

### Councils currently have a wide range of funding options

- The scope of local government responsibilities in New Zealand is relatively narrow
- But councils have a high degree of autonomy in choosing what they do and how to fund it
- In more devolved countries, local governments have greater responsibilities but rely more heavily on revenues from central government, which come with conditions on how they are spent
- Any funding must come from either local residents or general taxpayers
- Changes to the funding framework should preserve local autonomy and accountability

### Rates growth has been flat at an aggregate level

- At an aggregate level, total real rates per person have grown in line with incomes since the early 1990s
- And council expenditure has been focused on essential infrastructure

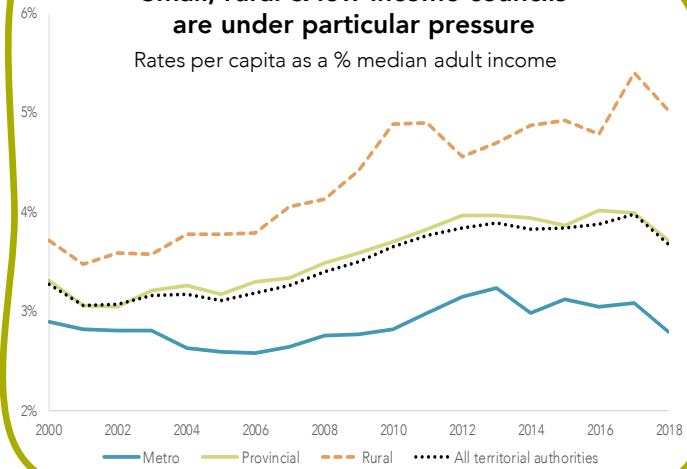
### But there are areas of significant funding pressure

1. Adapting to climate change
2. Meeting the demand for growth infrastructure
3. Unfunded mandates
4. Coping with tourism growth

The scale of some of these pressures is significant, and they are highly uneven across councils

### Small, rural & low-income councils are under particular pressure

Rates per capita as a % median adult income



### The property rates-based system remains appropriate for NZ

- Radical reform is not required; and there is no clearly superior alternative to a property-tax-based system, given the modest scope of local government in NZ
- Targeted solutions should be used to tackle funding pressures

### Making better use of available tools

- Significant scope exists for councils to make better use of the current funding tools, and improve their performance, productivity and decision making to help relieve funding pressures
- Councils must get better at managing the political economy of setting rates. Better community engagement, improved capability and greater transparency are the keys to this

### 1. Climate change

- National legal framework for climate change adaptation urgently required, as well as science and guidance
- Central government co-funding for at-risk council infrastructure



### 2. Growth infrastructure

- Special Purpose Vehicles
- Volumetric charging for wastewater
- Road-congestion pricing
- Legal clarity around targeted rates for value capture



### 3. Unfunded mandates

- Crown should pay its way – cover costs of council services to Crown property and pay development contributions on its developments
- “Partners in Regulation” protocol to avoid future unfunded mandates



### 4. Tourism

- Funding gap is small, so new tools unlikely to provide net benefit to councils
- Councils should instead make better use of available tools, incl. rates
- International tourists provide revenue at least equal to their costs, but not directly to councils
- Central government tourism funding for councils is justified but should be better targeted

There are principled reasons why central government should co-fund some of these pressures. The costs of doing so are difficult to estimate, but by far the largest item will be support for council infrastructure at risk from climate change (in the order of \$150m a year over 20 years)

### Lifting council performance and transparency

- New regulatory regime for 3 waters sector
- Mandatory Audit & Risk Committees
- Fundamental review of performance reporting regime
- Mandatory performance measures published by a central agency
- Itemised rates bills

### Affordability for households

- Rates Rebate Scheme is poorly targeted and unfair – replace it with a national rates postponement scheme or at least shift it to online
- Remove 30% cap on uniform charges

### Taxing vacant land?

- Such a tax would suffer definitional problems, have high admin costs and be ineffective in improving the supply of available housing
- Other approaches to improving housing supply would be more effective and are preferable