THE LOCAL FORMULA

MYTHS, FACTS & CHALLENGES

JASON KRUPP
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THE NEW ZEALAND INITIATIVE

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2015

The New Zealand Initiative is an independent public policy think tank supported by chief executives of major New Zealand businesses. We believe in evidence-based policy and are committed to developing policies that work for all New Zealanders.

Our mission is to help build a better, stronger New Zealand. We are taking the initiative to promote a prosperous, free and fair society with a competitive, open and dynamic economy. We develop and contribute bold ideas that will have a profound, positive, long-term impact.

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FOREWORD

The New Zealand Initiative's latest report on local government has been years in the making.

Authors Jason Krupp and Dr Bryce Wilkinson go beyond the usual analyses that document local government's failures around housing affordability and lacklustre consenting performance to ask why things are as they are.

Getting local government *right* matters for reasons beyond housing affordability. When land supply is wrong, it is hard for anything to really be right in an urban environment. Our cities are productive. But when land supply is too tight, productivity increases do less to improve workers' disposable income than they do to increase house prices as families bid for scarce housing close to places of employment. People who could be more productive in our most productive places decide not to move there because any increase in wages would be eaten up in housing costs.

The problems are well-established. In 2013, the Initiative issued its first report on housing affordability. Authors Michael Bassett and Luke Malpass pointed to anti-development attitudes, tight building regulations, and artificial restrictions on the supply of zoned land as driving a shortage of housing. The shortage of houses relative to increases in demand explained runaway housing costs in Auckland.

There then followed a series of reports from The New Zealand Initiative, as well as from the Productivity Commission, Motu and others, looking at the regulatory barriers to getting more houses and apartments built and at the changes needed to restore housing affordability.

But simply pointing to the problem and to regulatory solutions obviously has not been enough. Housing costs continue to rise, the supply of land zoned for suitable development remains relatively low, councils remain reluctant to invest in the infrastructure that can facilitate growth, and increasing numbers of New Zealanders are priced out of the housing market entirely.

Krupp and Wilkinson began this work this year so we could start better to understand why local government pursues policies that, to an outside observer, seem utterly daft. Why set zoning rules that ruin housing affordability? Why run consenting processes that seem designed to give every objector the power to veto while putting little or no weight on the voices of those who could have lived in the new apartments or subdivisions? Even simple things, like consenting for a gravel pit, becomes tied down in difficult processes, as Krupp's report last year on New Zealand's mineral estate demonstrated.

In short, why does local government sometimes behave as though growth is something to be prevented or contained rather than something to be welcomed?

The Initiative's new report canvasses some potential explanations but the fundamental problem seems to be political economy. When local government is potentially financially liable for any flaws in buildings that they consent, but sees little upside from faster consenting processes, we should not be surprised that things move slowly. Local political pressures mean councillors supporting new development risk being voted out of office before new residents can move in. Consenting processes empowering Not In My Back Yard objections entrench the status quo and prevent growth.

As a bottom line, when local councils bear most of the costs of new development, but the benefits largely flow through to central government, we might reverse the usual conclusions about local government. If anything, it is perhaps surprising that local councils function as well as they do, given their constraints.

This report does not develop policy conclusions. It instead lays out the current facts about local government, warts and all. It suggests that the main constraints on local government stem from political economy issues and incentives. While this report went to press, one of its authors travelled to Switzerland, to the Netherlands, to Manchester, and to Montreal to find out how other jurisdictions deal with these political economy issues. The second report in this series on local government will detail his findings. And the third will develop policy recommendations.

But a report developed in parallel with this one pointed to a process for unblocking regional growth. As Krupp and Wilkinson became increasingly convinced that political economy rather than current financial constraints were the fundamental drivers of some councils' reluctance to embrace growth, Khyaati Acharya and I proposed regionally based policy reform as potential solution.

In the Zone recommended giving councils a share of the tax revenues that flow to central government when local councils succeed in enabling economic growth. At the same time, if councils can identify national level policies or regulations hindering their pursuit of the kinds of growth that are right for them, central government should be flexible and willing to provide localised reform of national policies. Our proposal has seen strong support from district councils from Rotorua to Queenstown.

This report sets the backdrop both for the Initiative's work on regionalised policy reform and for our current investigation of how governments elsewhere solve political economy issues. Abstracting from the political constraint, restoring housing affordability is a solved problem: allow greater density within our cities' centres; abolish rules like minimum apartment sizes and minimum parking requirements that push up housing costs; and end the rules that stop cities from expanding at the fringes.

But abstracting from the political constraint is too much like the proverbial economist's assuming the existence of the necessary can-opener. The more interesting remaining problem is how to change the underlying political economy so that both local and central government can embrace growth and change.

We're working on it.

Dr Eric Crampton

HEAD OF RESEARCH,
THE NEW ZEALAND INITIATIVE

5 NOVEMBER 2015

INTRODUCTION

All citizens and businesses interact with government on a regular basis to some degree, either through the services they consume or the infrastructure they use. For the average New Zealander, the word 'government' probably conjures up images of stately buildings such as the Beehive and the parliamentary debating chamber. But the most regular point of contact with the state is usually at a local level for the majority of people. It is local government that builds and maintains local roads, provides potable and waste water infrastructure, picks up rubbish, and provides library services. These are only a fraction of the functions that local government bodies perform, and the most visible ones at that. Local government also provides a wide range of regulatory functions that are not immediately obvious. These include managing the resource planning and consenting process, safeguarding the environment, setting local alcohol policies, and even determining pet ownership rules. Local government can enhance the efficient and effective functioning of local communities, and local economic activity. For example, labour markets in cities need transport facilities such as roading and public transport networks to function, as do businesses. In an ideal world, local government structures and incentives would ensure that public infrastructure and services maximise wellbeing.

Unfortunately, New Zealand is not an ideal world on this measure. New Zealand, like many developed countries, faces the challenge of redefining its place in the world as the centre of the global economy shifts to Asia. While this change occurs, many of the nation's traditional strengths are turning into weaknesses. Where baby boomers previously swelled the ranks of the country's workforce, now as they enter into retirement they pose a growing cost but shrinking revenue challenge to government. The nation's infrastructure network also faces challenges. The highways, roads, electricity grid, drinking water network, schools, irrigation systems, ports and rail corridors that propel the economy today will need to be revamped over the next 30 years as they approach the end of their usable lifespans. This represents a considerable but as yet unquantified expense. New technologies and shifts in the global economy also mean that the proposition that infrastructure per se boosts economic growth may be less effective than it was in the past.

Local government is involved in the provision and management of many infrastructure networks and utilities. Its performance will affect how well New Zealand meets these challenges. It will require local authorities that are adaptive, collaborative, creative, and responsive to the needs of their communities if the next generation of New Zealanders is to enjoy a better quality of life than we do right now. The question is whether local government is up to the task.

Although there have been significant structural and regulatory changes during local government's relatively short history, few of the changes have focused on rewarding councils for encouraging economic growth. The evidence can be seen across the country. In fast growing areas like Auckland, the undersupply of infrastructure and land for house building have added momentum to runaway house prices, two areas under the control of local government. This is not because Auckland Council does not want to provide these services, but rather that the high costs and statutory constraints make it difficult for it to do so. Although unintended, these constraints and costs run against the economic growth aims of the government, and in effect sets New Zealand's two tiers of government against each other. This report examines the history, roles and functions of local government, and presents a frank assessment of how well this sector meets its obligations, and how well positioned it is to meet future obligations. It also looks at the challenges facing local government, the limitations of the current funding structure, and the range of policy options that have been tabled so far to address this. The aim is to advance the discussion on local government from a narrow one of taxes and rates to incentives and economic growth. If we, as a nation, seek to encourage faster economic growth, then central government needs to loosen the brakes on local government.

CHAPTER ONE
BRIEF HISTORY AND STRUCTURE

Given New Zealand's comparatively short history as a nation, it would be easy for a layperson to assume the backstory of local government events is equally short, lacking in detail or excitement. This assumption about local government in New Zealand is incorrect. The sector's history is characterised by often radical and dramatic changes. It could be argued that the country's limited history has added to the pace of change at a sub-central government level, which has seen the role of local authorities wax and wane dramatically over the past 175 years. Two forces will be immediately obvious throughout this chapter. The first is expansionary, both in respect of the overall number of local authorities and in the number of goods and services they provide to their communities. The other opposing force is contractionary, and represents various efforts to consolidate the number of local authorities and restrict their activities to the provision of basic services. These forces are still at play, and influence many of the policies that govern how local government operates today, and indeed, how it is likely to operate in the future. To some it may seem as if the contractionary force has won out. Where once the number of local authorities exceeded 500, there are now only 78 regional, territorial and local councils.[1] Local authorities in New Zealand account for less than 9 cents in every dollar of public spending, a ratio lower than only Greece and Ireland among wealthy nations, and well short of the OECD average of 30 cents. This makes New Zealand one of the most centralised countries in the developed world.[2] Yet at the same time, local government bodies here are highly active in their communities, with their involvement extending well beyond the traditional remit of providing or overseeing the provision of roads, water, waste and rubbish. It is thus necessary to understand the history behind these forces before delving deeper into local government activities, funding arrangements, and incentives.

1 Excludes Community Boards and District Health Boards.

2 OECD and Korea Institute of Public Finance, "Institutional and Financial Relations Across Levels of Government," OECD Fiscal Federalism Studies (Paris: OECD Publishing, 2012), 88–89.

THE GREAT EXPANSION

The expansionary trend has its roots in New Zealand's relatively short post-colonial history. The country was only established as a British colony in its own right in 1840 with the signing of the Treaty of Waitangi,[3] having been governed as part of the New South Wales territory before that. The new colony also had the distinction of being the last major territory to be added to the British Empire, and also the farthest from London. Settlers to New Zealand arrived in small groups and settled sporadically across the country, and local authorities were set up to provide the infrastructure these communities needed. The bodies often took the form of road boards, which collected money to pay for the construction and upkeep of roads.[4] Although great in number, many road boards struggled to raise funds and many were too small to be effective, and it became apparent quickly that a more effective restructuring of local government was necessary.[5]

3 New Zealand History, "History of the Governor General: Crown Colony Era," Website (Wellington: New Zealand Government).

4 Encyclopaedia of New Zealand (Te Ara), "Funding Road Construction," Website (Wellington: New Zealand Government), 5.

5 Encyclopaedia of New Zealand (Te Ara), "Local Government: Historical Background," Website (Wellington: New Zealand Government), 6.

The first major attempt to formalise local government was made in 1852, with the passing of the *New Zealand Constitutional Act*. The legislation created six provinces, each with the power to establish its own local governing arrangements. By 1867, there were 21 municipal boards under 14 provincial ordinances in urban areas, as well as numerous rural authorities.[6] Yet this had not delivered the orderly arrangement hoped for by central government. Further tweaking of the system was required as some of the powers granted to these municipalities by the provinces overstepped their legislative jurisdiction, and the passing of the *Municipal Corporations Act 1867* established the blueprint for creating further sub-central government bodies. The provincial tier of local government was also given control over the road boards, with the view that it would phase them out over time.

These legislative reforms also failed to foster the orderly local government structure that central government had hoped for. Instead they created a political environment where the provinces pursued their own interests at the expense of matters of national significance. For example, three different standards of rail gauge were in use, stymying attempts at establishing a national rail network.[7] In addition, most provincial governments were not financially self-sufficient, and relied on debt grants from central government to function (with the exception of Otago and Canterbury).[8] Around 1870, total public debt stood at less than £8 million, of which local government accounted for about 38%.[9] This financial burden, coupled with provincial self-interest, spurred central government to kickstart the first of several local government consolidation projects in 1876.[10] The most notable change by lawmakers, under the leadership of Premier Julius Vogel, was to scrap the provinces and replace them with 63 counties responsible for the 314 road boards already in existence – a rational move given the dispersion and transport costs.[11] At the time, New Zealand's European population stood at just under half a million people.[12] These changes failed to contract the size and scope of local government. In urban areas, a desire for greater local autonomy gave rise to legislative changes that allowed local communities to establish town districts. These districts were allowed in areas not already classed as boroughs, were smaller than two square miles in size, and consisted of no more than 50 households. In rural areas, central government's desire to reduce the number of local authorities was thwarted by national rules capping the level of subsidies that could be extended to any one county. As a result, it was advantageous for counties with large land areas to subdivide into smaller counties to be eligible for more subsidies. Similar caps on lending also provided a further incentive to subdivide. As a result, the number of counties grew from 63 in 1876 to 125 in 1925.[13] The number of local authorities, including special purpose authorities such as harbour boards, too rose from 529 in 1900 to 677 in 1940.[14] This growth was a concern to central government, especially as the local governance landscape remained highly fragmented, characterised as it was by overlapping responsibilities between local bodies. In response,

6 New Zealand Parliament, "Local Government Amalgamation: History of Local Government in New Zealand," Website (Wellington: New Zealand Government).

7 Wikibooks, "New Zealand History: Railways," Website.

8 Encyclopaedia of New Zealand (Te Ara), "Provinces and Provincial Districts: Provincial Divergencies," Website (Wellington: New Zealand Government), 3.

9 Keith Sinclair, *A History of New Zealand* (Hong Kong: Penguin Books, 1988), 153.

10 "New Zealand's Nine Provinces (1853–76)," Friends of the Hocken Collections, Bulletin No. 31/March 2000 (Otago University).

11 Encyclopaedia of New Zealand (Te Ara), "Provinces and Provincial Districts: Abolition of the Provinces," Website (Wellington: New Zealand Government), 4.

12 Statistics New Zealand, "Historical Population Estimates – Tables," Website (Wellington: New Zealand Government).

13 Encyclopaedia of New Zealand (Te Ara), "Local Government: Historical Background," Website (Wellington: New Zealand Government), 6.

14 Excluding special authorities and district health boards. New Zealand Parliament, "Local Government Amalgamation: History of Local Government in New Zealand," op. cit.

the Local Government Commission was established in the 1940s to identify feasible ways to restructure or amalgamate local authorities. But since the final say on any amalgamation was still vested with the public, who had the ability to overturn these recommendations,[15] local body numbers continued to climb, hitting 757 in 1960.

THE HATCHET YEARS

Whether the explosion in the number of local bodies was due to the population's preference for smaller local representation is unclear, but it did not sit well with Wellington. Under Prime Minister Norman Kirk, the third Labour Government set about consolidating local government with the introduction of the *Local Government Act 1974*.[16] The new law abolished the long-standing distinction between urban local authorities and rural counties, and bolstered the powers of the Local Government Commission.[17] This reduced the number of local government bodies to some extent, but since there was little to gain from merging, the number of amalgamations remained low. It was not until 1987, under the Labour Government of David Lange, that the forces of consolidation truly gained their teeth.[18]

Some assert that the spark for change originated in Treasury, which produced briefing papers advising that local government should be restructured rather than fix individual areas of poor performance.[19] Some of the issues Treasury officials wanted to address included role confusion between those elected and council management; inefficient service provision; poor management of commercial and non-commercial objectives in dealing with council controlled businesses; inadequate incentives; inability of councillors to hold managers to account; and diseconomies of scale.[20] However, a referee has pointed out that the Ministry for the Environment's 1987 'Briefing to the Minister for the Environment' was more important in proposing a major consolidation of statutes affecting local authorities along with greater evolution which would require greater consolidation of local authorities in order to ensure they had the capacity to respond. The then deputy prime minister and Minister for the Environment, now Sir Geoffrey Palmer, led the task of consolidating the statute book although the product of this exercise, the *Resource Management Act* 1991, was put on the statute book by the succeeding National government.

The reforms to local authorities themselves were led by then Minister for Local Government Michael Bassett. It significantly bolstered the powers of the Local Government Commission, allowing it to radically restructure the local government landscape. As a result, the number of regional councils was reduced from 22 to 13; the number of city and district councils from 200 to 74; and the number of special purpose bodies from 400 to just 7.[21] In all, this represented a sixfold reduction in the number of local authorities. At the same time, central government officials set about drafting new legislation, dictating how local authorities would operate and be accountable to public scrutiny.[22] The new terms split the policy and operational functions of local government, which were previously vested in elected officials. Non-elected chief executives were tasked with the day-to-day running of the council, in a model that mimicked

15 Encyclopaedia of New Zealand (Te Ara), "Local and Regional Government: Managing Urbanisation," Website (Wellington: New Zealand Government), 4.

16 *Local Government Act* 1974.

17 Encyclopaedia of New Zealand (Te Ara), "Local and Regional Government: Reforming Local Government," Website (Wellington: New Zealand Government), 5.

18 New Zealand Parliament, "Local Government Amalgamation: History of Local Government in New Zealand," op. cit.

19 Joe Wallis and Brian Dollery, *Local Government Reform in New Zealand* (Armidale, NSW: School of Economics, University of New England, 2000), 4.

20 Local Government New Zealand, "Local Government Reforms in New Zealand: What Was Ordered and What Has Been Delivered," Report prepared by McKinlay Douglas for LGNZ (Wellington: LGNZ, 1998), 8–9.

21 Joe Wallis and Brian Dollery, *Local Government Reform in New Zealand*, op. cit., 6.

22 Ibid., 6.

the public sector reforms taking place at a central government level. June Pallot describes these reforms as a "New Public Management" approach, one aimed at running public institutions along the lines of private businesses and built on contractual relationships.[23] The aim of the contractual reforms between policymakers and non-elected officials was to:

1. disaggregate public sector organisations into separate product centres;
2. encourage competition between different public service providers;
3. make use of private management practices in a public setting;
4. achieve greater efficiencies and reduce costs;
5. establish public managerial specialists;
6. provide more explicit and measurable performance standards; and
7. control the public sector through pre-set output measures.[24]

To further improve transparency and accountability, councils' commercial operations, such as ports and airports, were also separated from the day-to-day operations and run as Local Authority Trading Enterprises.[25] The new arrangement also facilitated the sale of council-owned businesses. Joe Wallis and Brian Dollery quote Department of Internal Affairs' figures that show the proportion of local government services provided exclusively by council controlled units fell from 70% in 1989 to 26% by 1994 – and were matched by a corresponding pick-up in private provision.[26]

As radical as these changes were at the time, further refinement of the system was introduced with the passing of the *Local Government Amendment Act* 1996. The changes to the law were aimed at making local authorities more accountable and transparent to their communities by requiring them to prepare a long-term financial strategy, detailing projected expenses and funding for a 10-year period. The legislation also provided financial guidance to councils, requiring them to recover costs from the beneficiary of a particular public service, where applicable. Authorities were also advised to take fairness and equity into consideration when planning their expenditure plans, and the amendment also included a number of technical considerations, such as efficiency and transparency of funding mechanisms.[27] Together, the 1989 reforms and the stricture of the 1996 amendments sought to constrain local government, both in structure and function, to a contractual form to provide core local public goods and services overseen by their respective communities.

NEW SPIRIT OF LOCALISM

Attempts to keep local government constrained to the business-like provision of core goods and services was not without opposition. One critique was that the reforms did not address any of the complexity in the *Local Government Act* 1974, which had become burdensome and out of date by the late 1990s. Law firm Chapman Tripp described the legislation as "an unwieldy mish-mash of 1950s and 60s prescriptive planning, overlaid with 1990s accountability and financial provisions".[28] Another critique was that local government should not be constrained to a statutorily determined set of functions (albeit ones never followed in practice), but instead should be allowed to service the needs of communities beyond providing core

23 June Pallot, "New Public Management Reform in New Zealand: The Collective Strategy Phase," *International Public Management Journal* 1:1 (1998), 1–18, 1.

24 Ibid., 2.

25 Encyclopaedia of New Zealand (Te Ara), "Local and regional government: Reforming Local Government," Website (Wellington: New Zealand Government), 5.

26 Joe Wallis and Brian Dollery, *Local Government Reform in New Zealand*, op. cit., 6.

27 *Local Government Amendment Act* (No. 3) 1996.

28 Chapman Tripp, "Local Government Act 2002: Free at Last?" *New Zealand Environment* 26 (2003).

services.[29] Peter McKinlay noted at the time that the contractual approach to local government had run its course by the late 20th century, and most English-speaking countries were moving to a new governance structure where "local government plays a crucial role in the building of inclusive societies which necessarily involves a measure of redistribution to ensure that services are designed to meet need rather than individual ability to pay".[30] The 1999 election, which Labour won, allowed these views to gain traction among policymakers, and resulted in the passing of the *Local Government Act* 2002. A source document for this legislation is a 1999 report for the Minister of Local Government. It included a "Governance for Citizens" scenario that envisaged a greater role for local authorities in overseeing the sustainable provision of facilities, rather than providing them directly.[31] The legislation expanded the purview of local councils beyond the typical areas of roads, water and waste, and tasked them with promoting the social, economic, environmental and cultural wellbeing of their communities, collectively known as the 'four wellbeings'. To enable this, councils were given the power to effectively choose which activities to undertake and how to undertake them, contingent on local community consultation.[32] These expanded powers were matched by a requirement for greater community consultation on significant matters,[33] as well as regular consultation, reporting and collaborative planning on the general strategic direction of each council.[34] Community boards were also introduced to bolster democratic participation, and were envisaged as a means of giving smaller special interest groups a say at the council table, of which 108 were active as of February 2015.[35] Local government was now less of a contracted agency, and more an "expression of local democratic choice", as McKinlay describes it.[36]

29 Joe Wallis and Brian Dollery, *Local Government Reform in New Zealand*, op. cit., 20.

30 Peter McKinlay, "Future of Local Government Summit 5: New Directions in New Zealand Local Government," Presentation to Local Government Centre (Auckland: AUT University, 2009), 4.

31 Department of Internal Affairs, Local Government NZ and the Society of Local Government Managers "Scenarios for Local Government to 2010", 1999.

32 Department of Internal Affairs, "Local Government Act Review," Website (Wellington: New Zealand Government).

33 *Local Government Act* 2002, section 83.

34 *Local Government Act* 2002, sections 91, 92 279 (all since repealed).

TIGHTENING THE NUTS AGAIN

Another change of government, this time with the National Party assuming power in 2008, brought yet another round of local government reforms consolidating the structure and functions of the sector. The move was driven by a desire to better coordinate the provision of local public goods. In 2010, a unitary "Auckland Council" was created in place of eight abolished local authorities: Auckland Regional Council, Auckland City Council, Franklin District, Manukau City, North Shore City, Papakura District, Rodney District, and Waitākere City. The Auckland Council is commonly referred to as the 'Super City'.[37] The amalgamation proposal was notable because it did not seek a public vote on the motion, proceeding instead via a royal commission, which produced a report in 2009 recommending amalgamation.[38] Legislation was passed in the same year to enable the merger of the eight local authorities, which has since happened. Four other amalgamation proposals were also being considered around the same time. These included an application to merge the Far North, Whangarei, Kaipara, and Northland councils. On the east coast of the North Island, pro-amalgamation group A Better Hawke's Bay submitted an application to merge the Central Hawke's Bay, Wairoa, Napier, and Hastings

35 Local Government New Zealand, "Community Boards," Website (Wellington: New Zealand Government).

36 Peter McKinlay, "Future of Local Government Summit 5," op. cit.

37 Department of Internal Affairs, "About the Auckland Council," Website (Wellington: New Zealand Government).

38 Department of Internal Affairs, "Royal Commission on Auckland Governance Report". (Wellington: New Zealand Government). See in particular Volume 1, March 2009.

councils, and Hawke's Bay Regional Council. Greater Wellington Regional Council applied to amalgamate with the Kapiti Coast, Porirua, Wellington, Hutt, Upper Hutt, South Wairarapa, Carterton, and Masterton councils. This application was made concurrently to the one made by the South Wairarapa, Carterton, and Masterton councils to merge into a single entity.[39] Having assessed each application, the Local Government Commission recommended in 2014 that the Hawke's Bay, Northland and Wellington mergers proceed, and produced draft reports on the respective initiatives. The Hawke's Bay amalgamation was put to vote in September 2015, and rejected by a majority of two to one.[40] However, public opposition saw the commission drop the Northland and Wellington proposals to seek other options in these regions. In a July 2015 speech to advocacy body Local Government New Zealand (LGNZ), Local Government Minister Paula Bennett announced that central government would continue to pursue further council consolidations, either through amalgamations or other structures.[41]

Through its Better Local Government reform programme, the current National-led government is also seeking to constrain the spread of local government activity unleashed by the 2002 legislative changes. The first legislative change under this programme was the 2012 Amendment Bill to the *Local Government Act* 2002. The Act repealed the four wellbeings in a bid to pull back spending by authorities, which had spiked in the intervening 10 years.[42] In its place, the law now required councils to focus on their primary role, namely provision of infrastructure, public services, and regulatory functions, and do so in a cost-effective manner.[43] (Even so, most councils in New Zealand continue to spend on non-core activities to cater to the four wider wellbeings).

Further amendments to the *Local Government Act* were passed in 2014, predominantly aimed at improving the functioning of local government. The changes chiefly dealt with issues concerning development contributions, collaboration, consultation processes, infrastructure planning, and administrative matters.[44] In addition, the Act paved the way for greater reorganisation of local government structures, tightening the process by which communities can object to amalgamation recommendations by the Local Government Commission.[45] The next tranche of amendments sought to further focus local government on the provision of core services. This eased the way to greater collaboration between councils and the private sector, and included numerous administrative changes. Significantly, the amendments required councils to develop a 30-year infrastructure construction and maintenance plan.[46]

CONSOLIS-PANSION

The brief overview of local government history contained in this chapter clearly highlights the two countervailing forces at play, and the narrowing swings between expansion and contraction. Meanwhile, local councils still have to provide core local public goods and services, and service the broader wellbeing of their community as they see fit. This history and policy backdrop is necessary when examining how local government pays for activities (see Chapter 3), particularly as the property-based funding model and the incentives it creates have remained largely the same.

39 New Zealand Parliament, "Local Government Amalgamation: History of Local Government in New Zealand," op. cit.

40 Local Government Commission, "Amalgamation Decisions – Wellington and Northland," Website (Wellington: New Zealand Government, 9 June 2015).

41 Paula Bennett, "Speech to LGNZ Annual Conference," Website (Wellington: New Zealand Government, 21 July 2015).

42 Simpson Grierson, "Say Hello to the Local Government Act 2002 Amendment Act 2012," Website (December 2012).

43 Ibid.

44 *Local Government Act* 2002 *Amendment Act* 2014.

45 Simpson Grierson, "Say Hello to the Local Government Act 2002 Amendment Act 2012," op. cit.

46 Simpson Grierson, "Our Scorecard on the Local Government Act 2002 Amendment Bill (No.3)," Website (29 July 2014).

CHAPTER TWO
ROLES, FUNCTIONS AND FUNDING

The average citizen's interaction with local government is mostly with the person who removes their household rubbish or sweeps the streets. For property owners, this also entails receiving a rates bill on a quarterly basis. The provision of basic services and infrastructure, such as water and roading, is a significant part of what councils do; however, the scope of their responsibilities has been extended over a far greater range of matters. Councils are now as active in environmental protection, cultural promotion, and economic development as they are in providing sewerage. It is therefore useful to look at what councils do, before looking at how councils (and ultimately ratepayers) pay for these activities.

AN ECONOMIC LENS

In examining exactly what local government does in New Zealand, it is useful to look at its functions and responsibilities through an economic lens. We can broadly group local government goods and services into three categories: public goods; club or quasi-public goods; and private goods. Each of these categories is associated with a preferred means of funding, such as paying for local public goods out of general tax revenues. In New Zealand, it is largely left to communities to decide what will be provided, and how to pay for it (albeit with statutory guidance).[47]

Public goods

A public good is probably one of the most misunderstood economic terms in use today. It is often incorrectly used to describe any good or service provided by the state or a state agency. It is in fact a technical term used by economists to distinguish goods that are both non-excludable and non-rival.[48] For example, it is difficult to exclude someone from the benefit provided by a good such as national defence. The non-rivalrous nature of public goods means no matter how much one person consumes, it does not limit the amount available to the next person – for example, a scenic view of a mountainside or the use of space in an uncongested, road, golf course, restaurant or cinema.

Economic theory suggests that goods exhibiting both these characteristics could be undersupplied by voluntary mechanisms since a private provider may be unable to recover costs from those who benefit. Of course private and cooperative for-profit, not for profit, or philanthropic activities may succeed in supplying many public goods in reasonable measure. But where goods with strong public good properties are not provided by the market or civil society, government may wish to supply these goods if the benefits convincingly exceed the costs. The responsibility may or may not involve some tax-funded public provision or financial support. Other examples of public goods provided by local government in New Zealand include street lighting, disease inoculation programmes, and disaster management. There are obviously far fewer pure public goods than people unfamiliar with the technical definition perceive there to be.

47 New Zealand Institute of Economic Research, "Future Funding of Local Government Activities" (Wellington: NZIER, 2001).

48 Tyler Cowen, "Public Goods," Website (Library of Economics and Liberty).

Club good

A club good is non-rivalrous (at least in the absence of congestion) but excludable. Club goods are commonly provided privately. Non-members of a club can be excluded from the benefits provided from its facilities, but their use is non-rivalrous in the absence of congestion. Space on uncongested roads, golf courses, and seats in an uncongested cinema, restaurant or concert may be regarded as a club good. Pay TV is a club good. It would be hard to exclude non-paying pedestrians from a city footpath, but in principle unlicensed vehicles can be excluded from public or private roads. Arguably, uncongested public roads are largely a club good. Those not paying petrol tax or road user charges are excluded from driving on roads.

Common pool resource

A rivalrous but not-excludable good is sometimes called a common pool resource. Deep sea fishing exhibits this characteristic.

Quasi-public goods

A good that is at least partially rivalrous and partially excludable may be called a quasi-public good.[49] For example, the harder it is to exclude vehicles from using roads illegally, the more an uncongested public road would have the characteristic of a public good rather than a club good. The introduction of technology, such as congestion charging, can make these goods excludable, turning a quasi-public good into a private good.

Merit good

A merit good is one deemed to be under-provided by voluntary actions, either because those who consume it fail to adequately appreciate its merits or because non-excludable spillover benefits accrue to others. Education is commonly cited as a merit good. Some might cite public libraries, museums, and swimming pools. Elements of self-interest, paternalism and elitism, plus a distrust in voluntary cooperative, not-for-profit, and charitable activity, may affect assessments of a merit good. The subjective nature of this concept makes its application to public policy problematic.[50]

Income redistribution

Another argument for government action is that a public good will otherwise be under-consumed simply because people on low incomes can't afford to buy 'enough' of it. People fully appreciate its benefits and there is no spillover issue, but people simply can't afford more. For example, unhealthy housing indicates inadequate income. Since inadequate income implies that inadequate housing will not be the only problem for such households, income redistribution by central government through the income tax and the welfare system is likely to be a more efficient response to this problem than redistribution by local government.[51] Local governments commonly subsidise local bus services. Such subsidies are arguably ill-targeted from an income distribution perspective. Instead, defenders may argue that subsidies ease road congestion. Whether they are an efficient response to congestion as compared to congestion charging is debatable.

Private goods

In New Zealand, local authorities are not limited to providing public and quasi-public goods, but can hold ownership stakes in private trading enterprises. Where the ownership stakes approach a majority position (50%), they are considered Council-Controlled Organisations (CCOs), and have specific conditions applied to them under the *Local Government Act 2002*. These conditions require CCOs to be run on an arms-length basis from local policymakers, but with regular reporting

49 Economics Online, "Quasi-public Good," Website.

50 David W. Pearce (ed.), *The MIT Dictionary of Modern Economics* (Cambridge, Massachusetts: MIT Press, 1992), 276.

51 New Zealand Institute of Economic Research, "Future Funding of Local Government Activities," op. cit., 24.

obligations. Auckland Council has seven such organisations with responsibility across a wide range of activities, including investment, property management, amenities, tourism promotion and economic development, water provision, and transport.[52] Christchurch City Council has majority ownership in 10 private organisations, ranging from property development and management, energy network provision, transport (airport, ports, and bus networks), and waste recycling.[53] Many CCOs are formed to manage the provision of public or quasi-public goods, such as the Wellington Museum Trust, but these CCOs are also active in other sectors of the economy as an alternative revenue stream for councils, often at the expense of higher council debt or lower financial investments. These include parking facilities, farming, forestry, pest-control, property development, holiday accommodation, entertainment (cinema), and lottery services.[54] In one notable case, New Plymouth District Council owns stakes in private dairy and forestry operations in Tasmania.[55] Most councils use the profits from these firms to subsidise rates or pay debt servicing costs, but it can be problematic in that these ratepayer-funded businesses can crowd out private activity in a sector, or fail to meet the cost of capital. In addition, the ability of CCOs to raise capital can be constrained by the balance sheet and debt profile of local authorities. Overall, it has been observed by the Local Government Forum that "[a] large body of empirical research over the past 25 years has found that private goods are best supplied by the private sector".

52 Auckland Council, "Council-controlled organisation agendas and minutes," Website.

53 Christchurch City Council, "Council Controlled Organisations," Website.

54 Local Government Forum, "Local Government and the Provision of Public Goods" (Christchurch: 2008), 8.

55 New Plymouth District Council, "Council Controlled Organisations," Website.

CREATURE OF STATUTE

Although the discussion in this chapter has so far focused on the types of goods and services that councils provide, it is also important to remember why they do it – the law tells them to. Local authorities in New Zealand do not enjoy the same status as many other sub-central government bodies in the developed world, where the tiers and roles of government are spelled out in constitutional documents. In New Zealand, local government is a creature of statute, most recently the *Local Government Act* 2002. The Act describes local authorities as "a body corporate with perpetual succession", and confers on the sector the power to fulfil various statutory duties.[56] The Act sets a framework for providing local infrastructure, public services, and regulatory functions via a democratic decision-making process. In addition, it requires giving consideration to core public services such as providing network infrastructure; public transport; solid waste collections and disposal; and recreational and other community amenities such as libraries, museums, reserves, etc. and avoiding or mitigating natural hazards. Where the *Local Government Act* 2002 departs from previous legislation is in requiring sub-central authorities to provide these goods and services in a "sustainable development approach". This entails taking the social, economic and cultural interests of people and communities into the decision-making process, while simultaneously maintaining and enhancing the quality of the environment, as well as catering for the reasonably foreseeable needs of future generations.[57] The table in Appendix A.1 captures a snapshot of most local governments' statutory functions and responsibilities.

56 *Local Government Act* 2002, section 12.

57 *Local Government Act* 2002, sections 11–17.

WHO PAYS, AND FOR WHAT

In New Zealand, barring the basics of service and infrastructure provision, it is largely up to communities to determine through voting and consultation mechanisms what goods and services will be provided by authorities through the democratic process. It is appropriate then that those who receive the benefit of a particular service pay for it. As economist Arthur Grimes notes, "If decisions about local service provision are made locally, ideally local people should also expect to pay for these services so that they take full account of the costs and benefits of their decisions. An exception to this is where the benefits of more equal distribution of services across local areas are considered to offset the loss of a clear link between cost bearing and benefits".[58] The actions of councils are guided by a number of financial management principles laid out in the *Local Government Act* 2002 and the *Local Government (Rating) Act* 2002. These include requirements to act prudently and in a manner that takes future generations into account, and also produce long-term expenditure forecasts. Funding for expenditure needs to satisfy a number of principles. First, funding raised by councils should be used to promote community outcomes, including the current and future needs of residents with respect to infrastructure, local public services, and performance of regulatory functions.[59] Second, as discussed above, the beneficiary of a particular good or service should pay for it where applicable. Third, councils should consider intergenerational equity. This is particularly relevant when matching expenditure to funding, such that long-term debt is used to fund long-term infrastructure such as highways, and not for short-term operating costs. Fourth, the legislation should require that councils apply the 'exacerbator pays' principle. This is where the individual who "worsens an existing problem or tightens the margins within which councils operate" bears some or all of the cost of doing so.[60]

SOURCES OF LOCAL FUNDING

Local authorities raise funds to pay for the basket of goods and services they provide via various funding streams. The largest source by far is rates. Rates are a tax levied on the value of property. The rate is generally set jointly with operating expenses, taking into account revenue from other funding streams. Rates are apportioned across all properties in a particular jurisdiction, and weighed according to value (either land, capital or a combination) to ensure the costs of local government are borne in a proportional manner. In the 2014 financial year, rates accounted for almost 60% of operating revenue (see Table 2.1).

Other sources of operating income are derived from user fees (sales and other operating incomes), dividends from subsidiary council-controlled organisations, interest income, one-off grants, and income from any local levy on petrol. Councils also have numerous non-operating sources of revenue, but since the majority of these are accounted for by non-cash valuation changes, they should be treated with caution from a funding reliability perspective. Under the *Local Government Act* 2002, councils are required to run balanced operating budgets unless there is a prudent reason not to, and on an accrual basis (depreciation regarded as an operating expense). Any shortfall between operating expenses and non-rates income from other sources must come from rates. Central government has empowered local authorities with coercive powers to collect

58 Suzi Kerr, Andrew Aitken and Arthur Grimes, "Land Taxes and Revenue Needs as Communities Grow and Decline: Evidence from New Zealand," Motu Working Paper 04–01, Report to the Lincoln Institute of Land Policy (Wellington: Motu Economic and Public Policy Research, 2004), 5.

59 Local Government in New Zealand – Local Councils, "Community Outcomes," Website (Wellington: New Zealand Government).

60 Michael Bassett, Luke Malpass and Jason Krupp, *Free to Build: Restoring New Zealand's Housing Affordability* (Wellington: The New Zealand Initiative, 2013), 17.

Table 2.1: Total local authority income (2014)

Operating income	$000	%
Rates	4,766,861	58.8
Regulatory income and petrol tax	479,274	5.9
Current grants, subsidies, and donations income	989,004	12.2
Interest income	169,853	2.1
Dividend income	316,748	3.9
Sales and other operating income	1,381,297	17.0
Total operating income	**8,103,037**	

Non-operating income	$000	%
Income from valuation changes	4,753,439	76.9
Other non-operating income	-11,133	-0.2
Capital grants, subsidies, and donations income	825,728	13.4
Development and financial contributions	261,423	4.2
Vested assets	349,059	5.6
Total non-operating income	**6,178,516**	
Total income	**14,281,553**	

Source: Statistics New Zealand, "Local Authority Financial Statistics Income and Expenditure (Annual-Jun)," Infoshare.

this tax, and there is no legislative cap on how much of their costs councils can recoup in tax.[61] This is why much of the debate about local government funding falls on rates, even though there are several other sources of income available to local bodies. Rates, as they are used in New Zealand, are also a very flexible revenue gathering mechanism. Councils can set a flat rate on a per capita basis, specific rates for the costs of services such as water provision per household, or even targeted rates to recoup the costs of a particular investment from a defined group of beneficiaries. Nevertheless, rates have limitations from a funding perspective, as explained in Chapter 4.

THE NEW ZEALAND INITIATIVE

61 New Zealand Society of Local Government Managers and Local Government New Zealand, "Rating Knowhow: A Guide to the Local Government (Rating) Act 2002" (Wellington: SOLGM and LGNZ, 2013).

CHAPTER THREE

IS LOCAL GOVERNMENT DOING A GOOD JOB?

This report has so far shown how the current local government structure came about, as well as the roles and functions of these authorities, and how councils raise the funds to pay for their activities. With this structure in place, the next question is how well local government performs its statutory duties. Answering this question requires an evaluative structure. Delays in fixing a pothole may lead some to conclude that local government is failing to deliver on its responsibilities, particularly where the local media has picked up on the story. But this does not evaluate the other functions a local body may perform, such as planning, environmental protection, or financial management amid tight fiscal constraints. Similarly, central government officials may look at increases in local government spending with concern, but have limited insight into what is driving costs. One means of answering this performance question is to evaluate the financial health of the local government sector. Another is more qualitative and attitudinal in nature, and looks at factors like the public's perception of local government and voter participation levels as a means of assessing performance.

The use of financial performance as a ruler is far from perfect. Although New Zealand gathers detailed financial information on all local authorities through various mechanisms, a lack of cohesive reporting structure means "neither ratepayers, councils, nor the Crown have any structured way of assessing whether any particular authority is meeting [the prudent management] obligation".[62] This is changing with the introduction of the Financial Prudence Benchmarks, which have put in place a common set of performance yardsticks and benchmarks to help voters and communities gain a better understanding of how authorities are performing individually and comparatively. Unfortunately, the information was not available at the time this report went to print. In the meantime, financial measures are the best we have.

Similarly, qualitative yardsticks of local government performance are not perfect either. Surveys of local communities tend to be conducted infrequently and inconsistently. In addition, local perceptions may be shaped by specific issues rather than an objective view of how well a particular authority is performing. Collectively though, financial information, surveys and other governance proxies provide a useful insight into how communities view the performance of their councils in the absence of more robust measures. This allows us to fairly assess whether local authorities are doing a good job, even if it lacks granular detail.

FISCAL PERFORMANCE

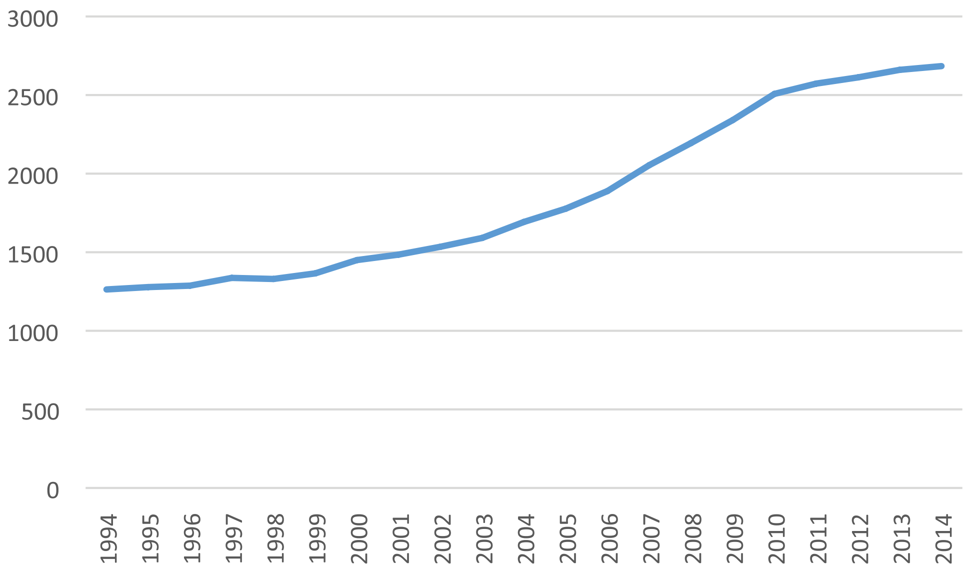
Using financial information as a proxy for local government performance rests on the assumption that if a council has its books in order, then it is likely to have other parts of its operations in order too. There may of course be exceptions. High spending councils may be popular with voters, but this tends to wash out over time as the costs eventually fall on ratepayers in the form of higher rates bills and increased debt burdens. This holds for individual authorities as it does for the sector as a whole, especially in the absence of more detailed performance metrics. This report will focus on four measures: revenue, expenditure, infrastructure and debt.

62 *Local Government (Financial Reporting and Prudence) Regulations* 2014 – Regulatory Impact Statement, 5.

RATES

The topic of rates regularly makes headlines. No one likes to pay tax, but rates appear to be especially contentious for many people because they appear as a bill in the mail, rather than being automatically and almost invisibly deducted from one's salary, or sales or petrol taxes. Rates also tend to function as fixed costs for a business, whereas profit taxes are only levied if a firm produces net revenues. That said, the issue that residents and businesses have with rates is not just one of perception. Government figures show that total rates have risen from $1.7 billion in 1994 to $4.8 billion in 2014.[63] Adjusting for inflation, rates costs rose by 177% in the same 20-year period,[64] while New Zealand's population rose from 3.6 million in 1994 to 4.5 million in 2014, an increase of 24%.[65] This headline measure of rates is useful, but it provides little detail about why rates increased in the period, or the quality or quantity of services provided. One would expect rates to remain static in real terms if the population remains stable. Rates are also paid by households rather than individuals, which provides another measure of rates increases. Chart 3.1 suggests that real rates increases on a household basis are more modest than the earlier headline figure suggests, increasing by 122% from 1994 to 2014. Notably, the pace of rates increases has tailed off since 2010 following a major acceleration from the mid-2000s.

Chart 3.1: Real rates per household (1994–2014) ($)



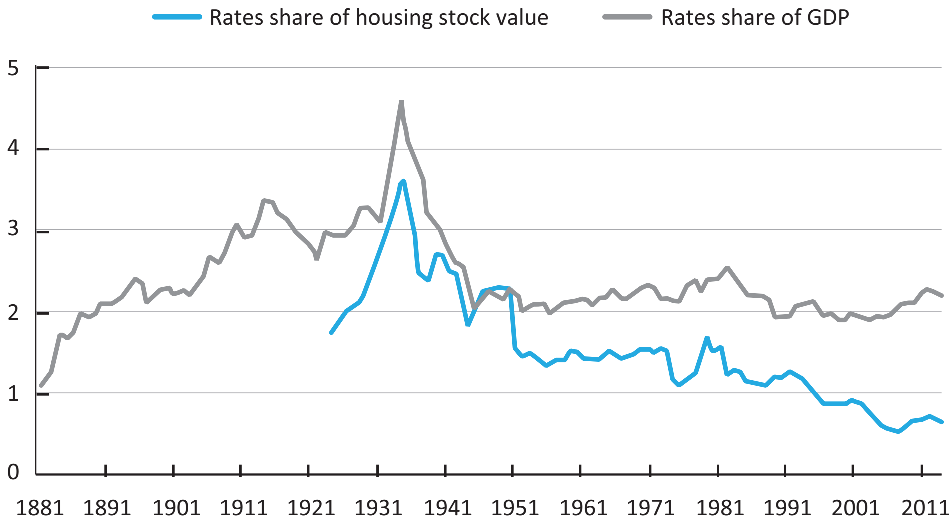
Source: Author's calculation using local authority income figures, Consumer Price Index deflator, and household numbers. Statistics New Zealand, "Local Authority Financial Statistics Income and Expenditure (Annual-Jun)"; "CPI All Groups for New Zealand (Qrtly-Mar/Jun/Sep/Dec)"; and "Estimated Private Dwellings, As At Quarter Ended (Qrtly-Mar/Jun/Sep/Dec)," Infoshare.

63 Statistics New Zealand, "Local Authority Financial Statistics Income and Expenditure (Annual-Jun)," Infoshare, op. cit.

64 Statistics New Zealand, "CPI All Groups for New Zealand (Qrtly-Mar/Jun/Sep/Dec)," Infoshare.

65 Statistics New Zealand, "Estimated Resident Population (Mean Quarter Ended) by Sex (1991+) (Qrtly-Mar/Jun/Sep/Dec)," Infoshare.

Chart 3.2: Rates revenue as a share of GDP and housing stock value (1881–2013)



Source: New Zealand Institute of Economic Research, "Local Government Finances: A Historical Perspective" (Wellington: NZIER, 2014), 9.

Another common measure is rates revenues as a percentage of gross domestic product (GDP). Since rates are also calculated against the value of individual properties, it is also useful to compare the two. Chart 3.2 shows that rates have remained largely stable as a share of GDP between 1941 and 2011. Derek Gill from the New Zealand Institute of Economic Research (NZIER) notes that "[t]his measure, by itself, is not evidence that rates are too high. The increase in rates needs to be compared with provision of services and the desire and ability of rate payers to fund these services".[66] The chart also shows that rates relative to the value of housing stock have fallen in the post-war period. This reflects rising property prices and the trend towards smaller household sizes.

The picture that emerges from this data is more nuanced than first appears. Rates have clearly risen faster than other more general costs (CPI), but the pace of this increase is less pronounced over the long-term. The NZIER estimates that between 1916 and 2013, rates per household rose 0.8% a year above the rate of inflation, and on a per capita basis real rates rose at a rate of 1.4% over the same period.[67] On a headline basis, this is modest over the long-term. The Local Government Rates Inquiry concluded in 2007 that an appropriate level of affordability was when rates revenues accounted for 50% of a local authority's operating income.[68] As discussed in Chapter 2, rates accounted for 58.8%[69] of all local authority operating income in 2014, just shy of the 60% threshold the inquiry called unsustainable. If rates are rising in real per capita terms, it is necessary to look at the reason behind this, namely spending. Appendix A.2 compares increases in real rates per capita from 1996–2014 with population increases across district councils. It also ranks district councils by rates per capita in 2014.

66 Peter Nicholls and Derek Gill, "Is Local Government Fiscally Responsible?" NZIER report to Local Government New Zealand (Wellington: New Zealand Institute of Economic Research, 2012).

67 New Zealand Institute of Economic Research, "Local Government Finances: A Historical Perspective" (Wellington: NZIER, 2014), 10.

68 Department of Internal Affairs, "Local Government Rates Inquiry – Executive Summary," Website (Wellington: New Zealand Government, 2007), 2.

69 Statistics New Zealand, "Local Authority Financial Statistics Income and Expenditure (Annual-Jun)," Infoshare, op. cit.

SPENDING

A well-established stereotype of local government profligacy is held by many residents, central government officials, and the media – and this perception is often cited for why rates increase. It cannot be denied that rates have continued to track upwards, but is this due to poor spending decisions by local councils? Given that local government has a statutory obligation to set rates at a level that recovers operating costs after accounting for other income, it is not surprising that spending by councils also follows an upward trend, increasing by 191% over the 20-year period ending 2014. This rise in expenditure reflects an increase in the number of activities local governments undertake, as well as the increased costs of providing existing and additional services. Table 3.1 captures a snapshot of local government operating expenditure for the fiscal years ending in June 2003, 2009 and 2014 by category.

Table 3.1 shows that councils currently provide more services now than they did in the year ended June 2003 during which the *Local Government Act* 2002 endowed them with the power of general competence, namely community development and economic development. The core functions of local government (roads, potable water and wastewater) still account for some of the highest expenditures, but these essential network services accounted for only 31% of total operating spending in 2014. Areas such as sport and recreation, with total spending of $818 million in 2014, accounted for 9.7% of total local authority spending in 2014, down from 11.5% in 2003. The new expenditure areas of community development, economic development and "other activities" increased faster in percentage terms between 2009 and 2014 than spending on the other activities, with the exception of transportation which increased marginally faster than community development. These figures should be treated with caution. Some of these expenditure increases could have been driven by factors outside the control of local government. Infrastructure costs, particularly capital intensive ones, have generally tracked higher than consumer inflation since 2001, despite the decline in their share in total spending that is shown in Table 3.1.

Table 3.1 Local authority operating spending as a percentage of total operating spending (2003, 2009 and 2014)

Activity	2003	2009	2014
Roading	19.0%	17.2%	16.5%
Council support services		15.2%	14.7%
Transportation	6.9%	9.3%	11.3%
Recreation and sport	11.5%	9.1%	9.7%
Wastewater	10.6%	8.9%	9.1%
Culture	7.6%	6.4%	6.3%
Planning and regulation	8.5%	6.9%	5.8%
Water supply	8.0%	5.9%	5.2%
Solid waste/refuse	4.9%	4.1%	3.6%
Property	2.7%	4.6%	3.5%
Environmental protection	4.6%	4.1%	3.5%
Economic development		2.1%	3.2%
Other activities		0.8%	2.8%
Community development		2.0%	2.2%
Governance	14.9%	2.6%	2.1%
Emergency management	0.7%	0.7%	0.5%
Total	**100%**	**100%**	**100%**

Source: Statistics New Zealand, "Local Authority Financial Statistics Income and Expenditure by Activity (Annual-Jun)," Infoshare.

Underspending on infrastructure over an extended period, particularly on renewals, may lead to high costs for future ratepayers. The Productivity Commission's inquiry into local government regulation showed many councils struggling to recoup the costs of their planning functions through user pay fees, thereby raising rates.[70]

70 Productivity Commission, "Towards Better Local Regulation: Data Compendium," Inquiry report (Wellington: Productivity Commission, 2012).

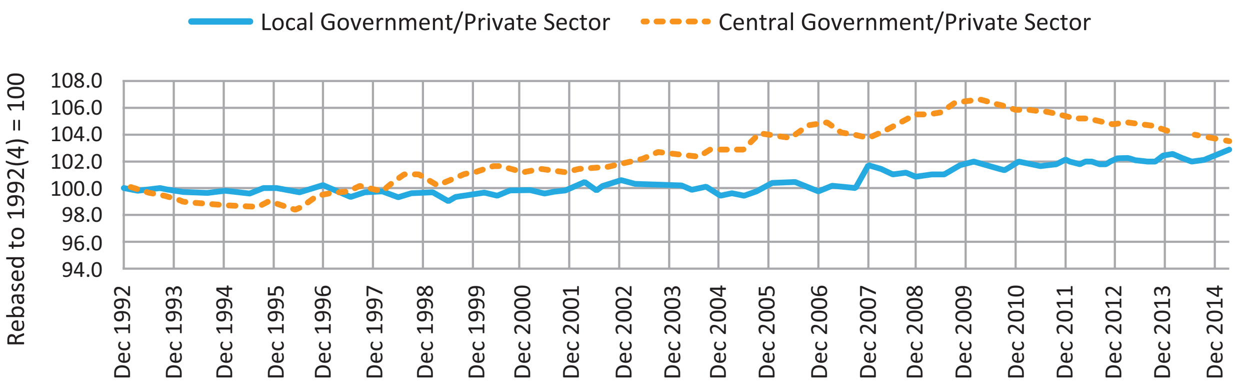
Central government is also a driver of local government expenditure. According to LGNZ,[71] this occurs through:

- *Cost shifting:* Local government is made responsible for a regulatory aspect by central government without giving it a funding stream to pay for this activity. This also occurs when central government withdraws funding from an ongoing local service.
- *Raising the bar:* Central government raises the level of service that must be supplied by local government.
- *Regulatory creep*: This is akin to red tape, where adherence to an increasing number of regulations adds to council operating costs, and imposes compliance costs (health and safety) on the local community.

These costs are not formally captured in the local government accounts, and are only reported infrequently through LGNZ surveys of the sector, making exact quantification difficult. Nevertheless, the survey results are insightful. Changes to the *Building Act* 2004, which required councils to accredit building inspection staff, are estimated by six local authority respondents[72] to have generated total costs of close to $500,000 (establishment and ongoing) in the first year alone.[73] LGNZ says this is but one instance where central government has imposed higher costs on local government. Other recent examples since 2007 include building regulations, dam safety regulations, hazardous substances regulations, withdrawal of road maintenance funding, minimum drinking water standards, coastal policy statement compliance, and earthquake prone building legislation.[74]

A more useful means of assessing whether local government spending is out of step with the rest of the economy is to compare it to broader measures, such as employment costs and GDP. Chart 3.4 tracks labour cost indices for central government and local authorities relative to the private sector. Local government unit labour costs have tracked broadly in line with the trend in the private sector until 2007. They have since risen materially faster than the private sector but have not shown the excessive upwards shift and volatility of central government relative to unit labour costs.

Chart 3.4: Central and local government labour costs relative to the private sector 1992–2014



Source: Capital Economics calculations based on Statistics New Zealand's unit labour cost indices for all industries, all salary and wage rates.

71 Local Government New Zealand, "Impact of Government Policy and Regulation on the Cost of Local Government" (Wellington: New Zealand Government, 2012), 5.

72 Timaru, Napier, South Taranaki, Palmerston North, Horowhenua, and Tasman.

73 Local Government New Zealand, "Impact of Government Policy and Regulation on the Cost of Local Government," op. cit. 19.

74 A more complete list of cases of regulatory creep, cost shifting, and raising the bar is available in Local Government New Zealand, "Impact of Government Policy and Regulation on the Cost of Local Government," op. cit.

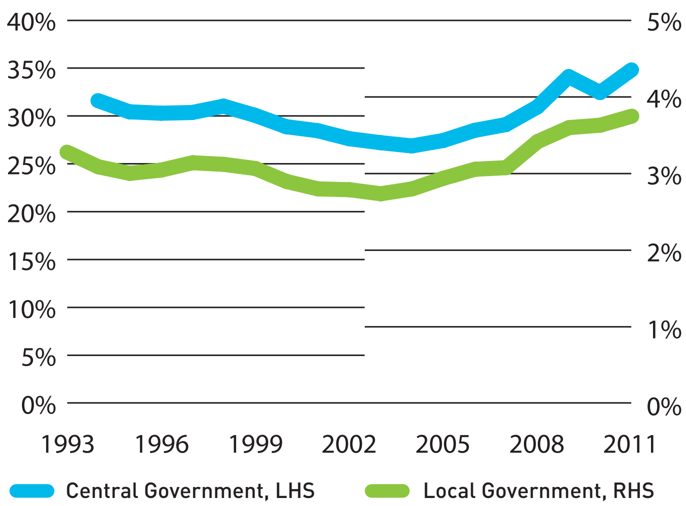
Comparing local government and central government spending to GDP shows that overall spending has increased as a proportion of the broader economy in recent years. Looking more broadly, spending by local and central government as a percentage of GDP has moved more-or-less in proportion (see Chart 3.5).

Furthermore, over the long-term, spending by local government as a percentage of GDP has remained within a fairly constant band. Taken collectively, this suggests that local government spending is not out of control at the sector level as some residents, pundits and members of the media say, even if there are individual examples of excessive expenditure. However, it is clear that spending has risen relative to GDP since 2003. Although infrastructure spending now accounts for a smaller percentage of total operating spending (Table 3.1), overall spending by councils has increased, and infrastructure is one the largest single components of overall spending.

INFRASTRUCTURE

In addition to accounting for close to a third of total operating spending, infrastructure is a major component of local government's capital stock. Central government, businesses and the public all rely on local authorities to ensure the adequate provision of local public goods. Firms and workers need roads to access their customers, suppliers, and places of work. Residents also need homes to live in that have fresh and waste water facilities. They also need stormwater and flood control works. Central government also relies on local infrastructure to not only provide national public goods, but also facilitate broader economic activity from which it earns tax revenues. Councils of course provide other facilities such as libraries, parks and swimming pools, but capital spending on these items and other social services tends to be lower than on core infrastructure. NZIER calculates that more than half of local government additions to fixed assets from 2003 to 2012 have been to waste water (24%), water supply (8%), and roading (21%) networks.[75]

Chart 3.5: Local government and central government spending to GDP ratios 1993–2011



Source: Peter Nicholls and Derek Gill, "Is Local Government Fiscally Responsible?" NZIER report to Local Government New Zealand (Wellington: New Zealand Institute of Economic Research, 2012); Statistics New Zealand.

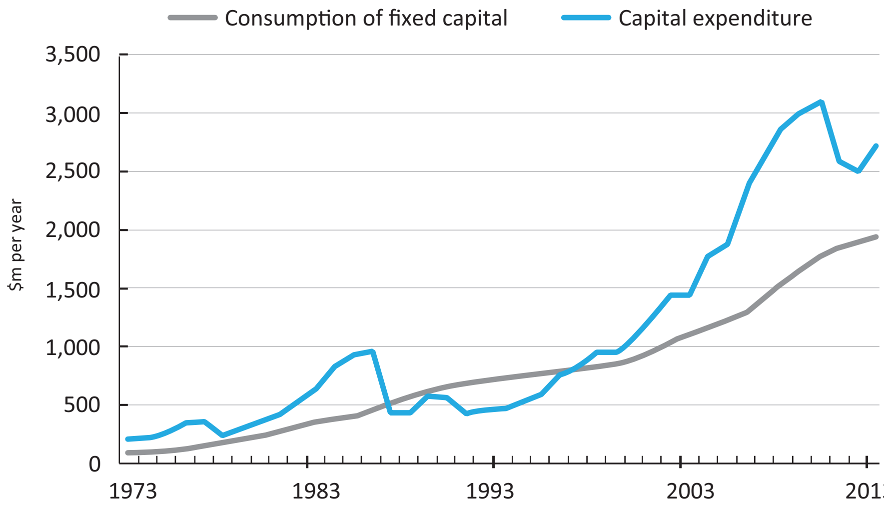
75 New Zealand Institute of Economic Research, "Local Government Finances: A Historical Perspective," op. cit., 13.

In total, the value of local authority infrastructure assets stood at $80 billion in 2014 compared to $30 billion in 2000, a 168% increase.[76] Capital expenditure has exceeded the consumption of fixed capital since 1996 by an increasing margin, except during the global financial crisis (see Chart 3.6).

Headline infrastructure investment figures should be treated with some caution, especially when using it as a measure of council performance. Spending on hard infrastructure assets does not equate to prudent and wise investment. Dunedin City Council's decision to build a covered sports stadium at a cost of more than $200 million is just one example. The venture has so far failed to meet its projected earnings targets, and has saddled the city with a white elephant that requires an additional $1.8 million in annual funding from ratepayers for the next decade,[77] even as the city's sewerage infrastructure urgently needs repair. Poor governance by the Kaipara District Council resulted in the costs of a wastewater treatment plant blowing out to $63.3 million for a community of just under 2,500 people.[78] There are numerous other examples of questionable infrastructure spending. At this stage, there is no official means of assessing whether spending has been wisely made other than on a case-by-case basis or by proxy.

One such proxy is to assess how councils are looking after their existing infrastructure through depreciation and renewals expenditure. Where renewals expenditure matches depreciation (100% coverage), an asset is considered sustainable. According to an analysis of the 2012–22 long-term plans, forecast renewals expenditure for the sector was less than 80% of depreciation in 2013, and that margin is expected to widen to just over 65% by 2022.[79] The Office of the Auditor-General noted that "many local authorities were under financial pressure when preparing their 2012-2022 long-term plans. They were looking for ways to manage the affordability of rates, including by delaying renewals work, so they expected assets to last longer than originally anticipated".[80] This was particularly so where the assets are

Chart 3.6: Local government capital spending and capital consumption 1973–2013



Source: New Zealand Institute of Economic Research, "Local Government Finances: A Historical Perspective" (Wellington: NZIER, 2014), 13.

76 Statistics New Zealand, "Local Authority Financial Statistics Financial Position (Annual-Jun)," Infoshare.

77 Dunedin City Council, "Forsyth Barr Stadium Review" (Dunedin: 2014).

78 Office of the Auditor-General, "Inquiry into the Mangawhai Community Wastewater Scheme," Website (Wellington: New Zealand Government, 2013).

79 Office of the Auditor-General, "Water and Roads: Funding and Management Challenges" (Wellington: 2014), 31.

80 Ibid.

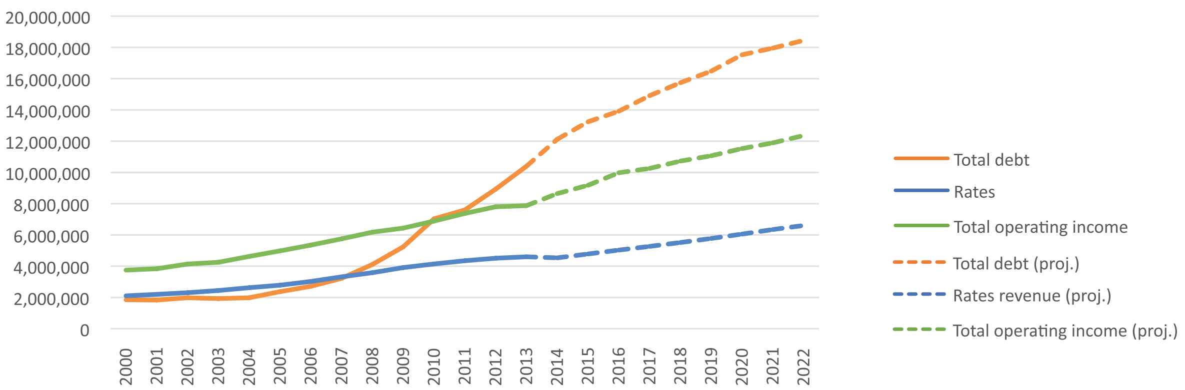
not visible, such as sewerage and potable water networks. As a result, the difference between depreciation expense and renewals expenditure by 2022 is expected to be between $6 billion and $7 billion. The Department of Internal Affairs reached a similar conclusion when examining planned capital expenditure to depreciation ratios across five infrastructure services (roading, water, sewerage, stormwater and flood protection) from 2012 to 2022.[81] Of the 66 territorial authorities, a fifth (21%) had planned ratios of less than 100%; five councils had low coverage ratios (less than 110%); and a further five were unable to provide data for the five specified services.[82] Although this issue only applies to a minority of councils, it is a sizeable one and suggests that some authorities are investing in new infrastructure they are not fully able to replace once it has exceeded its useful life. Central government now requires local government bodies to submit 30-year infrastructure plans, which should go some way in addressing these issues, or at least exposing potential problems early on. It should also be noted that a portion of current and future infrastructure spending pressure may be a result of under-allocation of funds for renewals and maintenance in the past.

Infrastructure investments also tend to occur in bunches, such that the need to renew several core networks occur at the same point in the future.[83] These two factors explain some of the infrastructure funding pressures faced by councils.

LOCAL GOVERNMENT DEBT

Debt is another important measure of local government performance. Used wisely, it is a financial tool that can benefit local authorities, covering short-term cash flow constraints or by spreading the costs of a multigenerational investment across the life of that investment. By this measure, increasing debt may be a sign of prudent financial management, while low levels of debt may indicate previous prudence or poor planning. Debt can also be used poorly, as over-borrowing in the current period can burden ratepayers in the future who may not have benefited from the spending for which this debt was raised. Even when not misused, growing levels of debt can indicate signs of financial distress. So how do New Zealand's local authorities stack up?

Chart 3.7: Local government operating income/rates vs total debt ($000)



Source: Local Government in New Zealand – Local Councils, "Local Authority Long-Term Plans," Website (Wellington: New Zealand Government); Statistics New Zealand, "Local Government," Website (Wellington: New Zealand Government, 2013).

81 *Local Government (Financial Reporting and Prudence) Regulations* 2014 – Regulatory Impact Statement, 19.

82 Ibid., 27.

83 New Zealand Institute of Economic Research, "Local Government Finances: A Historical Perspective," op. cit., 10.

Since 2000, local government borrowing has risen fivefold, and total debt was $14.2 billion in 2014.[84] Furthermore, levels of indebtedness among councils are expected to increase according to the 2012–22 financial projections supplied by councils, and at a pace that exceeds the growth in rates and total operating income (see Chart 3.7).

Although these increases may seem large, local government debt should be viewed against the gearing ratio, which measures the level of total debt against the assets that back it. This ratio has increased from 6.2% in 2000 to 10.6% in 2014, which is still low relative to the asset base.[85] In line with the increasing amount of debt taken on by local councils, interest expenses have been rising but appear to be within affordable levels when looking at interest expenses as a share of rates revenues (below the 20% mark). Appendix A.3 tabulates reported regional and district council's net interest payments in 2014 as a percentage of rates revenues. It needs to be remembered that these percentages reflect an abnormally low interest rate environment. To further put this in perspective, about half of the 45 councils that use the Local Government Funding Agency (LFGA) to raise debt finance are rated from A+ to AA- by Standard & Poor's,[86] with the international ratings agency noting the sector's loan quality and stable outlook.[87] These councils account for 87% of LFGA's lending. Furthermore, total debt is not representative of the sector as a whole. Auckland Council and Christchurch City Council accounted for 54% of total local government liabilities in 2014, at $6.6 billion and $1.2 billion respectively. Auckland's debt has increased significantly since the formation of the Super City, and debt in Christchurch is related to the post-2010 earthquake rebuilding process. Apart from these two councils, the remainder of the sector is lightly geared. Looking at long-term debt alone, which is primarily used to fund infrastructure investment, 16 councils have zero (or close to zero) borrowings, and a further 20 have less than $20 million in term borrowings.[88] This is not necessarily a sign of financial prudence, as it may indicate that low-debt councils are deferring infrastructure investments to maintain borrowing levels. Where infrastructure investments are being made by these low debt councils, it may be that these are being paid out of the operating budget, potentially placing an unfair burden on current ratepayers if these are multigenerational assets, even if it is a voter preference.

GOVERNANCE

Unlike financial metrics, qualitative attitudinal measures of local government performance are in short supply. This limits the extent to which less easily quantified aspects of council performance can be assessed. Even so, surveys of attitudes to council performance may embody useful albeit limited information about that performance. LGNZ's independent survey of New Zealanders' perceptions of local government provides just such a snapshot. The survey, which polled 2,400 members of the public and 500 businesses in 2014, found that the performance of the sector was overall rated 29 out of 100.[89] Members of the public scored councils poorly (bottom three scores) on perceived ability to make good spending decisions, value for rate dollars spent, and managing finances. On how important local government was to New Zealand's wellbeing and prosperity, members of the public rated it at 69%, while

84 Statistics New Zealand, "Local Authority Financial Statistics Financial Position (Annual-Jun)," Infoshare.

85 Statistics New Zealand, "Local Authority Financial Statistics Financial Position (Annual-Jun)," Infoshare.

86 Council debt ratings underpinned by central government's AA (stable) rating, and requirements for authorities balance operating budgets on an annual basis, and powers to coerce rates payment (see Chapter 2).

87 Standard & Poor's, "New Zealand Local Government Funding Agency Ratings Affirmed at 'AA+/A-1+' on Exceptional Loan Quality; Outlook Stable," Ratings Direct (Standard & Poor's, 2014).

88 Statistics New Zealand, "Local Authority Financial Statistics Financial Position (Annual-Jun)," Infoshare.

89 Local Government New Zealand, "The New Zealand Local Government Survey" (Wellington: New Zealand Government, 2015).

business respondents rated it at 78%. This low level of trust is a concern.

In the United Kingdom, which currently operates under a highly centralised decision making structure that is similar in many respects to that of New Zealand, a recent poll by the Local Government Association showed 68% of respondents were "very or fairly satisfied" with the performance of their council.[90] Notably, this high level of trust was achieved at a time when central government in the UK was cutting local government funding, a constraint that local authorities in New Zealand were not faced with at the time of the LGNZ attitudinal survey.

Community engagement with local government can also be assessed through levels of voter participation in local elections. Data on local elections collected by the Department of Internal Affairs shows voter participation has declined from around 57% for mayors and 56% for councillors in 1989 to 41% and 42% respectively in 2013. The declining levels of engagement explains to some extent the disparity between voter perception in the LGNZ survey and the actual state of local authority accounts. However, this data should be used cautiously as it is a weak yardstick, with voter participation declining in much of the developed world. Both measures suggest a communication gap between local authorities and the communities they represent.

This observation is reinforced by the auditor-general's report on councils' consultation process as part of the 10-year long-term planning process, a requirement introduced in 2015. Community participation is a vital part of the 10-year plans. It confronts communities with the costs of their local preferences, and lends legitimacy to councils' strategic direction over a decade. The auditor-general found that despite some examples of good consultation among some councils, many "missed the opportunity to engage effectively with their communities about the significant issues facing them".[91] In particular, plans contained too much unnecessary information, had poor discussion of infrastructure and financial matters, were unclear on which matters consultation had already occurred, and often contained poorly drafted consultation questions. Engagement on infrastructure was a particular weakness, marked by "minimal discussion in consultation documents about impact of strategies on other asset groups… [and] discussion of potential reduction or reviews of levels of service was often weak …".[92]

Individually, each of the above measures are weak indicators of local government governance. The LGNZ survey is in its first year; the auditor-general's report examined a recently introduced consultation requirement; and voter numbers have generally declined in the developed world over several decades. But collectively, these measures show a gap exists between councils and the communities they represent. This is a concern, particularly as councils need community buy-in to lend legitimacy to their revenue raising and spending actions. Discontent here is likely to raise the ire of the electorate when tabling major spending projects, and deciding how these will be funded.

FRANK ASSESSMENT

The financial data clearly shows increased spending by councils has raised rates beyond consumer inflationary measures. Councils have certainly spent more on a range of community services over the last 20 years, and infrastructure and transport remain high spending categories. As a result, revenue from rates has increased to nearly 60% of total local authority operating income. But real GDP per capita has also risen over the same period. The ratio of total local authority spending to GDP has been between 2.5% to 4% since 1993. There is nothing in the overall ratio of rates to GDP

90 Local Government Assocation, "Polling on resident satisfaction with councils" (London: 2014).

91 Office of the Auditor-General, "Consulting the Community about Local Authorities' 10-year Plans," Website (Wellington: New Zealand Government, 2015), 10.

92 Ibid., 44.

that indicates anything unsustainable has occurred in income affordability. On debt measures, councils have become more reliant on debt, with total sector borrowings increasing substantially. This debt is likely to increase further. That said, the debt is low compared to local council assets, as is the affordability of interest costs. Moreover, much of the sector's debt is concentrated in Auckland and Christchurch.

There are areas of concern in local government. Councils have fared less well in managing assets. New capital expenditure has exceeded fixed capital consumption, indicating that the amount of infrastructure available to communities is growing, but poor renewal of existing infrastructure is a growing concern. On qualitative measures, a communication gap exists between local authorities and their respective communities, but this is a weaker indicator of performance compared to the financial metrics. To quote economist Derek Gill: "There is no consistent evidence that local government as a whole has been fiscally irresponsible in New Zealand over the last two decades".[93] Of course, this pertains to fiscal responsibility, not the quality of local government spending.

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93 Peter Nicholls and Derek Gill, "Is Local Government Fiscally Responsible?" op. cit.

CHAPTER FOUR
IS THE FUNDING SYSTEM FIT FOR PURPOSE?

The history of local government in New Zealand is characterised by disruption and change. But one constant has been the sector's reliance on property taxes as the main revenue source, funding a significant portion of local public goods and services provision over the past 175 years. The relatively constant relationship of local government expenditure to GDP shows councils' overall spending has risen in proportion to overall income growth during the last 100 years.

Yet the debate on funding pressures and reliance on revenue from rates is more heated than ever.[94] One long-standing gripe has been the tendency of central government to impose unfunded mandates on local councils through cost shifting and raising the regulatory bar. Furthermore, the expansionary genie has escaped the bottle and is unlikely to be stuffed back as communities across the world look to local government to play a more active role in providing non-core goods and services. The greater local government spending is in relation to income, the greater will be the case for assessing how efficiently services are being funded. The property tax has long been the main funding vehicle in New Zealand but this does not necessarily mean the sector can adequately deal with future challenges.

THE GOOD, THE BAD, AND THE UGLY

Tax talk is never easy, but it is necessary to examine the costs and benefits of the current funding model to identify potential areas of improvement. After all, property taxes have been the cornerstone of local government not only in New Zealand but also internationally. Where New Zealand stands out from the international community is in local government's high reliance on rates as a primary means of revenue.[95] This means the relative pros and cons of property taxes are experienced to a greater extent in New Zealand than elsewhere in the world. The structure of local government revenue was discussed in detail in Chapter 2, including rates, so the analysis here will focus on the local tax system at a higher level.

The good

Using property taxes as the main local government funding mechanism fits well with the overall tax structure in New Zealand. This is because central government raises few charges against this asset class, primarily funding its activities from income and sales taxes. Part of the appeal of a property tax from a council perspective is that it is difficult to avoid since owners cannot simply move their properties. In addition, councils are equipped with coercive powers to compel property owners to pay local taxes, and can force the sale of a property to recoup rates arrears.[96] From a revenue gathering perspective, rates are simple and efficient to collect and offer a significant degree of revenue certainty, unlike profit and salary taxes, which are closely connected to the business cycle. Where economics is concerned, property taxes are also proportional in wealth, so owners of more valuable properties pay higher rates. These taxes are highly visible since the bill comes regularly (typically quarterly) in the mail. In addition, a rates-based local tax is relatively non-distortionary, making it harder

94 Paula Bennett, "Speech to LGNZ Annual Conference," op. cit.

95 New Zealand Institute of Economic Research, "Rates Capping: A Study of the International Literature and Experience," Final Report to Local Government New Zealand (Wellington: NZIER, 2009), 9.

96 Maria Slade and Josh Fagan, "Auckland Woman's House Sold over $11,000 in Unpaid Rates," *Business Day* (12 August 2015).

to export taxes. This is where a tax increase in a jurisdiction affects taxpayers who may not reside there, and thus receive minimal additional benefit from the spending.[97]

The bad

No tax system is without its flaws. This is as true for rates as it is for income and sales taxes. Although the rates system has several advantages, particularly for local government, part of the problem is that rates target only one measure of wealth – property (even though councils can vary how this is charged across land and capital value). This has several negative implications, particularly as this revenue-gathering mechanism does not reflect variations in subparts of the economy. For example, house prices in fast-growing regions have risen faster than wages in recent years. This can be seen in Auckland where the median multiple, a measure of how many multiples of the median annual wage it takes to pay for a house sold at the median price, has risen from 6.6[98] in 2006 to 8.2 today.[99] [100] The inflexibility problem is not limited to fast-growing areas, either. In rural areas, where young and economically active people are increasingly moving to urban areas in pursuit of higher wages, remaining residents have to shoulder a greater share of the cost burden, either through rates bills or passed through as higher rents.[101] Of course, demand for local government services in regions with declining populations is likely to fall, but Suzi Kerr, Andrew Aitken and Arthur Grimes say it may not fall by as much as the tax base because certain services such as sewer maintenance will have to be provided regardless of community size.[102] Large landowners, such as farmers and owners of forestry blocks, may also be disadvantaged by rates to the degree that their large property holdings incur higher rates bills in relation to services received than politically more numerous town-based residents.

Similarly, in regions where the local economy relies heavily on tourism, a significant portion of local government spending has to be directed towards infrastructure that enables this economic activity. But since visitors do not pay rates, locals have to bear the burden of these costs, even if it is passed on through higher goods and services prices. LGNZ, in its funding discussion document, presents Queenstown-Lakes District as an example. The region receives more than 2.5 million visitors a year, but has a permanent ratepayer base of 23,000. However, the ability to target rates at particular groups can alleviate such situations. The Queenstown-Lakes District Council funds the associated costs from targeted rates on tourism providers. In its 2012–22 plan, $97 is projected to be raised from targeted rates for every $3 from general rates. Its financial projections to 2022 show few signs of financial stress. Appendix A.4 tabulates revenues from targeted rates as a percentage of total rates revenue for regional and district councils in 2014

Central government also exempts a number of properties from general rates charges (though not from services rates charges such as those levied on water usage). These include land used for conservation; health and education; Crown-owned land; religious grounds; transport and infrastructure; as well as local authority conservation and recreational land. Māori customary land is also exempted, and in practice

97 New Zealand Institute of Economic Research, "Rates Capping: A Study of the International Literature and Experience," op. cit., 8.

98 Demographia, "2nd Annual Demographia International Housing Affordability Survey: 2006," 5.

99 Demographia, "11th Annual Demographia International Housing Affordability Survey: 2015," 5.

100 It is often said that higher property prices can lead to increased rate demands on the elderly that can cause them cash flow problems. However, there is no obvious reason for such increased rates demands and even if there is the wealth gain for retirees from higher property prices could still see them better off even if they used financial market instruments such as reverse mortgages to address the cash flow problem.

101 Jason Krupp, *Poverty of Wealth: Why Minerals Need to be Part of the Rural Economy* (Wellington: The New Zealand Initiative, 2014), 3–4.

102 Suzi Kerr, Andrew Aitken and Arthur Grimes, "Land Taxes and Revenue Needs as Communities Grow and Decline," op. cit., 33.

so are large portions of Māori freehold land. In total, this comprises less than 3% of total rateable land, but LGNZ notes that exempted land is not evenly distributed throughout the country.[103] In areas like Westland, Department of Conservation land accounts for a fifth of the jurisdiction's total land area. If the land were rateable, it would generate an additional $730,000 per year in rates revenue for Westland,[104] equivalent to 9% of total rates for 2014.[105]

The ugly

The list of good and bad characteristics of the rates system is far from exhaustive, nor is it particularly new, as numerous economic research organisations have noted. Another consideration worth examining is the combined effect the rates system, and the constraints on it, has on local government incentives, especially on economic growth. Councils already have an incentive to promote economic growth, and widely proclaim it as an objective. After all, the more residential and business ratepayers there are within a jurisdiction, the more councils can dilute costs on a per unit basis. And the more operating costs are spread and tax increases deferred, the less likely elected councillors are to raise the ire of the electorate at the voting booth. This is as true for growing councils as it is for those struggling with population loss. However, growth involves change. Change is not necessarily welcome. New housing developments can change neighbourhoods in an unsettling manner and lower property prices by reducing property scarcity. Such fears can motivate voting ratepayers to resist some pro-growth policies. The problem here may be that the political opposition of a Nimby nature to pro-growth policies is strong enough to stop councillors from proceeding with those policies, when they would otherwise have wished to. These political constraints may induce councils to take an overly cautious approach to growth maximising (but expensive) projects, such as opening new sections for housing development. These constraints are listed below.

- Local political constraint: Tax increases are not popular with any community, particularly where they outstrip cost of living and wage rises, even if they are justified. This is partly because rates bills are seen as a payment for services rather than a pure tax. As such, ratepayers may not appreciate that the capital needed to fund major projects has to be recouped from this source of revenue. Voters may also be wary of council borrowing since councils are not noted for their financial acumen. But privatisation and other forms of harnessing private skills and capital can also generate emotional ideological opposition. Such constraints can potentially induce councillors to make expedient political decisions that represent a lost opportunity to make the most of scarce capital resources.

- Statutory constraint: Under the *Local Government Act* 2002, councils are required to run balanced operating budgets on an annual accrual basis "unless it is prudent not to".[106] The implication is that local authorities can borrow to invest in infrastructure, but they should not borrow to fund current spending. So if they borrow to fund infrastructure, they need to plan to lift revenue by enough to cover asset depreciation and debt interest. This discipline should encourage local authorities to look to maximise the return on infrastructure spending, such as by not investing prematurely, for example. But in conjunction with other factors, it might also make local authorities fail to undertake projects in a timely manner. The Waikato Expressway is an example of undue delay of a value-adding project. This roading project will boost transport links between Auckland, Hamilton and Tauranga. Initiated

103 Local Government New Zealand, "Local Government Funding Review: A Discussion Paper," op. cit. 50.

104 Ibid.

105 Statistics New Zealand, "Local Authority Financial Statistics Income and Expenditure (Annual-Jun)," Infoshare.

106 See, for example, Local Government New Zealand, "Local Government Debt – Why Do Councils Borrow?" Website (Wellington: New Zealand Government).

in 1992, it is yet to be completed even though it offers economic benefits of $5 billion versus costs of $2 billion. Stephen Selwood, head of the NZ Council for Infrastructure, attributes this to "drip feeding capital investment on a pay-as-you-go basis".[107]

- Risk constraint: Major investments are risky and thus controversial. The usual test for the value of an investment to the community is whether its rate of return exceeds its cost of capital. That cost-benefit hurdle also needs to apply to local government spending. This can help inform decisions, but how the future is likely to unfold will always be unpredictable. For example, calculating the magnitude of spillover benefits requires an expertise that may not exist at a local level.

- The problem of weak financial incentives impeding efficient spending on infrastructure was implicitly acknowledged when the power to extract development contributions was conferred on local authorities in the mid-2000s. These payments could help fund infrastructure investments, and thus reduce the need for borrowing longer term. However they may not avoid the need to borrow to cover the time gap between spending the money and receiving the development contribution payment from the developer. According to the Department of Internal Affairs database, the planned cash flow outgoings of local authorities from 2013 to 2022 on capital expenditure to meet additional demand totalled $7.1 billion (inflation adjusted). Projected cash flows from development and financial contributions during the same period totalled $3.1 billion (43%). However, these development and financial contributions are politically charged in their own right,[108] with developers often disputing councils' charging calculations. Subsequent changes introduced by the National-led government in 2014 also limited the range of infrastructure projects that developer contributions can be used for. The changes have also made it easier for developers to challenge council infrastructure charges.[109] This may benefit developers, but LGNZ notes that these limitations mean councils will only recoup infrastructure expenses directly related to a project, and not for indirect 'community infrastructure' such as swimming pools, libraries or cemeteries. These additional costs will have to be paid from general revenues.[110] In 2014, Auckland Council estimated that the city's rates would have to increase by 8.5% over five years, and an additional $480 million in debt financing would be needed over a decade, to fund a shortfall in its planned spending.[111] As already noted, less than 15% of its planned capital spending between 2013 and 2022 was classified as being undertaken to meet additional demand for core infrastructural assets.

With these constraints applying in varying and difficult-to-determine degrees, some councils could well see any requirement for major infrastructure spending as a political and financial headache over the short- to medium-term, even if it offers financial benefits to local authorities in the long-term. Such councils are likely to trickle out infrastructure plans so as to minimise the political backlash from major spending projects. Rapid growth is a challenge for any organisation. A private organisation may also face challenges in responding to pressures on finances and output capacity from an unexpected surge in user demand. Perhaps the major difference is that the private supplier has a strong and direct incentive to respond to the increased demand.

The plausibility of these constraints is lent further credibility by the Productivity Commission's inquiry into restrictions on land supply in 10 of

107 Sally Lindsay, "Alternative Funding Needed for Region's Roading," *National Business Review* (4 September 2015).

108 Carmen Hall, "Developers Slam Western Bay Costs," *Bay of Plenty Times* (22 July 2014).

109 *Local Government Act* 2002 *Amendment Act* 2014, section 38.

110 Local Government New Zealand, "Local Government Funding Review: 10-point Plan" (Wellington: New Zealand Government), 16.

111 Isaac Davison, "Proposed Fee Changes Spur Rates Alarm," *New Zealand Herald* (4 February 2014).

the fastest growing territorial authorities in New Zealand.[112] The Commission noted that cities are increasingly seen as the growth engines of the economy, and councils facilitate this growth by providing the public infrastructure that businesses and residents need to undertake economic activities. Yet accommodating this growth represents real costs for councils. The Productivity Commission notes that land supply is affected by numerous factors, such as geography and the ability of the private sector to meet construction demand, but councils have control over planning and infrastructure. On these measures, many of the growth councils that made submissions to the commission's inquiry noted they limited land supply because of the burden it placed on their finances, or provided land and core infrastructure on a 'just in time' basis. In its submission to the commission, Hamilton City Council noted: "Investing too early in strategic infrastructure results in an increased exposure to maintenance and operation costs and interest costs while the Council incrementally repays the debt by recouping its growth related costs from subsequent development (development contributions)".[113] Tauranga echoed this, saying it chose to expand infrastructure on a limited number of fronts to avoid underusing these investments and their impact on its financial position. The commission's report noted that while this strategy may be appropriate from a council finance perspective, it is "less satisfactory if the aim is to foster competitive tensions and downward price pressures in the supply of land for housing".[114] This approach may also facilitate land-banking in some high demand areas, a practice where private landowners allegedly restrict the supply of land into the market to maintain high prices.[115] The commission proposed a number of preliminary solutions to these issues, such as private provision of infrastructure by developers. But many of the submitting councils noted that long-term supply constraints have resulted in a highly fragmented home building sector characterised by small firms that do not have the physical or capital capacity to take on this work. This problem should be self-correcting. After all, the Christchurch rebuild requires a certain capacity to undertake large-scale developments by the standards of recent decades. But for the unduly restrictive *Overseas Investment Act* 2005, foreign firms with expertise in fast, large-scale developments could more readily bring that expertise to the New Zealand market. For now, councils have to bear the financial, political and statutory risks of public infrastructure provision.

ARE THE CONSTRAINTS REAL?

Evidence from the Productivity Commission's inquiry and ongoing issues surrounding developer contributions suggest that the above constraints limit councils from providing a perceived optimal amount of infrastructure. By extension, the problem is the local government funding mechanism, namely rates in conjunction with distrust by ratepayers about proposals to increase rates in order to pay interest on debt to fund assets that may or may not give them future benefits.

With regard to the first aspect, there is very little evidence from the data that financial limitations surrounding the provision of infrastructure are the fault of New Zealand's property tax.

Financial constraint comes with two considerations. First, some local authorities have substantial financial assets that could be sold to fund infrastructure investment, avoiding raising borrowing ratios. In June 2014, Auckland Council had $20.5 billion of investments (notably WaterCare) and only $3.7 billion of infrastructure assets in its balance sheet, according to Statistics New Zealand's Infoshare. Christchurch City Council came second, with book values for investments and infrastructure assets at $1.8 billion and $4.9 billion respectively at June 2014.

112 Auckland, Christchurch City, Hamilton City, Queenstwon Lakes District, Selwyn District, Tauranga City, Waikato District, Waimakariri District, Wellington City, and Whangarei District.

113 Productivity Commission, "Using Land for Housing" (Wellington: Productivity Commission, 2015), 155.

114 Ibid., 156.

115 Ibid.

Yet for 58 of the 69 councils across New Zealand, investments were less than 5% of infrastructure assets. The median ratio for district councils was 0.6% (see Appendix A.5).

Second, for most local authorities, planned capital spending on core infrastructure assets (roading, water, sewerage, storm water, and flood protection) to meet additional demand between 2013 and 2022 is very low relative to total planned capital spending (see Appendix A.6). Specifically, for the 53 local authorities projecting to do some capital spending to meet additional demand on the five core infrastructure activities, the median ratio to planned total spending represented only 7% of all planned capital spending. For Auckland (Group), it is 14% and only 16 councils have a higher ratio. Tauranga is at the highest end with 41%, followed by Queenstown-Lakes District at 27%. Other councils with a high ratio and relatively high projected rates of population growth are Selwyn District (17%), Waimakariri District (25%), and Hamilton City (17%). In contrast, Rotorua (23%), Napier (21%), Thames-Coromandel (16%), and Taupo (15%) all have higher ratios than Auckland, but markedly lower projected population growth rates. (Statistics New Zealand's medium-term population projections to 2018, put Auckland's average population growth rate at 2% per annum between 2013 and 2018 but at most 0.6% for the these four councils. Possibly, growing visitor numbers rather than local population growth is contributing to the high ratios for some of these four councils.)

These statistics indicate that the great majority of councils could readily fund additional core infrastructure capacity by cutting planned capital spending on non-core investments, should they wish to avoid adding to planned borrowing. Another option, of course, is to shift the funding burden to a private party through long-term contracting, franchising, or outright privatisation.

Furthermore, a handful of the fastest growing regions appear to be funding the additional demands on infrastructure capacity without any real evidence of financial stress. For example, of the ten councils mentioned above only Queenstown-Lakes District, Thames Coromandel, and Taupo had rates revenues in the 2014 fiscal year that exceeded the nationwide council median of $1,045 per person (see Appendix A.2). Two of those three (Queenstown-Lakes District and Thames Coromandel) are relying on targeted rates for the great majority of projected revenue from rates. The third, Taupo, is projecting that targeted rates to 2022 will raise $36 for every $74 raised in general rates.

Furthermore, councils have relatively little debt on their books. In 2014, term debt represented only 4% of non-current assets for the median council. This implies a considerable capacity to increase debt temporarily to fund any short-term cash flow problem with expanding infrastructure capacity in a timely manner. Auckland Council and Waitomo District Council had the highest ratios at 14% (see Appendix A.7).[116] Councils could make greater use of borrowings to fund temporary cash operating deficits, reflecting delays between operating receipts and outgoings from adding to infrastructure capacity. Auckland Council's long-term plan projected that its measure of net interest as a percentage of annual rates income would rise from 13% in 2012 to 22% in 2022.[117] Other high population growth councils like Tauranga City and Hamilton City will see debt servicing costs account for 17% and 15.3% of rates income respectively in 2022, according to the Department of Internal Affairs' time series. Yet councils have the ability to recoup these costs through a targeted rate. Appendix A.7 compares, for each local authority, the ratio of term debt to total non-current assets in 2014. It also reports the maximum value for the ratio between 2000 and 2014.

In short, councils can get under financial stress whether or not there is strong growth in demand for infrastructure capacity. Auckland clearly has a high growth problem, but many more have a low growth

116 Auckland Council has a set a limit for net interest as a percentage of rates of 25%. Its measure is more refined but the order of magnitude is much the same. See page 36 of Volume Three in its annual plan.

117 Ibid., 36.

problem. Which is the greater concern, that the fastest-growing regions are not growing even faster, or that the rest are not growing as fast? In summary, the statutory constraint may be a contributing factor, but not necessarily a crippling one.

Councils also have options to circumvent risk-related constraints if feel they are not sufficiently equipped to assess whether infrastructure investment will produce benefits that exceed the cost of capital. Councils can do this by privatising costly core infrastructure provision, such as potable water and waste water.[118] Where these measures might meet political resistance, councils can sidestep these issues through contracting or franchising arrangements to keep assets in public ownership.

The one constraint that does appear to hold is the political constraint. In a democratic society, members of a community ultimately bear the burden of local authority spending decisions, and so should have a say in the process.

The points made above about the options councils have for enhancing the capacity of core infrastructure have to be discounted to the extent that political constraints stop them from being deployed. If ratepayers in a particular jurisdiction do not want to pay for a particular infrastructure investment in the form of higher rates bills, this has to be respected. It is not necessarily a repudiation of property taxes. Equally, if councils are unable to convey to ratepayers why a particular investment is necessary to produce long-term benefits for the community, this is a communication issue, not a problem with the sustainability of rates. One referee has suggested that better quality cost-benefit justifications for spending and regulatory proposals might help reduce ratepayer distrust, and perhaps average spending and regulatory quality.

Based purely on these considerations, the advantages of the rates system tend to outweigh the costs associated with property taxes as a major continuing source of funding operating expenses.

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118 Tim Davin, "The Water and Wastewater Monopoly in Local Government," *Public Sector* 17:4 (December 1994), 15–18, 16.

CHAPTER FIVE
IT'S NOT JUST ABOUT RATES

Social commentator and comedian Groucho Marx once quipped: "Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly and applying the wrong remedies". The quote is particularly apt for New Zealand's local government sector, to the degree that concerns over economic growth and the financial sustainability of councils focus on the limitations of the rates system. Local authorities have increased current and capital spending sharply in the last decade, but are struggling to finance capital renewal investments in core infrastructure in their 10-year plans. Auckland stands out, of course, for infrastructure problems in road congestion and housing. Rapid population growth is compounding its difficulties. But pressures from a rapidly expanding population or economic growth do not necessarily justify augmenting the rates system with local taxes.

As earlier chapters have shown:

- The last 150 years demonstrate that the rating base does allow revenues from rates to match growth in national income, and councils have been able to expand infrastructure adequately as the population has doubled and doubled again without requiring rates to grow faster than incomes as a long-term trend;
- Rate burdens are small relative to incomes and central government taxes. The median rate revenue per capita in the year ended June 2014 was $1,045, and lower in the fast-growing areas of Auckland, Tauranga, Hamilton City, Waimakariri District, and Selwyn District;
- Planned capital spending to meet additional demand for core infrastructure assets is generally low relative to other capital spending;
- A few councils, notably Auckland and Christchurch, could fund significant capital spending with reduced borrowing if they reduced their non-fixed asset investments, such as selling CCOs;
- Most councils can increase borrowings on a provisional basis to deal with temporary cash flow deficits (term debt in 2014 for the median council was only 4% of non-current assets);
- Queenstown-Lakes District and a couple of other councils have demonstrated that targeted rates can greatly supplement general rates, at least if visitor numbers are high;
- Greater recourse to public-private partnerships, franchise arrangements, or privatisation could ease cash flow problems or borrowing constraints; and
- Development and financial contributions can fund expanding infrastructure capacity, and the projected revenue from them to 2022 is significant relative to the scale of such spending.

All this suggests that the difficulties councils are experiencing with generating faster economic growth, as well as coping with existing growth in some cases, are more political rather than financial. Perhaps local authorities have not been able to convince ratepayers that greater spending would result in more benefits to them. After all, the quality of local authority spending is important. Taxes impose real costs on the community over and above the amounts collected. All is well as long as the spending produces benefits that exceed costs, but there is no good reason to think that it commonly does. Rigorous cost-benefit assessments of central government spending and regulations are rare. That discipline is even weaker at the local government level.

Political constraints too are moulded by institutional arrangements. Local government is a central government creation. Central government regulations impose onerous consultation requirements on local governments. These facilitate Nimby-ism by failing to confront naysayers with the forgone benefits of development projects. Requiring those who object to a particular land use to buy the land if they wish to prevent that development would remove that debilitating externality. Even the lesser measure requiring them to demonstrate their willingness to pay would provide useful information and discipline. Central government also dictates the appeals rights and processes, where it can take longer to get a consent for a long-term construction project than to build the asset. The Transmission Gully and Basin Reserve Flyover projects illustrate how long-drawn, indecisive and convoluted the decision-making process can be.[119] Even on matters where local authorities are only marginally involved, such as mine consenting, central government's consultation rules incentivise objectors to appeal decisions in favour of development for as long as possible. These delays generally impose costs on councils, firms and the local economy, and not on objectors.[120]

The issue of neglect of property rights at a central government level also confounds user pays charges for local government. Why force property owners to apply for a resource consent in order to change land use? The only reason can be because they would not do so otherwise. That fact establishes that the requirement is imposed for the benefit of others. Under the benefit principle of taxation, the cost should fall on those who benefit. If the administration of the system is for the benefit of the public at large, administrative costs should be a charge on general revenue, as are the costs of the court system at central government level. (Of course, illegal changes in land use would be punishable in the absence of a resource consent requirement.) To impose costs on the developer is to bias the situation against development. So do mechanisms that put the onus of proof on the developer. Rather, the following considerations may be unduly biasing councils against growth decisions that might really be in the best overall interests of their communities:

- open-ended consultation processes that do not internalise costs and benefits;
- enhanced Nimby-ism that results;
- neglect of property rights in land-use decisions;
- neglect of property rights in user-pays decisions; and
- lack of focus on spending quality informed by professional cost-benefit assessments.

For as long as these problems exist, local authorities must address the problems as best they can. Councils can do this by informing themselves and the public before deciding:

- the quality of infrastructure stock and total future costs needed to maintain that quality;
- the net effects for existing ratepayers' tax burdens of new developments, including identifying any material disparities in the timing of benefits relative to costs; and
- the costs and benefits for current and proposed significant spending items likely to be experienced by the affected members of the community.

There is further work to be done by councils to engage communities on these matters. The public's perception of poor local government performance and the need for better consultative processes, as discussed in Chapter 3, are the first challenges that need to be overcome. Solutions are unlikely to be found within New Zealand, which has been struggling with this challenge in one form or another for more than 160 years. It is for this reason that we propose looking at other jurisdictions where the interests of the public, local authorities, and central government are better aligned with economic growth. Switzerland is regarded as the most open and competitive economy in the

119 Michael Forbes, "Basin Reserve Flyover Officially Scrapped, Costing Taxpayers $12m," *Motoring* (4 September 2015).

120 Jason Krupp, *From Red Tape to Green Gold* (Wellington: The New Zealand Initiative, 2015), 2.

world on one measure,[121] with a GDP per capita more than double that of New Zealand's at US$84,000.[122] From the highly centralised New Zealand perspective, one might conclude the Swiss have achieved this despite a highly devolved form of government (2,408 communes, 26 cantons, and a central government). The Swiss are more likely to argue this has been achieved because of this devolved structure, which has linked local government incentives with economic growth endorsed by the public through democratic processes. This phenomenon is not particular to the Swiss. In the Netherlands, a bottom-up form of government, where citizens and municipalities are at the centre of the process, has achieved similar results with a unitary state structure. In the United Kingdom, where property taxes and centralised control have formed the cornerstones of the local government sector in the post-war years, moves are afoot to let local communities share in the risks and rewards of local development.[123] A common feature across all three is the high degree of trust placed in local people to make the best decisions for their communities. This feature has been missing in New Zealand. Too often the focus has fallen on technical measures, such as the merits of the rating system, with too little consideration given to the democratic processes and structures that underpin local government. If local government incentives are to be aligned with economic growth to a greater degree than they are now, then policy responses need to incorporate mechanisms where directly affected communities get more say in the process, not less. These policies can only work where there are strong property rights in place, where local standing is given greater weight in decision-making processes, and where cost-benefit analysis is a requirement of major spending decisions. Finally, although New Zealand's local government landscape has followed its own evolutionary path since 1840, policymakers need to be open to new ways of resolving the longstanding problem of aligning local government incentives and economic growth.

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121 Klaus Schwab, "The Global Competitiveness Report 2014–2015" (Geneva: World Economic Forum, 2014), 352.

122 Google, "Public Data," Website.

123 Greater Manchester Combined Authority, "Greater Manchester City Deal."

APPENDIX

TABLES A.1–A.7

Table A.1: Functions and responsibilities sub-central government

Category	Activities
Roading	Roads and bridges
Transportation	Planning, passenger (rail), passenger (other), parking, airports
Water supply	Water supply, potable supply/network, potable water treatment
Wastewater	Wastewater, sewerage network (including mains), sewage treatment, storm water
Solid waste/refuse	Solid waste/refuse, collection and disposal, recycling collection and recovery
Environmental protection	Environmental protection, air quality, water quality, land and soil management, flood protection and river control
Emergency management	Emergency management, emergency and disaster management
Planning and regulation	Building control, resource planning and consents, animal control, environmental health and alcohol licensing, marine safety, local alcohol policies, regulation of gaming machines, regulation of the location of brothels, dog control, local approved products policies, pest management strategies, marine regulations, environmental protection, and biodiversity
Culture	Libraries, museums and galleries, festivals and events, community arts
Recreation and sport	Aquatic facilities, sports facilities, zoological and botanical gardens, local and regional parks, and reserves
Community development	Community development, support and other, community safety
Economic development	Economic development, business and tourism promotion
Property	Social housing, councils and community property, commercial property and other property
Governance	Council, committees, community and local boards, citizenship ceremonies
Support services	Overheads, council support services, accountability and information costs
Other	Activities not covered by the categories above

Source: Local Government New Zealand, “Local Government Funding Review: A Discussion Paper” (Wellington: New Zealand Government, 2015).

Table A.2: District Councils: 2014 Rates per capita and 1996-2014 growth rates for population and rates per capita

Sorted Alphabetically	1996–2014 Increase in Population	1996–2014 Increase Real Rates per capita	2014 Nominal Rates per capita	Sorted by increase in population	1996–2014 Increase in Population	1996–2014 Increase Real Rates per capita	2014 Nominal Rates per capita
Ashburton District	28%	98%	$817	Queenstown-Lakes District	109%	48%	$1,830
Auckland	37%	29%	$913	Selwyn District	94%	70%	$634
Buller District	-2%	94%	$1,207	Waimakariri District	65%	74%	$780
Carterton District	25%	58%	$936	Tauranga City	53%	60%	$887
Central Hawke's Bay District	-1%	92%	$1,333	Auckland	37%	29%	$913
Central Otago District	24%	54%	$1,182	Hamilton City	35%	31%	$833
Chatham Islands Territory	-21%	-25%	$755	Waikato District	31%	64%	$865
Christchurch City	11%	71%	$856	Kapiti Coast District	30%	69%	$988
Clutha District	-6%	34%	$1,319	Western Bay of Plenty District	29%	146%	$1,149
Dunedin City	3%	62%	$978	Waipa District	28%	49%	$870
Far North District	12%	100%	$1,214	Ashburton District	28%	98%	$817
Gisborne District	0%	44%	$1,084	Hurunui District	27%	47%	$1,215
Gore District	-8%	64%	$1,066	Tasman District	27%	121%	$1,152
Grey District	-3%	81%	$1,020	Carterton District	25%	58%	$936
Hamilton City	35%	31%	$833	Central Otago District	24%	54%	$1,182
Hastings District	14%	25%	$831	Whangarei District	23%	39%	$766
Hauraki District	1%	159%	$1,310	Wellington City	22%	25%	$1,176
Horowhenua District	2%	114%	$862	Nelson City	20%	132%	$1,208
Hurunui District	27%	47%	$1,215	Kaipara District	16%	119%	$1,259
Invercargill City	-1%	50%	$843	Marlborough District	14%	58%	$1,207
Kaikoura District	1%	173%	$1,420	Hastings District	14%	25%	$831
Kaipara District	16%	119%	$1,259	Porirua City	12%	33%	$898
Kapiti Coast District	30%	69%	$988	New Plymouth District	12%	51%	$896
Kawerau District	-19%	99%	$1,272	Far North District	12%	100%	$1,214
Lower Hutt City	3%	24%	$888	Christchurch City	11%	71%	$856
Mackenzie District	4%	68%	$1,437	Taupo District	11%	201%	$1,583
Manawatu District	7%	85%	$893	Upper Hutt City	11%	25%	$743
Marlborough District	14%	58%	$1,207	Matamata-Piako District	10%	115%	$925
Masterton District	4%	75%	$1,023	Palmerston North City	9%	60%	$914
Matamata-Piako District	10%	115%	$925	Napier City	9%	36%	$781
Napier City	9%	36%	$781	South Wairarapa District	8%	99%	$1,161
Nelson City	20%	132%	$1,208	Thames-Coromandel District	8%	95%	$2,009
New Plymouth District	12%	51%	$896	Manawatu District	7%	85%	$893
Opotiki District	-8%	79%	$992	Timaru District	6%	56%	$897

Sorted Alphabetically	1996–2014 Increase in Population	1996–2014 Increase Real Rates per capita	2014 Nominal Rates per capita
Otorohanga District	-3%	49%	$1,095
Palmerston North City	9%	60%	$914
Porirua City	12%	33%	$898
Queenstown-Lakes District	109%	48%	$1,830
Rangitikei District	-13%	90%	$1,322
Rotorua District	3%	27%	$993
Ruapehu District	-28%	130%	$1,556
Selwyn District	94%	70%	$634
South Taranaki District	-8%	60%	$1,056
South Waikato District	-10%	68%	$910
South Wairarapa District	8%	99%	$1,161
Southland District	-3%	78%	$1,299
Stratford District	-5%	97%	$1,099
Tararua District	-11%	66%	$1,143
Tasman District	27%	121%	$1,152
Taupo District	11%	201%	$1,583
Tauranga City	53%	60%	$887
Thames-Coromandel District	8%	95%	$2,009
Timaru District	6%	56%	$897
Upper Hutt City	11%	25%	$743
Waikato District	31%	64%	$865
Waimakariri District	65%	74%	$780
Waimate District	1%	70%	$1,045
Waipa District	28%	49%	$870
Wairoa District	-20%	72%	$1,248
Waitaki District	-1%	85%	$1,326
Waitomo District	-6%	153%	$1,781
Wanganui District	-6%	45%	$1,068
Wellington City	22%	25%	$1,176
Western Bay of Plenty District	29%	146%	$1,149
Westland District	2%	69%	$921
Whakatane District	0%	97%	$1,035
Whangarei District	23%	39%	$766
Median	**6%**	**69%**	**$1,045**

Sorted by increase in population	1996–2014 Increase in Population	1996–2014 Increase Real Rates per capita	2014 Nominal Rates per capita
Masterton District	4%	75%	$1,023
Mackenzie District	4%	68%	$1,437
Dunedin City	3%	62%	$978
Lower Hutt City	3%	24%	$888
Rotorua District	3%	27%	$993
Westland District	2%	69%	$921
Horowhenua District	2%	114%	$862
Kaikoura District	1%	173%	$1,420
Hauraki District	1%	159%	$1,310
Waimate District	1%	70%	$1,045
Whakatane District	0%	97%	$1,035
Gisborne District	0%	44%	$1,084
Central Hawke's Bay District	-1%	92%	$1,333
Invercargill City	-1%	50%	$843
Waitaki District	-1%	85%	$1,326
Buller District	-2%	94%	$1,207
Southland District	-3%	78%	$1,299
Grey District	-3%	81%	$1,020
Otorohanga District	-3%	49%	$1,095
Stratford District	-5%	97%	$1,099
Wanganui District	-6%	45%	$1,068
Clutha District	-6%	34%	$1,319
Waitomo District	-6%	153%	$1,781
South Taranaki District	-8%	60%	$1,056
Gore District	-8%	64%	$1,066
Opotiki District	-8%	79%	$992
South Waikato District	-10%	68%	$910
Tararua District	-11%	66%	$1,143
Rangitikei District	-13%	90%	$1,322
Kawerau District	-19%	99%	$1,272
Wairoa District	-20%	72%	$1,248
Chatham Islands Territory	-21%	-25%	$755
Ruapehu District	-28%	130%	$1,556

Source: SNZ, InfoShare, Local Authority Financial Statistics, Income & Expenditure, TA residential population estimates and the All Groups Consumers Price Index

Table A.3: Net interest expense (+) as a percent of rates revenue in 2014

Sorted Alphabetically – Regional Councils on top	2014	Rank
Bay of Plenty Regional Council	-35%	
Canterbury Regional Council	-1%	
Greater Wellington Regional Council	5%	
Hawkes Bay Regional Council	-6%	
Manawatu-Wanganui Regional Council	1%	
Northland Regional Council	-8%	
Otago Regional Council	-12%	
Southland Regional Council	0%	
Taranaki Regional Council	-11%	
Waikato Regional Council	-2%	
West Coast Regional Council	3%	
Ashburton District Council	4%	43
Auckland Council	15%	3
Buller District Council	6%	28
Carterton District Council	4%	40
Central Hawkes Bay District Council	2%	51
Central Otago District Council	-2%	62
Chatham Islands Council	3%	48
Christchurch City Council	8%	20
Clutha District Council	-1%	58
Dunedin City Council	7%	23
Far North District Council	6%	30
Gisborne District Council	3%	50
Gore District Council	4%	41
Grey District Council	6%	25
Hamilton City Council	17%	2
Hastings District Council	4%	42
Hauraki District Council	6%	27
Horowhenua District Council	10%	16
Hurunui District Council	5%	37
Hutt City Council	4%	39
Invercargill City Council	3%	49
Kaikoura District Council	5%	33

Sorted from highest to lowest net expense ratio	2014	Rank
Greater Wellington Regional Council	5%	
West Coast Regional Council	3%	
Manawatu-Wanganui Regional Council	1%	
Southland Regional Council	0%	
Canterbury Regional Council	-1%	
Waikato Regional Council	-2%	
Hawkes Bay Regional Council	-6%	
Northland Regional Council	-8%	
Taranaki Regional Council	-11%	
Otago Regional Council	-12%	
Bay of Plenty Regional Council	-35%	
South Taranaki District Council	19%	1
Hamilton City Council	17%	2
Auckland Council	15%	3
Kaipara District Council	15%	4
Kapiti Coast District Council	15%	5
Western Bay of Plenty District Council	15%	6
Tauranga City Council	14%	7
Tasman District Council	14%	8
Waitomo District Council	13%	9
Whangarei District Council	13%	10
Taupo District Council	12%	11
Rotorua District Council	12%	12
Wanganui District Council	11%	13
Queenstown Lakes District Council	11%	14
Palmerston North City Council	10%	15
Horowhenua District Council	10%	16
Selwyn District Council	10%	17
Masterton District Council	9%	18
Ruapehu District Council	9%	19
Christchurch City Council	8%	20
Wellington City Council	8%	21
Whakatane District Council	8%	22

Sorted Alphabetically – Regional Councils on top	2014	Rank
Kaipara District Council	15%	4
Kapiti Coast District Council	15%	5
Kawerau District Council	-3%	63
Mackenzie District Council	-8%	66
Manawatu District Council	5%	36
Marlborough District Council	2%	53
Masterton District Council	9%	18
Matamata-Piako District Council	6%	26
Napier City Council	-7%	65
Nelson City Council	5%	38
New Plymouth District Council	4%	44
Opotiki District Council	1%	54
Otorohanga District Council	5%	34
Palmerston North City Council	10%	15
Porirua City Council	6%	24
Queenstown Lakes District Council	11%	14
Rangitikei District Council	-2%	61
Rotorua District Council	12%	12
Ruapehu District Council	9%	19
Selwyn District Council	10%	17
South Taranaki District Council	19%	1
South Waikato District Council	-1%	59
South Wairarapa District Council	4%	45
Southland District Council	-1%	60
Stratford District Council	1%	56
Tararua District Council	1%	55
Tasman District Council	14%	8
Taupo District Council	12%	11
Tauranga City Council	14%	7
Thames-Coromandel District Council	5%	35
Timaru District Council	6%	31
Upper Hutt City Council	4%	46
Waikato District Council	4%	47
Waimakariri District Council	6%	29

Sorted from highest to lowest net expense ratio	2014	Rank
Dunedin City Council	7%	23
Porirua City Council	6%	24
Grey District Council	6%	25
Matamata-Piako District Council	6%	26
Hauraki District Council	6%	27
Buller District Council	6%	28
Waimakariri District Council	6%	29
Far North District Council	6%	30
Timaru District Council	6%	31
Westland District Council	5%	32
Kaikoura District Council	5%	33
Otorohanga District Council	5%	34
Thames-Coromandel District Council	5%	35
Manawatu District Council	5%	36
Hurunui District Council	5%	37
Nelson City Council	5%	38
Hutt City Council	4%	39
Carterton District Council	4%	40
Gore District Council	4%	41
Hastings District Council	4%	42
Ashburton District Council	4%	43
New Plymouth District Council	4%	44
South Wairarapa District Council	4%	45
Upper Hutt City Council	4%	46
Waikato District Council	4%	47
Chatham Islands Council	3%	48
Invercargill City Council	3%	49
Gisborne District Council	3%	50
Central Hawkes Bay District Council	2%	51
Waipa District Council	2%	52
Marlborough District Council	2%	53
Opotiki District Council	1%	54
Tararua District Council	1%	55
Stratford District Council	1%	56

Sorted Alphabetically – Regional Councils on top	2014	Rank
Waimate District Council	0%	57
Waipa District Council	2%	52
Wairoa District Council	-9%	67
Waitaki District Council	-4%	64
Waitomo District Council	13%	9
Wanganui District Council	11%	13
Wellington City Council	8%	21
Western Bay of Plenty District Council	15%	6
Westland District Council	5%	32
Whakatane District Council	8%	22
Whangarei District Council	13%	10

Sorted from highest to lowest net expense ratio	2014	Rank
Waimate District Council	0%	57
Clutha District Council	-1%	58
South Waikato District Council	-1%	59
Southland District Council	-1%	60
Rangitikei District Council	-2%	61
Central Otago District Council	-2%	62
Kawerau District Council	-3%	63
Waitaki District Council	-4%	64
Napier City Council	-7%	65
Mackenzie District Council	-8%	66
Wairoa District Council	-9%	67

Total New Zealand	**9%**
Median for District Councils	**5%**
Median for Regional Councils	**-2%**

Source: SNZ, Infoshare, Local Authority Financial Statistics, Financial Position, years ended June, downloaded 5 Nov 2015

Table A.4: Targeted rates revenue/total rates revenue in 2013

New Zealand	**32%**
Regional	**53%**
Metro	**28%**
Provincial	**50%**
Rural	**52%**

Sorted alphabetically		Sorted from largest to smallest	
Ashburton District	71%	Queenstown-Lakes District	96%
Auckland (Group)	7%	Manawatu District	87%
Bay of Plenty Regional	48%	Invercargill City	84%
Buller District	42%	Hawke's Bay Regional	82%
Canterbury Regional	48%	Clutha District	81%
Carterton District	30%	Waitaki District	79%
Central Hawke's Bay District	32%	Kapiti Coast District	77%
Central Otago District	69%	Rangitikei District	76%
Chatham Islands	39%	Horowhenua District	74%
Clutha District	81%	Wairoa District	74%
Dunedin City	50%	Mackenzie District	73%
Far North District	33%	Thames-Coromandel District	72%
Gisborne District	66%	Timaru District	71%
Gore District	67%	Ashburton District	71%
Grey District	37%	Tararua District	71%
Hamilton City	5%	Wellington Regional	70%
Hastings District	20%	Otago Regional	70%
Hauraki District	46%	Central Otago District	69%
Hawke's Bay Regional	82%	Gore District	67%
Horowhenua District	74%	Gisborne District	66%
Hurunui District	58%	Waipa District	65%
Hutt City	32%	Kaipara District	63%
Invercargill City	84%	Western Bay of Plenty District	63%
Kaikoura District	49%	Selwyn District	62%
Kaipara District	63%	Waitomo District	62%
Kapiti Coast District	77%	Otorohanga District	59%
Kawerau District	12%	Stratford District	58%
Mackenzie District	73%	Hurunui District	58%
Manawatu District	87%	South Taranaki District	57%
Manawatu-Wanganui Regional	38%	Whakatane District	55%
Marlborough District	38%	Southland Regional	50%
Masterton District	42%	Waikato Regional	50%
Matamata-Piako District	38%	Dunedin City	50%
Napier City	29%	Kaikoura District	49%
Nelson City	23%	Bay of Plenty Regional	48%
New Plymouth District	37%	Canterbury Regional	48%
Northland Regional	26%	Wanganui District	47%
Opotiki District	20%	Hauraki District	46%
Otago Regional	70%	West Coast Regional	45%
Otorohanga District	59%	Wellington City	44%
Palmerston North City	22%	Waimakariri District	43%
Porirua City	12%	Tasman District	43%
Queenstown-Lakes District	96%	Upper Hutt City	42%
Rangitikei District	76%	Masterton District	42%
Rotorua District	31%	Buller District	42%
Ruapehu District	34%	Chatham Islands	39%
Selwyn District	62%	Taupo District	38%
South Taranaki District	57%	Matamata-Piako District	38%
South Waikato District	26%	Marlborough District	38%

Sorted alphabetically		Sorted from largest to smallest	
South Wairarapa District	16%	Manawatu-Wanganui Regional	38%
Southland District	32%	New Plymouth District	37%
Southland Regional	50%	Grey District	37%
Stratford District	58%	Westland District	36%
Taranaki Regional	19%	Ruapehu District	34%
Tararua District	71%	Far North District	33%
Tasman District	43%	Hutt City	32%
Taupo District	38%	Whangarei District	32%
Tauranga City	0%	Southland District	32%
Thames-Coromandel District	72%	Central Hawke's Bay District	32%
Timaru District	71%	Rotorua District	31%
Upper Hutt City	42%	Carterton District	30%
Waikato District	21%	Napier City	29%
Waikato Regional	50%	South Waikato District	26%
Waimakariri District	43%	Northland Regional	26%
Waimate District	24%	Waimate District	24%
Waipa District	65%	Nelson City	23%
Wairoa District	74%	Palmerston North City	22%
Waitaki District	79%	Waikato District	21%
Waitomo District	62%	Hastings District	20%
Wanganui District	47%	Opotiki District	20%
Wellington City	44%	Taranaki Regional	19%
Wellington Regional	70%	South Wairarapa District	16%
West Coast Regional	45%	Porirua City	12%
Western Bay of Plenty District	63%	Kawerau District	12%
Westland District	36%	Auckland (Group)	7%
Whakatane District	55%	Hamilton City	5%
Whangarei District	32%	Tauranga City	0%

Median	**45%**
Average	**47%**
Largest	**96%**
Smallest	**0%**

Source: DIA FIS projections 2013-2022 from Local Authority 2012 Long-Term Plan Financial Data

Table A.5: Council (parent) investments in relation to infrastructure assets in 2014

Alphabetical (Regional Councils at top)	Investments ($000)	Infrastructure assets ($000)	Ratio	Rank Order
Bay of Plenty Regional Council	150,722	238,014	63%	
Canterbury Regional Council	445	694,699	0%	
Greater Wellington Regional Council	123,051	846,042	15%	
Hawkes Bay Regional Council	188,392	151,259	125%	
Manawatu-Wanganui Regional Council	801	345,054	0%	
Northland Regional Council	27,452	12,596	218%	
Otago Regional Council	370,535	60,133	616%	
Southland Regional Council	9,520	27,256	35%	
Taranaki Regional Council	34,020	8,479	401%	
Waikato Regional Council	58,841	430,633	14%	
West Coast Regional Council	10,918	54,062	20%	
Ashburton District Council	5,400	549,231	1%	26
Auckland Council	20,547,000	3,695,000	556%	1
Buller District Council	17,057	279,032	6%	9
Carterton District Council	39	141,765	0%	58
Central Hawkes Bay District Council	5,494	729,056	1%	32
Central Otago District Council	139	549,617	0%	59
Chatham Islands Council	0	54,668	0%	63
Christchurch City Council	1,825,639	4,909,125	37%	2
Clutha District Council	38	974,122	0%	62
Dunedin City Council	147,160	1,977,217	7%	8
Far North District Council	12,256	1,518,676	1%	30
Gisborne District Council	20,560	1,699,814	1%	21
Gore District Council	0	345,276	0%	63
Grey District Council	877	339,816	0%	42
Hamilton City Council	26,237	2,420,199	1%	24
Hastings District Council	2,520	1,541,707	0%	47
Hauraki District Council	631	484,782	0%	51
Horowhenua District Council	988	386,116	0%	43
Hurunui District Council	577	287,204	0%	45

Sorted by ratio (descending order) (Regional Councils at top)	Ratio	Rank Order
Otago Regional Council	616%	1
Taranaki Regional Council	401%	2
Northland Regional Council	218%	3
Hawkes Bay Regional Council	125%	4
Bay of Plenty Regional Council	63%	5
Southland Regional Council	35%	6
West Coast Regional Council	20%	7
Greater Wellington Regional Council	15%	8
Waikato Regional Council	14%	9
Manawatu-Wanganui Regional Council	0%	10
Canterbury Regional Council	0%	11
Auckland Council	556.1%	1
Christchurch City Council	37.2%	2
New Plymouth District Council	14.6%	3
Selwyn District Council	10.2%	4
Tasman District Council	8.9%	5
Invercargill City Council	8.2%	6
Mackenzie District Council	7.6%	7
Dunedin City Council	7.4%	8
Buller District Council	6.1%	9
Taupo District Council	5.1%	10
Waimate District Council	3.5%	11
South Taranaki District Council	3.4%	12
Tauranga City Council	3.3%	13
Matamata-Piako District Council	2.9%	14
Westland District Council	2.6%	15
Palmerston North City Council	2.1%	16
Nelson City Council	2.1%	17
Hutt City Council	1.5%	18
Wanganui District Council	1.4%	19

Alphabetical (Regional Councils at top)	Investments ($000)	Infrastructure assets ($000)	Ratio	Rank Order	Sorted by ratio (descending order) (Regional Councils at top)	Ratio	Rank Order
Hutt City Council	15,261	1,051,433	1%	18	Masterton District Council	1.3%	20
Invercargill City Council	44,501	545,585	8%	6	Gisborne District Council	1.2%	21
Kaikoura District Council	0	139,481	0%	63	South Waikato District Council	1.2%	22
Kaipara District Council	173	540,544	0%	56	Timaru District Council	1.2%	23
Kapiti Coast District Council	1,955	1,263,143	0%	48	Hamilton City Council	1.1%	24
Kawerau District Council	36	48,277	0%	54	Marlborough District Council	1.0%	25
Mackenzie District Council	10,730	141,230	8%	7	Ashburton District Council	1.0%	26
Manawatu District Council	1,244	520,990	0%	44	Waitomo District Council	0.9%	27
Marlborough District Council	11,092	1,121,460	1%	25	Whangarei District Council	0.8%	28
Masterton District Council	8,204	630,734	1%	20	Waitaki District Council	0.8%	29
Matamata-Piako District Council	14,388	499,576	3%	14	Far North District Council	0.8%	30
Napier City Council	5,174	1,113,888	0%	37	Queenstown Lakes District Council	0.8%	31
Nelson City Council	21,566	1,042,069	2%	17	Central Hawkes Bay District Council	0.8%	32
New Plymouth District Council	220,156	1,505,845	15%	3	Rangitikei District Council	0.7%	33
Opotiki District Council	0	161,250	0%	63	Waikato District Council	0.6%	34
Otorohanga District Council	776	233,267	0%	39	Wairoa District Council	0.6%	35
Palmerston North City Council	23,067	1,102,690	2%	16	Wellington City Council	0.5%	36
Porirua City Council	126	962,138	0%	61	Napier City Council	0.5%	37
Queenstown Lakes District Council	6,876	858,961	1%	31	Rotorua District Council	0.3%	38
Rangitikei District Council	3,128	451,186	1%	33	Otorohanga District Council	0.3%	39
Rotorua District Council	3,005	861,632	0%	38	Waipa District Council	0.3%	40
Ruapehu District Council	522	350,791	0%	49	Stratford District Council	0.3%	41
Selwyn District Council	95,638	938,929	10%	4	Grey District Council	0.3%	42
South Taranaki District Council	22,473	654,279	3%	12	Horowhenua District Council	0.3%	43
South Waikato District Council	4,213	348,460	1%	22	Manawatu District Council	0.2%	44
South Wairarapa District Council	74	357,752	0%	60	Hurunui District Council	0.2%	45
Southland District Council	0	1,341,806	0%	63	Western Bay of Plenty District Council	0.2%	46
Stratford District Council	775	285,851	0%	41	Hastings District Council	0.2%	47
Tararua District Council	257	836,802	0%	57	Kapiti Coast District Council	0.2%	48

Alphabetical (Regional Councils at top)	Investments ($000)	Infrastructure assets ($000)	Ratio	Rank Order
Tasman District Council	92,891	1,048,519	9%	5
Taupo District Council	43,169	850,462	5%	10
Tauranga City Council	82,691	2,497,713	3%	13
Thames-Coromandel District Council	909	970,532	0%	53
Timaru District Council	7,250	624,016	1%	23
Upper Hutt City Council	343	591,936	0%	55
Waikato District Council	7,968	1,346,110	1%	34
Waimakariri District Council	1,646	1,207,054	0%	50
Waimate District Council	12,251	346,470	4%	11
Waipa District Council	3,045	987,966	0%	40
Wairoa District Council	1,273	227,933	1%	35
Waitaki District Council	5,057	618,889	1%	29
Waitomo District Council	2,620	296,469	1%	27
Wanganui District Council	9,504	697,385	1%	19
Wellington City Council	25,786	5,115,147	1%	36
Western Bay of Plenty District Council	1,713	944,450	0%	46
Westland District Council	8,754	334,697	3%	15
Whakatane District Council	607	497,153	0%	52
Whangarei District Council	11,801	1,442,174	1%	28
Total	**24,421,997**	**66,305,774**	**37%**	
Median (excluding regional councils)			**0.6%**	

Sorted by ratio (descending order) (Regional Councils at top)	Ratio	Rank Order
Ruapehu District Council	0.1%	49
Waimakariri District Council	0.1%	50
Hauraki District Council	0.1%	51
Whakatane District Council	0.1%	52
Thames-Coromandel District Council	0.1%	53
Kawerau District Council	0.1%	54
Upper Hutt City Council	0.1%	55
Kaipara District Council	0.0%	56
Tararua District Council	0.0%	57
Carterton District Council	0.0%	58
Central Otago District Council	0.0%	59
South Wairarapa District Council	0.0%	60
Porirua City Council	0.0%	61
Clutha District Council	0.0%	62
Chatham Islands Council	0.0%	63
Gore District Council	0.0%	64
Kaikoura District Council	0.0%	65
Opotiki District Council	0.0%	66
Southland District Council	0.0%	67

Source: SNZ, Infoshare, Local Authority Financial Statistics, Financial Position, years ended June, downloaded 5 Nov 2015

Table A.6: Ten-year total Capex to meet additional demand in five core activities as a percentage of ten-year total of all planned Capex for all activities – 2013–2022

Council/Group Name – Sorted alphabetically, regional councils at bottom	Ratio of Respective 10-Year spending totals	Rank (Descending order)
New Zealand	13%	
Regional	2%	
Metro	13%	
Provincial	12%	
Rural	4%	
Ashburton District	6%	31
Buller District	0%	54
Carterton District	3%	39
Central Hawke's Bay District	1%	49
Central Otago District	11%	21
Clutha District	0%	53
Dunedin City	3%	41
Far North District	4%	37
Gisborne District	2%	44
Gore District	0%	54
Grey District	0%	54
Hamilton City	17%	13
Hastings District	8%	25
Hauraki District	3%	43
Horowhenua District	15%	16
Hurunui District	5%	32
Hutt City	0%	54
Invercargill City	3%	40
Kaikoura District	0%	54
Kaipara District	3%	42
Kapiti Coast District	5%	35
Kawerau District	0%	54
Mackenzie District	2%	45
Manawatu District	6%	29
Marlborough District	21%	10
Masterton District	1%	48
Matamata-Piako District	10%	22
Napier City	21%	9
Nelson City	9%	24
New Plymouth District	6%	28
Opotiki District	11%	20
Otorohanga District	1%	47
Palmerston North City	17%	11
Porirua City	23%	5
Queenstown-Lakes District	27%	2
Rangitikei District	0%	54

Council/Group Name – Descending order	Ratio of Respective 10-Year spending totals	Rank
New Zealand	13%	
Regional	2%	
Metro	13%	
Provincial	12%	
Rural	4%	
Tauranga City	41%	1
Queenstown-Lakes District	27%	2
Waimakariri District	25%	3
Wairoa District	24%	4
Porirua City	23%	5
Rotorua District	23%	6
Whangarei District	23%	7
Waikato District	22%	8
Napier City	21%	9
Marlborough District	21%	10
Palmerston North City	17%	11
Selwyn District	17%	12
Hamilton City	17%	13
Thames-Coromandel District	16%	14
Taupo District	15%	15
Horowhenua District	15%	16
Auckland (Group)	14%	17
Western Bay of Plenty District	12%	18
Waipa District	11%	19
Opotiki District	11%	20
Central Otago District	11%	21
Matamata-Piako District	10%	22
Ruapehu District	9%	23
Nelson City	9%	24
Hastings District	8%	25
Wellington Regional	7%	26
South Waikato District	7%	27
New Plymouth District	6%	28
Manawatu District	6%	29
Tasman District	6%	30
Ashburton District	6%	31
Hurunui District	5%	32
Southland District	5%	33
Westland District	5%	34
Kapiti Coast District	5%	35
Wanganui District	4%	36

Council/Group Name – Sorted alphabetically, regional councils at bottom	Ratio of Respective 10-Year spending totals	Rank (Descending order)
Rotorua District	23%	6
Ruapehu District	9%	23
Selwyn District	17%	12
South Taranaki District	3%	38
South Waikato District	7%	27
South Wairarapa District	0%	54
Southland District	5%	33
Stratford District	0%	54
Tararua District	0%	54
Tasman District	6%	30
Taupo District	15%	15
Tauranga City	41%	1
Thames-Coromandel District	16%	14
Timaru District	0%	52
Upper Hutt City	0%	54
Waikato District	22%	8
Waimakariri District	25%	3
Waimate District	1%	50
Waipa District	11%	19
Wairoa District	24%	4
Waitaki District	0%	54
Waitomo District	0%	54
Wanganui District	4%	36
Wellington City	2%	46
Western Bay of Plenty District	12%	18
Westland District	5%	34
Whakatane District	1%	51
Whangarei District	23%	7
Auckland (Group)	14%	17
Northland Regional	0%	54
Waikato Regional	0%	54
Bay of Plenty Regional	0%	54
Hawke's Bay Regional	0%	54
Taranaki Regional	0%	54
Manawatu-Wanganui Regional	0%	54
Wellington Regional	7%	26
West Coast Regional	0%	54
Canterbury Regional	0%	54
Otago Regional	0%	54
Southland Regional	0%	54
Chatham Islands	0%	54

Source: DIA Funding Impact Statements 2013–2022

Council/Group Name – Descending order	Ratio of Respective 10-Year spending totals	Rank
Far North District	4%	37
South Taranaki District	3%	38
Carterton District	3%	39
Invercargill City	3%	40
Dunedin City	3%	41
Kaipara District	3%	42
Hauraki District	3%	43
Gisborne District	2%	44
Mackenzie District	2%	45
Wellington City	2%	46
Otorohanga District	1%	47
Masterton District	1%	48
Central Hawke's Bay District	1%	49
Waimate District	1%	50
Whakatane District	1%	51
Timaru District	0.5%	52
Clutha District	0.5%	53
Buller District	0%	54
Gore District	0%	55
Grey District	0%	56
Hutt City	0%	57
Kaikoura District	0%	58
Kawerau District	0%	59
Rangitikei District	0%	60
South Wairarapa District	0%	61
Stratford District	0%	62
Tararua District	0%	63
Upper Hutt City	0%	64
Waitaki District	0%	65
Waitomo District	0%	66
Northland Regional	0%	67
Waikato Regional	0%	68
Bay of Plenty Regional	0%	69
Hawke's Bay Regional	0%	70
Taranaki Regional	0%	71
Manawatu-Wanganui Regional	0%	72
West Coast Regional	0%	73
Canterbury Regional	0%	74
Otago Regional	0%	75
Southland Regional	0%	76
Chatham Islands	0%	77
Median for those greater than zero	**7%**	

Table A.7: Ratio of Local Authority Term Debt to Total Non-Current Assets in 2014

Alphabetical order	Maximum Value during 2000–2014	2014 Value	2014 Rank
Ashburton District Council	6%	6%	24
Auckland Council	14%	14%	2
Auckland Transport	2%	2%	53
Bay of Plenty Regional Council	6%	0%	69
Buller District Council	8%	7%	16
Canterbury Regional Council	1%	0%	64
Carterton District Council	5%	5%	28
Central Hawkes Bay District Council	2%	1%	60
Central Otago District Council	0%	0%	69
Chatham Islands Council	1%	1%	58
Christchurch City Council	10%	10%	9
Clutha District Council	2%	0%	68
Dunedin City Council	11%	7%	18
Far North District Council	6%	4%	38
Gisborne District Council	6%	1%	59
Gore District Council	5%	3%	44
Greater Wellington Regional Council	18%	12%	4
Grey District Council	8%	8%	15
Hamilton City Council	10%	10%	8
Hastings District Council	5%	3%	43
Hauraki District Council	4%	3%	48
Hawkes Bay Regional Council	4%	4%	39
Horowhenua District Council	10%	10%	11
Hurunui District Council	4%	4%	33
Hutt City Council	6%	4%	31
Invercargill City Council	7%	4%	32
Kaikoura District Council	4%	2%	52
Kaipara District Council	16%	3%	45
Kapiti Coast District Council	13%	9%	14

Descending order in 2014	Maximum Value during 2000-2014	2014 Value	2014 Rank
Waitomo District Council	14%	14%	1
Auckland Council	14%	14%	2
Western Bay of Plenty District Council	14%	12%	3
Greater Wellington Regional Council	18%	12%	4
Rotorua District Council	12%	12%	5
Tasman District Council	12%	11%	6
Timaru District Council	11%	11%	7
Hamilton City Council	10%	10%	8
Christchurch City Council	10%	10%	9
South Taranaki District Council	10%	10%	10
Horowhenua District Council	10%	10%	11
West Coast Regional Council	9%	9%	12
Tauranga City Council	9%	9%	13
Kapiti Coast District Council	13%	9%	14
Grey District Council	8%	8%	15
Buller District Council	8%	7%	16
Taupo District Council	9%	7%	17
Dunedin City Council	11%	7%	18
Whangarei District Council	8%	7%	19
Masterton District Council	7%	6%	20
Wanganui District Council	8%	6%	21
Ruapehu District Council	7%	6%	22
Queenstown Lakes District Council	11%	6%	23
Ashburton District Council	6%	6%	24
Whakatane District Council	5%	5%	25
Manawatu District Council	5%	5%	26
Palmerston North City Council	12%	5%	27
Carterton District Council	5%	5%	28
Matamata-Piako District Council	6%	4%	29

Alphabetical order	Maximum Value during 2000–2014	2014 Value	2014 Rank
Kawerau District Council	3%	0%	63
Mackenzie District Council	0%	0%	69
Manawatu District Council	5%	5%	26
Manawatu-Wanganui Regional Council	7%	2%	50
Marlborough District Council	2%	2%	54
Masterton District Council	7%	6%	20
Matamata-Piako District Council	6%	4%	29
Napier City Council	5%	0%	66
Nelson City Council	4%	2%	49
New Plymouth District Council	4%	3%	42
Northland Regional Council	0%	0%	69
Opotiki District Council	6%	1%	56
Otago Regional Council	0%	0%	69
Otorohanga District Council	6%	4%	35
Palmerston North City Council	12%	5%	27
Porirua City Council	8%	0%	62
Queenstown Lakes District Council	11%	6%	23
Rotorua District Council	12%	12%	5
Ruapehu District Council	7%	6%	22
Selwyn District Council	6%	3%	47
South Taranaki District Council	10%	10%	10
South Waikato District Council	4%	4%	37
South Wairarapa District Council	3%	3%	46
Southland District Council	0%	0%	65
Southland Regional Council	0%	0%	69
Stratford District Council	2%	2%	55
Taranaki Regional Council	0%	0%	69
Tararua District Council	2%	1%	61
Tasman District Council	12%	11%	6

Descending order in 2014	Maximum Value during 2000-2014	2014 Value	2014 Rank
Wellington City Council	7%	4%	30
Hutt City Council	6%	4%	31
Invercargill City Council	7%	4%	32
Hurunui District Council	4%	4%	33
Westland District Council	4%	4%	34
Otorohanga District Council	6%	4%	35
Upper Hutt City Council	4%	4%	36
South Waikato District Council	4%	4%	37
Far North District Council	6%	4%	38
Hawkes Bay Regional Council	4%	4%	39
Thames-Coromandel District Council	5%	4%	40
Waimakariri District Council	4%	3%	41
New Plymouth District Council	4%	3%	42
Hastings District Council	5%	3%	43
Gore District Council	5%	3%	44
Kaipara District Council	16%	3%	45
South Wairarapa District Council	3%	3%	46
Selwyn District Council	6%	3%	47
Hauraki District Council	4%	3%	48
Nelson City Council	4%	2%	49
Manawatu-Wanganui Regional Council	7%	2%	50
Waikato District Council	2%	2%	51
Kaikoura District Council	4%	2%	52
Auckland Transport	2%	2%	53
Marlborough District Council	2%	2%	54
Stratford District Council	2%	2%	55
Opotiki District Council	6%	1%	56
Waipa District Council	3%	1%	57
Chatham Islands Council	1%	1%	58

Alphabetical order	Maximum Value during 2000–2014	2014 Value	2014 Rank
Taupo District Council	9%	7%	17
Tauranga City Council	9%	9%	13
Thames-Coromandel District Council	5%	4%	40
Timaru District Council	11%	11%	7
Upper Hutt City Council	4%	4%	36
Waikato District Council	2%	2%	51
Waikato Regional Council	2%	0%	69
Waimakariri District Council	4%	3%	41
Waimate District Council	1%	0%	69
Waipa District Council	3%	1%	57
Wairoa District Council	1%	0%	69
Waitaki District Council	2%	0%	67
Waitomo District Council	14%	14%	1
Wanganui District Council	8%	6%	21
Wellington City Council	7%	4%	30
West Coast Regional Council	9%	9%	12
Western Bay of Plenty District Council	14%	12%	3
Westland District Council	4%	4%	34
Whakatane District Council	5%	5%	25
Whangarei District Council	8%	7%	19

Descending order in 2014	Maximum Value during 2000-2014	2014 Value	2014 Rank
Gisborne District Council	6%	1%	59
Central Hawkes Bay District Council	2%	1%	60
Tararua District Council	2%	1%	61
Porirua City Council	8%	0%	62
Kawerau District Council	3%	0%	63
Canterbury Regional Council	1%	0%	64
Southland District Council	0%	0%	65
Napier City Council	5%	0%	66
Waitaki District Council	2%	0%	67
Clutha District Council	2%	0%	68
Bay of Plenty Regional Council	6%	0%	69
Central Otago District Council	0%	0%	70
Mackenzie District Council	0%	0%	71
Northland Regional Council	0%	0%	72
Otago Regional Council	0%	0%	73
Southland Regional Council	0%	0%	74
Taranaki Regional Council	0%	0%	75
Waikato Regional Council	2%	0%	76
Waimate District Council	1%	0%	77
Wairoa District Council	1%	0%	78

New Zealand	**7%**	**7%**
Median (excluding 2014 zeros)	**6%**	**4%**
Median (including 2014 zeros)	**5%**	**3%**
Maximum	**18%**	**14%**

Source: SNZ, Infoshare, Local Authority Financial Statistics, Financial Position, years ended June, downloaded 5 Nov 2015.

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Local government plays a key role in New Zealand as an enabler of economic growth. Councils provide roads, water and a wide range of regulatory services that are vital to the functioning of communities and businesses.

Yet for stakeholders such as central government, and some businesses and residents, local government is often source of frustration. The sector is seen as unresponsive, high spending, and too slow in the provision of core infrastructure.

Until now, discussions on how to solve this problem have focused on technical solutions, such as amalgamating councils into super cities and capping rates increases. Yet for all the work that this has generated, it has not addressed the source of the problem: it is ratepayers who foot the bill for these investments and who often balk when the rates bills come due.

This report argues that unless new ways are found to encourage local communities to be more open to growth, efforts to lift the country's economic performance will be frustrated. New Zealand urgently needs to inject fresh thinking into this stale debate.

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