG). • There was an opportunity to extend the discussion on the potential impact of the reintroduction of the “four well beings” and the local government role in supporting economic development funding. • The explicit and prevailing assumption throughout the analysis that funding from Central Government (CG) limits local autonomy and accountability constrains exploration of the role of CG funding. • There is a view from the Local Government (LG) sector that the analysis, particularly in regard to burden sharing with CG for financing things that CG has historically funded (including a broader view of wellbeing which gets you into housing and social conditions), could have gone further. • Some LG stakeholders are concerned the analysis did not fully account for the growing impost of rates on ratepayer budgets (beyond small, rural, low-income districts) given the large and more recent increases in e.g. regional rate bills (some as high as 40% over 2 years, but 6-7% is common across NZ). With incomes not rising that fast many stakeholders have questioned whether we may soon be facing a real ceiling on the rate burden as a percentage of income. This therefore limits the effectiveness of rates as a financing mechanism. • More detailed forecasting that brought together estimates of the key financing demands (e.g. infrastructure provision for housing; climate change; 3-waters etc) for a select number of councils, with an assessment of how these costs would translate to/impact on rates and the use of other funding tools would have been useful.

High quality work	The quality of the analysis, guidance and recommendations in the final reports	<ul style="list-style-type: none"> • The Final Inquiry Report is a high-quality piece of analysis. • There was good and appropriate use of experts through the commissioning of specific analysis. • This evaluation has highlighted a number of areas where additional analysis may have been useful and while there is a spectrum of views among the Commission’s stakeholders there is a view in the LG sector that the Final Report missed an opportunity to really test some of New Zealand’s ‘sacred cows’ e.g. the ability of Councils to establish, with community support, their own funding tools and the use of GST raised locally as an incentive to invest in growth/wellbeing-enhancing activities. • Nevertheless, the Final Report is an important resource that will be very useful in supporting ongoing conversations in this area.
Good process management	The timeliness and quality of the inquiry process	<ul style="list-style-type: none"> • The inquiry team delivered the process and reporting within the requested timeframe. • The inquiry process was well-considered, providing a number of opportunities for interested parties to either help focus the analysis on critical aspects of the problem definition and/or provide feedback on the draft analysis and findings. • The inquiry process was designed to meet stakeholder needs and/or to mitigate the key risks associated with consultation processes. • The Commission should consider the benefit of a more personalised approach in acknowledging submitter effort and engagement with the process.
Effective engagement	How well the Commission engaged with interested parties	<ul style="list-style-type: none"> • A broad range of stakeholders were engaged through the inquiry process. • The level of engagement from, and with, local government and its representative bodies was (unsurprisingly) high. • Iwi engagement in the process was relatively limited. The Commission should consider an explicit engagement strategy for iwi in future reviews.
Clear delivery of messages	How well the work is communicated and presented in the final report	<ul style="list-style-type: none"> • The Inquiry Report is well written, easy to read and laid out in a logical manner. • Good use of graphics and tables to highlight key material. • The summary documents – ‘At a glance’, ‘One-page brief’, and the Final Report’s very useful ‘Overview’ - allow easy access for those who do not have the time to dig more deeply into the analysis.

		<ul style="list-style-type: none"> • But some of the interesting and critical discussion around the political economy issues affecting financing decisions at a local government level could be lost to the casual observer and reader.
Overall quality	The overall quality of the inquiry taking into account all factors	<ul style="list-style-type: none"> • Overall a high-quality report and inquiry. • It has done a good job of capturing the critical issues facing LG. • The key finding that radical reform is not required and that the current rates-based system remains appropriate for New Zealand will not likely satisfy those looking for more far-reaching reform. • This has left some in the LG sector underwhelmed with the work and there is a risk that some of the key recommendations that CG should contribute to alleviate cost pressures arising from unfunded mandates, international tourism and adaptation to climate change are not fully appreciated. • The inquiry process and Final Report has, however, provided a platform for continuing discussion and analysis. A useful challenge has also been set around doing the longer term (and harder) work on improving governance and regulatory practice and using existing tools more effectively. This will build trust in the system - with the community and with Central Government.