

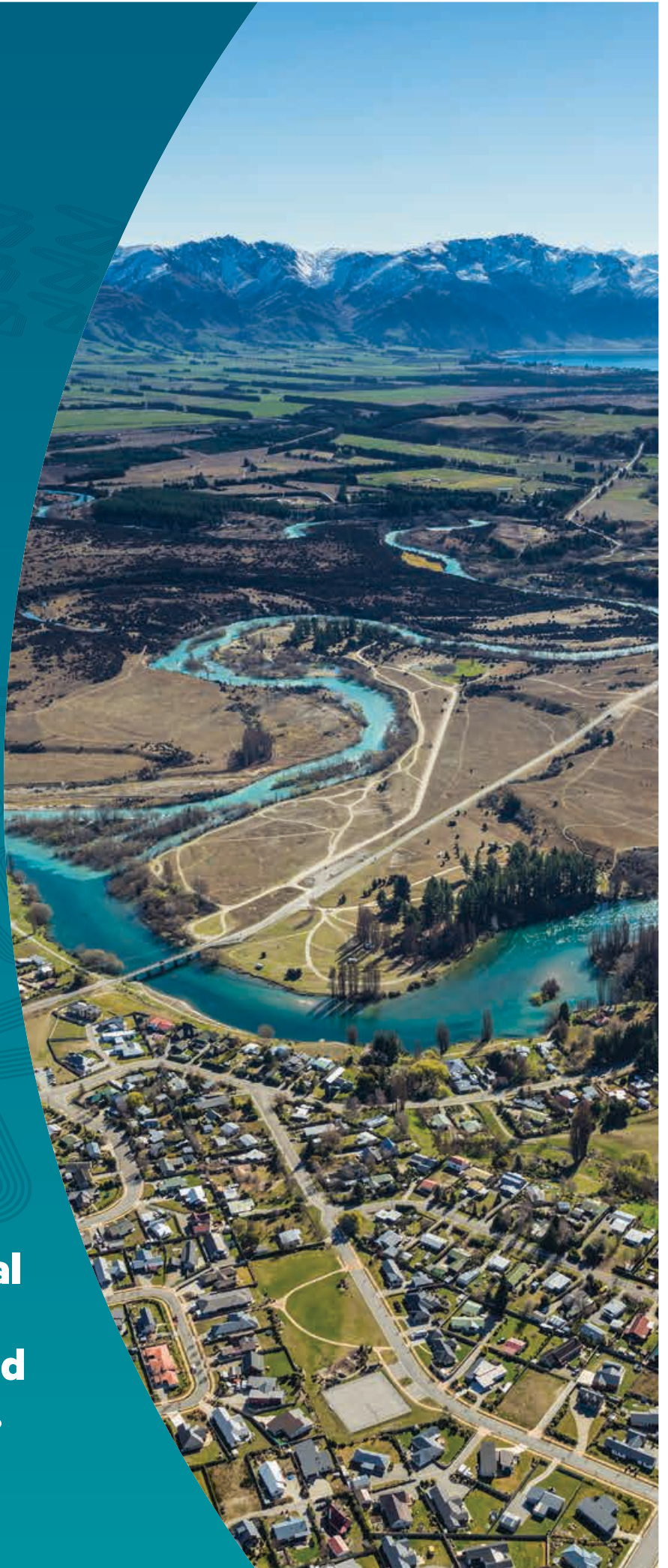


Infrastructure
New Zealand

Building Regions

**A vision for local
government,
planning law and
funding reform.**

August 2019





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Executive summary



New Zealand's institutions are among the best in the world.

Independent analysis from the likes of Transparency International highlight the lack of corruption. Surveys of business opinion from organisations like the World Economic Forum demonstrate the ease of working with authorities. Reporters without Borders finds the press free and unimpeded.

It is difficult to find any evidence that the departments, agencies and other public bodies across central and local government are not world leading.

Any evidence, that is, except the outcomes these institutions produce.

New Zealand's economic performance is mediocre. GDP per capita is around 30th in the world, once New Zealand's high cost of living is factored in. Productivity is 40 per cent lower than where it needs to be.

The country is leading in areas it would rather not. It boasts some of the highest rates of homelessness and least affordable housing in the developed world. Income inequality beats most of the OECD, too.

Carbon emissions are not decreasing as fast as most other nations and freshwater quality is declining.

These are not the expected outcomes for a country with effective public institutions.

How can the institutions which deliver public services and govern economic, social and environmental performance be so apparently good and bad at the same time?

The answer lies in an institutional system arrangement which misaligns roles, responsibilities and resources across the public service.

Central government entities with national objectives are performing functions with localised impacts. Local government entities without scale or resources are providing services with regional and national impacts. Neither are optimised to respond to the communities they are affecting and no one is delivering regional outcomes.

Collaboration across institutions and different levels of government could alleviate pressures. But New Zealand's service-oriented institutional arrangements mean public activities can be delivered with little input or assistance from other agencies. In theory, institutions are efficient. In practice they are silos. There is no process to integrate public services in pursuit of common objectives.

Two of the most powerful governing responsibilities have been separated and isolated. Planning is almost completely delegated to local government. Fourteen out of every fifteen tax dollars is collected by central government. Central organisations cannot plan and invest long term. Local organisations can plan, but with little funding have no certainty as to whether plans can be delivered. Neither are able to see the world through the same lens. Disagreement and mistrust are pervasive.

No one is overseeing the system to ensure it functions. Central government's extensive service provision responsibilities conflict with its role as the only viable national economic, social and environmental system manager. Issues which should be acknowledged and addressed are instead politicised and polarised. Problems are not being solved.

Instead of coordinating and leveraging the combined strengths of government, iwi, the private sector and communities, institutions have been set up to prioritise individual agency outputs. Severe infrastructure underinvestment has been confused with short term organisational efficiency. Chronic society-wide issues like poverty have been unaddressed. Critical public service providers are focusing on the wrong things. The system cannot respond.

The result is an institutional arrangement which has left New Zealand's otherwise functional public service bodies without the incentive or the capability to promote economic, social, environmental and cultural outcomes.

The country is barely holding its own when record terms of trade suggest this should be our finest hour. Any decline in fortuitously high export prices or immigration, the two principal drivers of New Zealand's recent economic expansion, could leave the country badly exposed.

Reforms are underway

The Government has recognised the seriousness of the situation. An opportunity for improvement has been identified. The most significant programme of reform in a generation is underway.

Oversight of infrastructure is being strengthened with creation of the New Zealand Infrastructure Commission – Te Waihangā. Government departments are being re-incentivised through changes to the State Sector Act 1988. Central planning and development capability is being consolidated into Kainga Ora – Homes and Communities. Planning laws across the resource management system are being reviewed.

These reforms and many others are helping address the core institutional misincentives and weak capability which lie at the heart of New Zealand's lacklustre economic, social and environmental performance.

But changes to date have disproportionately focused on realigning incentives and expanding the capability of central government.

The resulting consolidation of authority may help the Government effect change and integrate public services to deliver outcomes, but also creates risks.

The severity of policy reversal from each change in Government is increased. The relevance of local decision making is decreased.

By expanding the mandate of Government institutions, strengthening delivery and bringing planning powers back to the centre, current reforms risk repeating the mistakes of the past. Many of the changes from 1984 were designed to minimise the potential for central government, as the principal planner, funder and deliverer of public services, to ever again overextend the nation's resources.

New Zealand needs a way of achieving both the benefits of outcomes-oriented institutional integration, on one hand, and financial and policy stability on the other.

The way to do this is by building regions.

Building a capable and incentivised institutional framework

By reallocating roles and responsibilities across different levels of government, New Zealand can strengthen governance without overdependency on a central government constrained by three-year election cycles.

Functions with predominantly spatial effects – transport (excluding rail), regional economic development and housing could each ultimately be provided by regional government. Consolidating functions with regional impacts in a new empowered level of regional leadership can strengthen implementation and promote regional objectives.

Refocusing local governance on community wellbeing, identity and targeted service delivery can enhance democratic local decision making, without compromising regional network operations.

Central government can stand back and view the system as a whole to make sure it is delivering national wellbeing. Environmental, social and economic management are the natural activities of the Government.

Three waters provision would be consolidated into a small number of at-scale corporatised public water providers, structurally separate from local, regional or central government and funded by pricing.

Taxation and revenue can be used as a mechanism to align, enable and incentivise all levels of government, while keeping tax levels the same or lower.

Enabling collaboration and wellbeing: spatial planning

Integration across all these institutions and functions would be achieved through regional spatial planning.

Spatial planning brings together all of the key public activities, physical and non-physical, across a defined area to collaboratively develop long term service delivery. It converts services into outcomes by using “place” as a common and shared variable to integrate and align activities. Public authorities use investment and opportunity as a mechanism to shape positive market behaviour and promote public outcomes, rather than use rules to mitigate negative effects.

Central government would provide guidance to regions through a National Development Plan. Central government departments and agencies would participate in regional spatial plan development. A responsible Minister would sign off all regional spatial plans.

Local government would retain land use planning, giving effect to regional spatial plans and providing scope for local residents and businesses to shape the look and feel of their communities.

Empowering regions with the scale and capability to deliver public services would allow central government to make sure the system delivers. Stronger national oversight would be achieved, contributing to improved national wellbeing.

More agile and innovative regional councils would promote regional economic, social, environmental and cultural wellbeing. Local councils would promote local wellbeing.

An aligned funding framework would incentivise each level of government to achieve their objectives and contribute to wider national wellbeing.

A new collaborative, not adversarial, approach to governance would advance mutual outcomes. All parties – central, regional and local government – iwi, the private sector and communities would contribute.

Regional councils would receive a share of regional economic activity, encouraging regions to attract investment and go for sustainable development.

Property taxes tied to the value of urban property would be levied, facilitating a reduction in income and corporate taxes, improving price signals to landowners and generating a responsive revenue stream for infrastructure investment.

Local councils would retain access to property rates and be provided with flexible targeted rate powers to fund and finance services with strong local support.

Central government would use transfers and other financial tools to encourage subnational governments to promote national outcomes, rather than stricter guidance and fewer responsibilities.



Getting there

Infrastructure New Zealand considers that the current policy environment provides a once in a generation opportunity to think about the full system of government in New Zealand.

The following pathway will build off current reforms and continue momentum towards a nationally, regionally and locally-aligned institutional framework which incentivises and enabled public service organisations to promote wellbeing.

1. 2019: Establish the National Infrastructure Commission (NIC)

Complete establishment of the arms-length National Infrastructure Commission – Te Waihangā (NIC). NIC provides strategic advice to government and project support to central and subnational government. NIC advises the Government and institutions as to the adequacy of public and private infrastructure in New Zealand. NIC monitors performance of centrally provided infrastructure and helps represent central government through spatial planning development.

NIC develops national infrastructure project pipeline and, by 2023, leads Government delivery of the first National Development plan, identifying key priorities for national development. NIC applies enhanced Investor Confidence Rating Scheme to new regional governments to ascertain readiness for greater responsibilities.

2. 2020-2023: Establish a Regional Development Fund

From 2020, expand the \$1 billion per annum Provincial Growth Fund into a \$2 billion Regional Development Fund (RDF) covering all of New Zealand. RDF is open to all existing local authorities who collaborate across a wider economic area to develop and deliver an evidence-based regional spatial plan. Payments follow key milestones, including completion of the plan, delivery of agreed projects, transfer of water responsibilities and changes to zoning and other planning rules.

3. 2020-2023: Reform the planning system

Merge the Resource Management Act, Local Government Act and Land Transport Management Act into two new Acts: the Environment Act and the Development Act.

The Environment Act would put the environment first. A national environmental regulator replaces existing regional council functions. National bottom lines identified and regions given scope to strengthen bottom lines depending on local aspirations.

The Development Act consolidates the planning functions of the Resource Management Act with the Local Government Act and the Land Transport Management Act. It provides opportunities for, and processes to establish, regional government, subject to a local referendum.

4. 2023 onwards: Subnational government reform

From 2023, a referendum in each local area held seeking support for strengthened regional governance. Local communities choose which region they identify with. Any changes take effect from the following election.

From 2026, following a vote of popular support, new regional government established across supporting territorial local authority areas. Existing regional council disestablished and environmental management responsibilities transferred to central environmental regulator.

Some rating powers, land transport and strategic planning powers vested in new authority. Territorial local authorities remain, with reduced responsibilities, but more flexible forms of funding and financing to meet local needs. Further local community discussion over right form of representation at the lowest level.

Regional government, once established, begins negotiations with central government for added responsibilities and revenue. Investor Confidence Rating Scheme used to evaluate investment capability. Land transport (excluding rail) funding and delivery, housing, regional economic development and spatial planning to ultimately become regional activities, subject to demonstrated capability and capacity.

5. 2023: Water reform

Three waters services structurally separated from territorial local authorities and corporatised into 3-5 regional water providers nationally. Volumetric charging introduced for water supply and wastewater. Operational subsidy from local ratepayers for stormwater.

6. 2026 onwards: increased devolution

New and expanded powers devolved to new regional governments which demonstrate capability to strategically plan, collaborate and deliver. Regions ultimately receive a proportion of economic activity to incentivise positive growth management.

7. 2026 onwards: further reform

Electoral cycle shifts to four years to improve consistency of decision making. Division of powers across central and regional government balances enhanced decision making capability from lengthened cycle.

Land/property taxes introduced and income and corporate tax reduced in tax neutral “swap”. Tax swap incentivises labour and productivity, disincentivises inefficient land use. Development and financial charges removed, simplifying the tax system and incentivising development.

National road pricing introduced and used to supplement transport investment. Fuel levies and road user charges removed. Dynamic price signals improve efficiency of the road network.



Introduction

New Zealand's institutions are the global benchmark

The country always features at or very near the top of the world in assessments of fair and sound institutions.¹ That New Zealand's institutions were rated the third best of 195 countries in the most recent Global Competitiveness report did not make headlines.² It was expected. When New Zealand was rated second least corrupt country in the world in 2018 by Transparency International, it was not widely reported – perhaps because in 2017 the country had been rated first.³ Expectations are such that many will be concerned to know that Reporters Without Borders recently ranked New Zealand only 7th in the world for press freedom.⁴

The justice system represents the law. Decisions are made on the basis of established precedent and subject to appeal. The state ensures fair access to competent representation. Judgements are independent of the Government and transparent. Law enforcement is respected and impartial. No one is above the law.

Freedom of the press and of expression are protected. Individuals can speak freely and without fear of the state suppressing views. Reporting is enabled, with rights to protect sources and journalists.

Public finances and fiscal decisions are transparent. Examples of financial mismanagement are rare and comparatively minor. Public bodies are subject to disclosure. Independence of the civil service ensures money is spent in line with expectations.

New Zealand's legal and institutional framework has ensured a fair and efficient marketplace. Workers are protected from exploitation. Investors have established rights. Businesses operate ethically.

Service performance is mixed

Despite laws, institutions and practices at or near the top of the world in almost every available measure, New Zealand's service delivery is much more mixed.

Education performance is generally good. University performance has been deteriorating,⁵ but otherwise New Zealand ranks well among its peers. The OECD's 2017 Programme for International Student Assessment (PISA) evaluation places New Zealand students in the top ten in the world in key subjects like reading, maths and science.⁶ Early childhood education is also good.⁷

Health performance is slightly lower overall, though still around average for a wealthy nation. New Zealand life expectancy is around the middle of the OECD.⁸ While life satisfaction is above average among OECD countries,⁹ New Zealand sits below the OECD median for infant mortality¹⁰ and for rates of cancer deaths.¹¹

Transport service performance, on the other hand, is poor. New Zealand roads are more dangerous than the OECD average.¹² Congestion is worse.¹³ Movement is expensive by car and by alternatives.¹⁴

Outcomes are disappointing

If the services provided by New Zealand's otherwise robust institutions are mixed, overall outcomes are surprisingly poor. The value attributed to all the activities New Zealand undertakes is well below leading nations. New Zealand's nominal GDP per capita is currently ranked 22nd in the world by the International Monetary Fund and 21st by the World Bank and United Nations.¹⁵

Sitting just outside the top 20 remains a generally acceptable performance, especially when the top positions tend to be filled by small countries with unique conditions, including Qatar, Luxembourg and Macau. However, when GDP is calculated using purchasing power parity, which controls for local currency value and cost of living, New Zealand drops from around 20th to around 30th across major indices.¹⁶

Productivity is not only surprisingly weak, it is also falling relative to other wealthy countries (Figure 1). New Zealanders work harder for less compensation than similar workers in countries with more corrupt, less efficient institutions. Recent teacher and nursing strikes both focused on hours worked above pay,¹⁷ suggesting working hours may have to reduce in some sectors. Unless productivity reverses three decades of decline, New Zealand GDP will fall and with it government spending capacity.

Even more perplexing is the very high terms of trade New Zealand is currently experiencing. Higher terms of trade signal that New Zealand's export prices are rising relative to import prices. These should be heralding an economic boom as the price of goods exported by New Zealand exceed the price of imports. New Zealand is barely holding its own when it should be excelling (Figure 2).

Figure 1
Hourly labour productivity¹⁸

Top half of OECD = 100

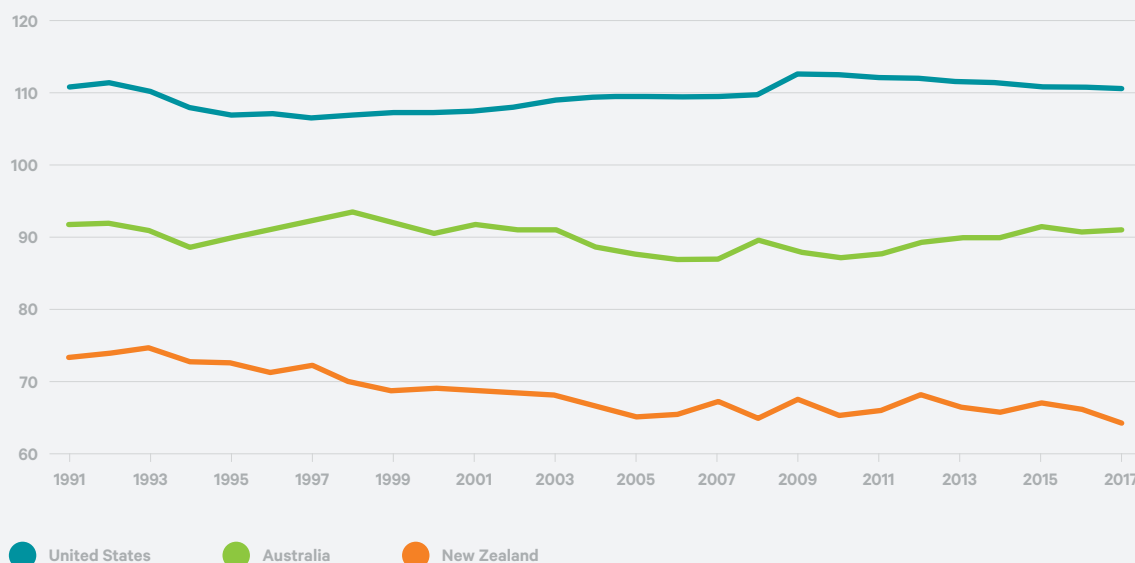


Figure 2
**New Zealand merchandise prices and terms
of trade indices (June 2000 = 1000)¹⁹**

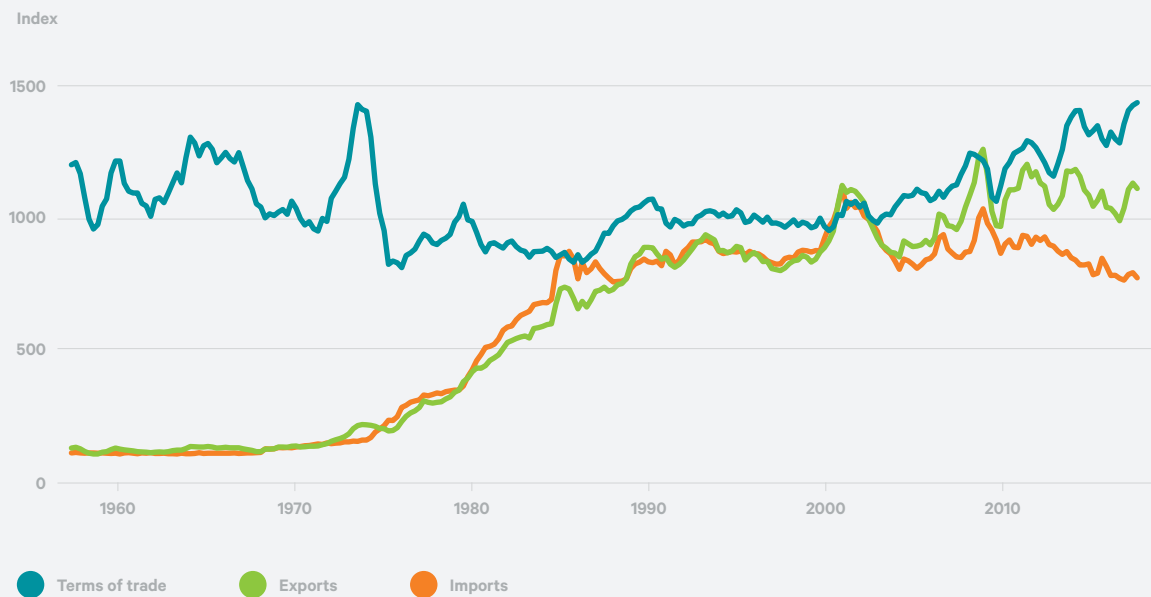
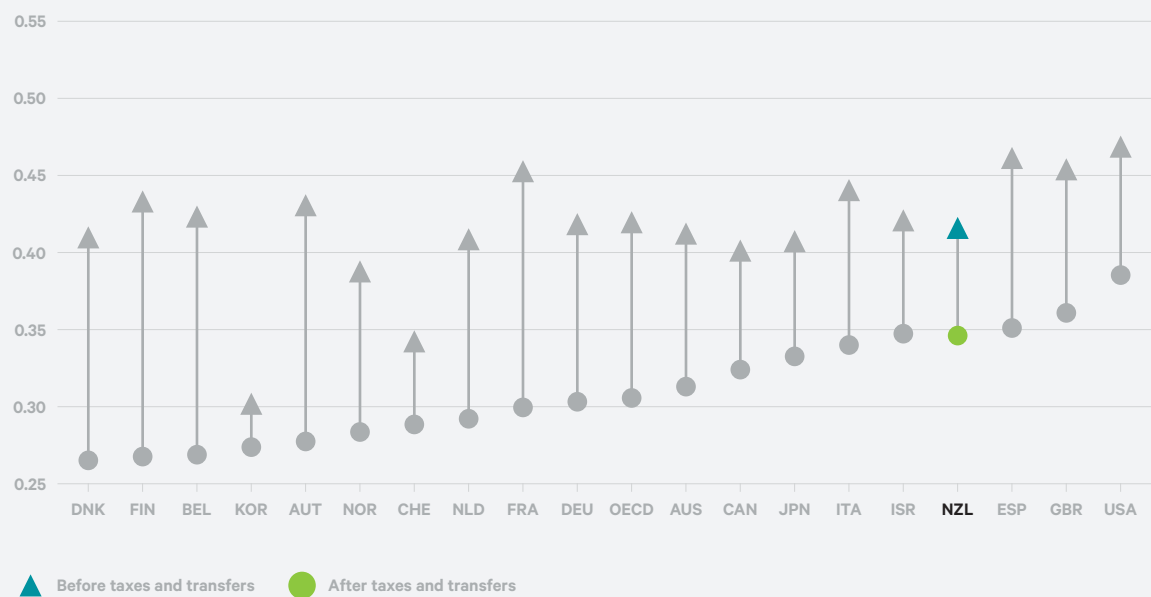


Figure 3
**Gini Coefficient (working age population)
2016 or latest available year²⁰**



Comparatively poor economic performance is magnified by inequality. New Zealand's after tax Gini Coefficient, which measures the concentration of income across society, is materially higher than the OECD average (Figure 3).

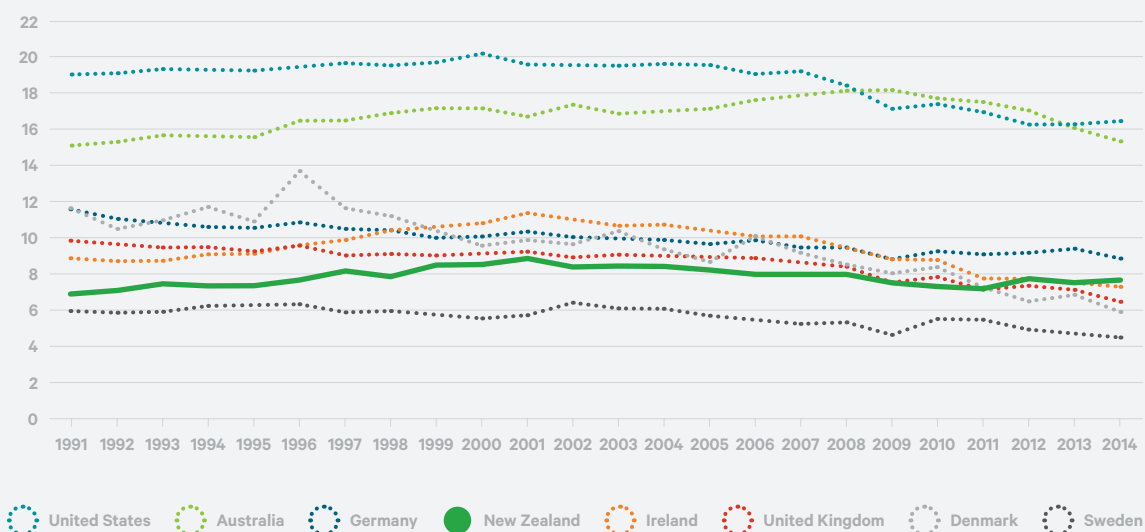
Inequality is itself unequally distributed. Māori outcomes are much poorer than for other groups. Māori have lower incomes, lower life expectancy²¹ and are disproportionately represented in indices of deprivation, including homelessness²² and incarceration.²³

It is not just socio-economic performance which is poor relative to what might be expected of one of the world's most institutionally robust countries. Environmental performance is weak. New Zealand ranked 17th in the world in the latest Environmental Performance Index.²⁴ For a sparsely and only relatively recently populated country with a clean, green brand, this ranking is deceptively poor.

Environmental performance is also deteriorating. The Ministry for the Environment's latest assessment of New Zealand's environment found that extinction risk over the past decade had improved for 26 species, but deteriorated for 86. Other indicators, including for water quality, would likely show significant declines in performance if adequate data was available.²⁵

New Zealand's greenhouse gas emissions are not especially high relative to the rest of the world. However, there has been little to no per capita reduction in recent years.²⁶ Even the United States, where political debate still surrounds the role of human activities in climate change, has seen a greater reduction in per capita emissions (Figure 4).

Figure 4
**Carbon emissions per capita 1990-2014 –
New Zealand vs select OECD countries**²⁷



The New Zealand paradox

How is it that a country can be at the top of the world in the organisation and performance of its most vital institutions, but the services they provide uneven and the outcomes produced mediocre, if not unacceptable?

New Zealand's small scale and distance from markets is often blamed for weak economic performance. But this does not explain why Australia, also a remote country with not an especially large economy, continues to perform well above the OECD average. Nor does it explain why New Zealand once enjoyed among the very highest incomes in the world, and no longer does.

Even if geography and other not easily resolved factors are used to excuse economic performance, it is much more difficult to explain New Zealand's relatively disappointing social and environmental performance. That issues cut across the spectrum of public policy and have lingered for so long suggests that challenges run deeper than conventional understanding. Something in the institutional framework itself is undermining national wellbeing.

What are New Zealand's "institutions"?

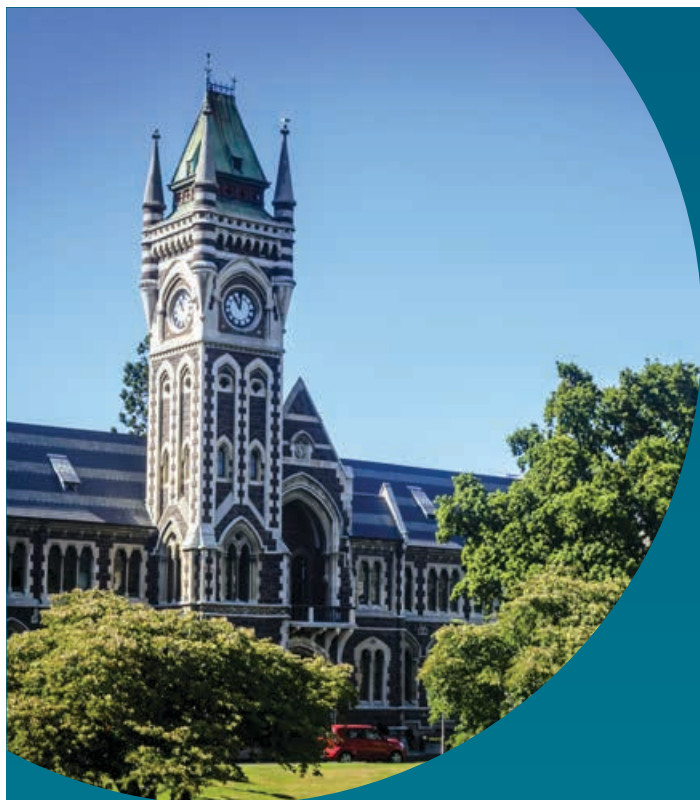
In this report, New Zealand's "institutions" are the organisations which oversee the governance of New Zealand and the delivery of public services. It includes all of the central and local government entities which operate under the direct and indirect leadership of the Government and councils.

Institutions include government departments, such as the Treasury, Ministry of Transport and Department of Corrections, as well as the various entities overseen by government, including the New Zealand Transport Agency, district health boards, the New Zealand Police and the Commerce Commission. Structurally independent public entities like the Reserve Bank and the courts and justice system, their powers and responsibilities are also institutions.

Territorial (district and city councils), regional and unitary councils, as well as their responsible entities like Auckland Transport and the Northland Regional Economic Development Agency are a core part of New Zealand's institutional framework. Various empowered collaborations across local and with central government, including regional land transport committees and Wellington Water are included.

Private companies and individuals are considered to be outside the definition of institutions in this report. In some cases the distinction between institutions and private entities is less clear. Transpower, the 100 per cent government owned electricity transmission lines owner would be an institution, because of the public function it performs as electricity system operator. Half-public major "gentailers" Mercury, Genesis and Meridian would not be as their functions are limited to commercial activities.

In practice, however, the focus of this report will be on the major policy making entities across central and local government and their powers and responsibilities. It is the decisions they take, the rules they enforce and the strategic direction they set, which determine the performance of New Zealand's wider political, economic, social and environmental system.



New Zealand institutions

The Government's A to Z of public agencies lists 845 institutions, including 29 government departments, 20 district health boards, 26 tertiary education institutions, 300 crown entities, and 11 regional and 67 local councils.

What are outcomes?

There are three overriding outcomes which guide public policy decision making in countries and cities similar to New Zealand:

1. **Economic** – the objective of growing the productive value of activities undertaken by society and with it the prosperity of citizens and fiscal position of government.
2. **Social** – the objective of meeting the needs of people, including their mental and physical health and safety, the liveability of towns and cities and general societal wellbeing.
3. **Environmental** – the objective of protecting and enhancing the air, land, water, flora and fauna of the natural, rural and built environment.

Different societies phrase and prioritise the three primary wellbeings differently. Hong Kong has a vision for the city to be “liveable, competitive and sustainable”.²⁸ The Scottish Government aspires for Scotland to be “a more successful country, with opportunities for all to flourish, through increasing sustainable economic growth.” Despite minor changes in emphasis, in all countries Infrastructure New Zealand has examined, the same three high level outcomes prevail.

New Zealand is somewhat unusual in this regard, typically identifying a fourth outcome. Cultural wellbeing is engrained in the Local Government Act 2002 and Resource Management Act 1991, among other places, and recognises particularly Māori outcomes. These can be distinct from, or inadequately recognised by, the standard three outcome template.

The “four wellbeings” are the principal outcomes for public policy decision making in New Zealand and are the reference for the following discussion.

Issues with New Zealand's institutional arrangements



Is it possible for good people working in good institutions to make bad decisions?

New Zealand's two big challenges

There are two reasons why New Zealand's institutions are by all available measures as good as any in the world, but their actions leading to comparatively poor outcomes.

First, institutions do not have the drive and motivation to progress public outcomes – they are “misincentivised”. Roles and responsibilities are not aligned with achieving outcomes, causing critical public service providers to focus on the wrong things.

Second, where institutions do have the motivation to advance outcomes, they lack the capability to do so. Their powers are not sufficient, their scale is inadequate or their mandate restricted.

1. Institutions are misincentivised

New Zealand's vital public institutions are not incentivised to make decisions which advance outcomes. In fact, they are in some cases incentivised to do the opposite.

Fiscal misincentives

Institutions are incentivised to promote nearer-term budget priorities at the expense of longer-term service performance.

Central government services are fiscally misincentivised. Providing public services within budget has superseded provision of quality public services.²⁹

Particularly hard hit have been complex policy areas which cut across multiple portfolios, for example, child poverty, family violence and housing. New Zealand is consequently faced with some of the developed world's worst child poverty, domestic violence and housing statistics.³⁰

The Government has recently launched an overhaul of the State Sector Act 1988 to change the way the public service operates. The Act had transformed New Zealand's government agencies into a series of financially responsible and focused departments, but also fragmented the public service and created silos.³¹

The State Sector Act has enabled New Zealand to rank very highly in terms of efficient fiscal management. The public service is transparent, politically neutral and professional. But it has also been challenged to balance economic, social, environmental and cultural outcomes against financial inputs. In no place is this clearer than in infrastructure.

Congestion in cities is the result of inadequate road capacity and alternatives to private vehicles. Homelessness reflects underinvestment in housing. Prefabricated, temporary classrooms and leaky hospitals demonstrate a lack of investment in social infrastructure. New Zealand has underinvested in critical assets in a misguided attempt to improve efficiency, leading to increased costs in other areas like healthcare, while lowering overall productivity and prosperity.

Non-infrastructure public services have also been affected. Recent teacher and nursing strikes have highlighted the immense staffing pressures on front line workers.³² Fiscal imperatives to hold down expenditure have translated into longer hours and less staff, lowering the wellbeing of critical service providers and compromising service delivery.

Financial misincentives

Local government institutions are misincentivised differently. While also under fiscal pressure, the major issue facing councils is that their primary source of revenue – rates – is detached from council or area performance and instead linked to constituent perceptions of need and affordability. Rates must be approved each year by local residents and public opposition to higher charges has contributed to a severe funding deficit across many areas.

Rates are delinked from economic, social or environmental performance and revenue is guaranteed, regardless of council performance or the value of property. Without a financial benefit from decisions which improve welfare, the dominant priority for councils is minimising rates increases for existing residents, not promoting local outcomes at reasonable cost. Property owners who have a direct link to rates are incentivised to engage in local decision making, non-property owners do not and are disengaged. Voter turnout is poor. Opinions of council performance are low.³³

The motivations for councils put them at odds with central government. The government benefits directly from improved economic performance via growth in income, corporate and sales taxes. It also benefits from improved social performance via lower transfers, welfare payments and other spending commitments. Central government also carries the cost of a slowing economy and higher social commitments.

The benefit central government gets from investments which grow the economy or reduce unemployment and homelessness contrast with local government's lack of exposure to such factors. Local government expenditure which improves economic performance

requires an increase in rates with the tax windfall returned to central government. Worsening social outcomes, including homelessness and unemployment, have little impact on local government finances. Public perceptions that the Government is responsible for economic and social issues mean that even where a council is holding back the economy or society, central government will be held accountable.

The degree to which the priorities, needs and aspirations of local institutions differ from central institutions impedes the two sectors from working efficiently together. This impact has most obviously been felt in the housing sector. Local councils, who carry the majority of responsibility for infrastructure for new development, have resisted large investments which would have improved developable land supply and accelerated the provision of affordable housing.

The result has been small savings to ratepayers, but large increases in the cost of homes. Lack of supply combined with housing's criticality have forced more and more households to bid up prices, placing

many families in housing stress. Under provision of developable land has incentivised land banking, further slowing the supply of housing and contributing to house price inflation. Central government has been faced with increasing demands for public and subsidised housing and now spends almost \$2 billion per annum on the accommodation supplement.³⁴ This is equivalent to a third of all rates.³⁵

Impacts have spread into the wider economy. New Zealand's comparatively poor economic performance partly reflects low spending. Rising housing costs are consuming household expenditure that would otherwise be driving consumption, investment and economic expansion. PwC estimates that Auckland households are \$96 per week worse off today than a decade ago.³⁶ Higher mortgages and rents resulting from the housing crisis combined with the flow-on effects for the price of goods and services have strangled disposable income.

Local government's financial misincentives in action

It is not an accident or unexpected that all major parties in Parliament have called for removal of the Auckland metropolitan limit/Rural Urban Boundary, while successive Auckland Council administrations have defended it.

Removal of the boundary will unlock land, catalysing private investment and increasing housing supply. Government sales, corporate and income tax revenue will increase significantly. Government costs, by contrast, may fall. Competitive land supply will unlock housing delivery at scale on more affordable land. Newer, better homes will be delivered. Housing will meet demand at prices Aucklanders can afford. Spending on the \$2 billion accommodation supplement will fall. Homelessness will reduce. Health outcomes will improve. Removing the boundary is a no-brainer.

But for the Auckland Council a very different scenario emerges. The Auckland Council will incur the majority of infrastructure costs from unlocking land supply. Rates revenue will increase only marginally. Debt could increase materially. Rates rises will impact existing residents. New homes will benefit new residents. Opposition to growth will rise. Politically and financially, removing the boundary makes no sense.

Structural misincentives

Institutions are also misincentivised by the wider institutional arrangement. National bodies are providing services with local impacts, leading to blanket and generalised policy responses to area-specific issues. Local bodies are providing network services with impacts beyond their boundaries. Regional outcomes are under-represented.

Central government is delivering local services. Public services which are spatially specific (i.e. which impact across a small and defined sub-national area), including schools, public housing and provincial hospitals are all provided by central government. In addition, welfare management and transfers to individuals and families are all managed by local branches of central agencies.

The result is a one-size-fits-all approach to challenges which are often locally specific. A single health and education system must deliver fair and equitable resources to Northland's deprived and often isolated Māori communities as well as Queenstown's affluent tourism-centric community. State assistance frameworks must be broad enough to respond to the social and economic needs of young men growing up in high-unemployment North Island towns, as well as older women struggling with earthquake trauma in high-employment Christchurch.

Performance has been inconsistent. State-based agencies have struggled to design and implement solutions which solve the problem. Efforts have concentrated on mitigating the worst effects, but progress alleviating impacts on Māori, Pacific and other communities with long-standing issues has been limited.

For the most stubborn issues, success is judged on whether resources are evenly distributed, not whether outcomes are equivalent. After years of well-recognised inequities in the socio-economic performance of regions like Northland and Gisborne, there is little to suggest outcomes are improving. If performance is not equivalent across New Zealand, it is difficult to understand why a centralised approach is used.

Councils, by contrast, are poorly incentivised to maximise regional and national outcomes. Territorial local authorities operate road and water infrastructure which form part of much larger regional networks. Challenges with performance or delivery affect residential and commercial development across the whole region, spreading costs outside boundaries.

Regional councils are not a higher tier of local government, sitting above territorial councils. They are an equivalent power providing a small range of distinct services (predominantly public transport, regional parks and environmental services). They are undercapitalised, dependent on rates, lower in profile and incapable of overseeing major investments and resolving major issues.

Regional economic and social development has been left behind. Employers draw labour from across their regions. Job seekers respond. Developers market homes across council boundaries. Regional councils do not have the resources to support regional movement or the mandate to concentrate regional resources to areas of greatest opportunity. Regional stadiums, convention centres and other facilities are of mixed standard.

Underpowered regional authorities place the onus of responsibility for major economic and social development initiatives on territorial authorities, with a sub-regional constituency and worldview. Agreement to support regional initiatives in the face of unquenchable local demand is challenging. Territorial authorities have little incentive to work together on activities which grow the regional economy. Underinvestment in activities like wastewater treatment reduce local rates but regionalise environmental costs. District plan zoning in cities like the Hutt and Porirua is not optimised for public transport to the Wellington CBD.

Central government remains the only entity capable of supporting regional economic development. But it is conflicted when regions grow faster than their peers. Political pressure emerges to transfer resources to less successful regions, not maximise opportunities. Poor local decision making can be rewarded and growing economies starved of investment. New Zealand's growth gets dragged down to the lowest performing region. Everyone is worse off.

Government is responding with a regional approach to delivering centralised services.³⁷ Recognition that blanket national approaches are underdelivering is welcome. However, it also raises the question of whether appointed regional divisions of central agencies are more appropriate than elected regional leaders. If impacts and responses are regional, what is the benefit in managing the service centrally?

Toolkit misincentives

If all you have is a hammer, everything looks like a nail.

Limited tools in the toolkit to manage responsibilities has encouraged institutions to misuse available powers leading to lower public outcomes.

Councils have over-extended planning responsibilities to manage down infrastructure costs. Poor revenue and funding options for local government combined with

near exclusive use of planning powers has incentivised councils to under-allocate development capacity to cut costs. Metropolitan boundaries and other planning restrictions across greenfield areas prevent development in areas which require new transport, water and other services.

Preventing growth in new areas in an effort to force it into existing serviced areas is pushing against market demand, slowing supply. Alternative redevelopment of brownfield land is complex, requiring multiple interfaces with existing residents, businesses and uses, slowing progress. Existing land is more expensive to purchase and develop, increasing housing costs to new homeowners. Private housing costs are a weak input into council decision making and subordinated to concerns of rate increases.

Private housing costs have increased by orders of magnitude more than the infrastructure costs. Work by the Productivity Commission has found the infrastructural costs of new development to be in the vicinity of \$50,000 per dwelling.³⁸ In growth centres like Queenstown and Auckland, average house prices have doubled from around \$400,000 to around \$800,000 in the last decade.³⁹ The minor infrastructural costs of growth relative to land price inflation from undersupply of developable land indicates small savings for councils have led to proportionately much larger costs for new homeowners.

Central government has also leveraged its powers to transfer responsibilities. Legislation in recent years has required councils to plan long term, engage communities, depreciate assets and transparently demonstrate how local resources are being spent, none of which apply to central government departments.

Major reform of water services are now underway, principally due to a severe public health failing in Havelock North which contributed to the death of four people. Since the Havelock North drinking water crisis, annual road deaths have increased by 50 per annum, yet there is no urgency to reform transport funding or decision making.⁴⁰

Central government, through the law-making process, is increasing requirements on local government.⁴¹ That rates have been increasing well above the level of inflation while central government has reduced income taxes and expanded services levels, suggests wider issues are present.



Not all infrastructure is underperforming

Telecommunications infrastructure has improved significantly since the 1990s when New Zealand regularly featured at the lower end of the OECD for broadband and mobile service performance. Internet access speed comparisons by Speedtest rank New Zealand's mobile download speed 19th in the world and fixed line download speeds 23rd in the world. Only nine countries beat New Zealand on both mobile and fixed download speeds.⁴²

This performance is being delivered at a comparatively good price. The Commerce Commission finds that New Zealand offers cheaper mobile services than the OECD average across all four of the service baskets compared.⁴³ TelSoc analysis finds New Zealand middle of the OECD in terms of broadband prices relative to average annual wages.⁴⁴

Electricity infrastructure is good. The World Economic Forum's most recent annual Global Competitiveness survey ranks the quality of New Zealand's electricity supply 17th of the 195 nations compared.⁴⁵ In contrast to the rest of the world, New Zealand's electricity infrastructure is also heavily renewable, typically above 80 per cent in any given year and rising.

Electricity is delivered at a competitive price. Ministry of Business, Innovation and Employment research finds New Zealand's residential electricity prices to be in the lower half of the OECD and industrial prices one of the lowest.

Figure 5

Residential electricity prices across the OECD⁴⁶

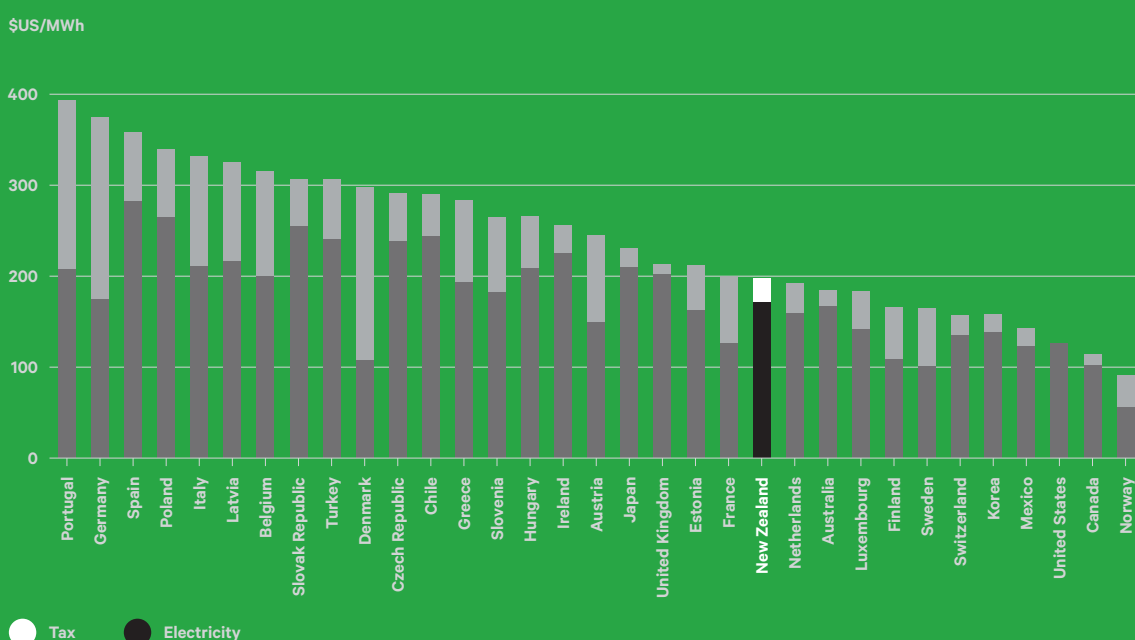
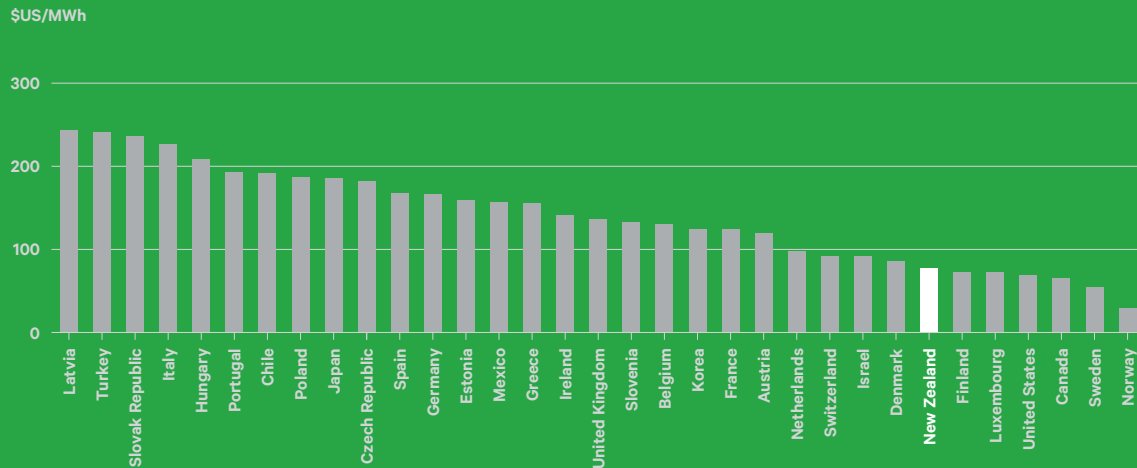


Figure 6

Industrial electricity prices across the OECD



New Zealand's ports and airports compare acceptably with the rest of the world. The Global Competitiveness Report ranks New Zealand's ports infrastructure 17th in the world and airport infrastructure 22nd.⁴⁷ Last available Ministry of Transport analysis on ports productivity found New Zealand ports compare favourably with larger Australian ports, despite economies of scale disadvantages (Figure 7).

Figure 7

New Zealand vs Australian port performance⁴⁸



2. Institutions lack capability

In situations where local and central institutions are incentivised to promote outcomes, they are often met with a second barrier: capability. The powers, scope and scale of institutions across New Zealand are a persistent impediment to good outcomes. Responsible agencies find they are unable to address issues themselves and are forced to rely on partner organisations without either the incentive or capability to collaborate.

Capability limited by scope

Central and local institutions do not have the full scope of authority and mandate to deliver high outcomes. Legislation and perceptions of core business constrain the resources they can allocate and the breadth of services they can deliver in pursuit of wellbeing.

Most notably, central government does not have a material role in urban planning, while local government has limited options to raise revenue. Apart from law-making itself, these are the two most powerful public activities undertaken by government. One allocates its natural resources, the other society's financial resources.

In order for central government agencies to deliver physical infrastructure and services, like schools and hospitals, they must receive local planning permission. It is unusual, but not impossible, for central agencies to be denied planning approval.

The bigger issue is demand management. Urban planning controls the number of dwellings and thus users of central services. Changes to density controls, zoning of land and other local planning activities can lead to overcrowding in schools, underutilisation of transport and other effects which increase central government costs.

In order for local government to fund local services, meanwhile, central government resources are required. National funding is essential for local government transport delivery. New residential zoning requires schools to make communities viable. Major projects will often need central support.

What should be an opportunity for collaboration has,

under New Zealand's service-oriented model, become a barrier. Institutions accountable for discrete service provision engage poorly with partner organisations to plan and fund services. Siloes have arisen. Different levels of government blame the other for problems and poor performance.

Very few institutions in New Zealand provide a full end-to-end public service. The Ministry of Transport is advisory, with NZTA sharing transport delivery responsibility with 78 local authorities. The Ministry of Health is also advisory, with 20 DHBs as well as other service providers responsible for healthcare provision. Corrections has complex interfaces with police, courts and other justice services. Welfare is dispersed across multiple agencies, as is housing. Even councils share planning responsibilities.

Defence is arguably the only sector with close to full vertical integration, although that is functionally separated into the navy, air force and army divisions. The closest general public service provider is the Ministry of Education, who oversees all primary and secondary education. However, actual school operations are ultimately devolved down to local school boards and other entities who independently appoint principals.

To deliver good outcomes across any portfolio, let alone a combination of portfolios, it is ultimately the Government represented by the Prime Minister and Cabinet who is responsible. Yet, Ministers of the Crown frequently have little or no direct experience in their appointed role. They are dependent on advice from officials which is influenced by misincentives in the system (discussed above) and is balanced against political considerations.

Outcomes themselves take many years to evolve across complex public activities. Most Ministers hold portfolios for periods of time which would qualify them as inexperienced in the public service. Furthermore, ministerial failure is much more commonly associated with a one-off short term crisis rather than long term service deterioration. The combination of limited experience and public accountability places a bias on input management over outcomes delivery, resulting in little to no responsibility across most portfolios for achieving outcomes.

Spotlight on a Minister: Hon Nick Smith

National MP Hon Nick Smith is one of New Zealand's most experienced Members of Parliament and Ministers. Yet, even his history underlines the limits placed on Ministers – the only actors in the New Zealand political system with a true whole-of-service outcomes perspective – by political events and movements.

Elected to Parliament in 1990, Nick Smith earned his first ministerial position in 1996 as Minister of Conservation, replacing Denis Marshall who resigned in the wake of the Cave Creek disaster.⁴⁹ In 1997, he gained the Corrections portfolio, only to drop that in 1999 when he became Minister of Education. He then lost all his Ministerial roles later that year when the Clark Government took power.

He took on Minister for the Environment, Minister of Climate Change Issues and Minister of ACC in 2008 under the new Key-led Government. However, he resigned these portfolios in 2012 after he wrote a letter using Ministerial letterhead to the CEO of ACC, on behalf of a National Party associate.

He was reappointed in 2013 to Minister of Housing and the Offices of Minister of Conservation before reclaiming Minister for the Environment, as well as Minister of Building and Housing in 2014. He held these roles until National lost power three years later.



Individual local authorities have an unclear mandate to deliver outcomes. Although general wellbeing has been reintroduced to the Local Government Act, widely held public perceptions remain that councils should focus on “core business” – local services, including water, roads and regulation, performed on a cost recovery basis. Rates must be specifically levied to promote outcomes. Councils looking to expand into economic, social and cultural wellbeing can expect significant opposition.

Many activities with the greatest bearing on local outcomes, including the management of social issues around justice, employment and welfare provision are outside perceptions of core local government responsibility. Activities by councils are not prohibited, and there are exemplars of success, but they run counter to common and widely held views that central government is responsible for these outcomes. Levying additional rates to do the job of central government not only places costs on local but risks further pullback from central government agencies.

Otorohanga's Employment Achievement

For years Otorohanga District had had problems with youth unemployment. Children were leaving school ill-prepared for local jobs and were either leaving to get trained in nearby Hamilton or were unable to find stable employment in the area. At the same time, local businesses struggled to find qualified employees and were planning to leave the area.⁵⁰

Dale Williams, then Mayor the district, saw the potential for a solution that solved both issues. Working with local businesses and the Hamilton-based Waikato Institute of Technology, the district established local training that would teach the exact skills that local businesses were looking for.⁵¹ At the same time, local apprenticeships supported by mentors and staff in Otorohanga ensured that apprentices fulfilled their milestones successfully.⁵²

The initiative was hugely successful, virtually eliminating youth unemployment in the district, and significantly reducing youth crime as well.⁵³ It was too successful, however. With low to zero youth unemployment, the program struggled to receive funding from central government who could not justify the expense needed to address their excellent statistics.⁵⁴



Capability limited by scale

Some institutions have a mandate to deliver, but not the size or scale.

Scale is particularly important in the delivery of infrastructure services. It enables an organisation to build facilities and services which optimise efficiency, for example, by centralising wastewater treatment instead of operating multiple facilities. By spreading fixed costs over a wider number of users, average costs can be reduced.

Scale enables better capital management. A broader scope of operations allows renewals and other upgrades to be deferred, if they are not needed, and

brought forward if they are. A narrower asset base provides less scope to prioritise greatest need.

Superior asset management and specialisation are facilitated. Larger organisations can employ, diversify and develop deeper expertise across everything from technical proficiency to project procurement, financial management and environmental mitigation.

A distinct area to benefit from greater expertise is strategic planning. Larger organisations are able to plan and invest longer term. Superior understanding of assets, their full lifecycle costs, technological developments and optimal size is facilitated by scale infrastructure delivery.

Scale is not always an advantage. Services which do not require the optimal use of debt, have low fixed costs or which do not exhibit economies of scale may be less efficiently delivered by larger organisations.

That New Zealand's 78 local authorities are charged with major network infrastructure responsibilities while central government agencies deliver local welfare services is therefore counterintuitive. Of New Zealand's 67 territorial authorities, almost half service populations under 30,000 residents. Only seven comprise populations above 100,000.

Total operating expenditure of all local government is just over \$10 billion,⁵⁵ which is itself a significant figure. But spread around the country it is equivalent to only around \$2000 per resident and \$5000 per dwelling. The equivalent central government figures are eight times these amounts.

It is no wonder then that local infrastructure is in crisis. The Auditor General has identified underfunding of road and water renewals of \$6-7 billion over the next decade.⁵⁶ It has also found that councils consistently underspend on capital budgets through their long term plans.⁵⁷ Councils are challenged to perform best practice asset management and lack the in-house capability to procure major projects, even if they have the money.

Often, however, councils do not have the money. Investment in water treatment facilities can levy costs of thousands of dollars per resident. Rates may have to rise by double figures. Projects get deferred, carrying effects for the environment and public health.

Greymouth Wastewater Treatment Plant⁵⁸

Greymouth is the largest town on the west coast of New Zealand's South Island. Its population of 10,000 sits either side of the mouth of the Grey River, and the town had been discharging untreated sewage into the river for over 100 years. With the advent of the Resource Management Act in 1991, it was apparent that things had to change. A two staged approach for improvements to the Grey Sewerage Scheme was developed by the Grey District Council, but for 20 years was deferred due to affordability concerns.

The centralised wastewater treatment plant commissioned in August 2014 provides biological wastewater treatment for a designed domestic and industrial population of 14,000 population equivalents. Centralising the wastewater treatment to a single site created greater efficiency, effectiveness, control and consistency. It also greatly improved the quality of wastewater discharged into the river.



A number of central government agencies, conversely, operate dozens of local centres around New Zealand. Duplication of government services is an agreed issue.⁵⁹ Opportunities for economies of scale are not obvious. Reorienting services around “place” seems logical, but centralised delivery is configured by portfolio.

The most serious deficiency of scale affects regional economic and social outcomes. The movement of people and goods to and from places of employment and industry takes place across local boundary lines, but is also not “national” in any real sense. Crime, healthcare, education and recreation all ignore local boundaries, while each have local characteristics.

However, the only organisations with a mandate to think and act at a scale between local and national are regional councils and their responsibilities are heavily focused on environmental management and planning. Social and economic development are poorly represented.

Regional councils are undercapitalised and comparatively poor. One of New Zealand’s larger regional authorities, Waikato Regional Council, earned just \$85 million in rates revenue and spent \$130 million in total in 2018.⁶⁰ This is around half Hamilton City’s \$160 million of rates and \$235 million of expenditure.⁶¹ It was, furthermore, spread over multiple activities in small chunks under \$25 million, reducing any real ability for the Waikato Region to concentrate resources and invest in economic or social development.

Hamilton City’s assets are valued at over \$4 billion, while the regional council’s are valued at just \$600 million, most of which is flood protection. Waikato Region cannot even borrow at a scale which could deliver assets providing regional economic or social impacts.

Under-resourcing leaves regional councils dependent on territorial authorities which have a local, not regional perspective. Local initiatives take precedence over regional. Without any revenue tied to economic performance, there is limited incentive to commit local property rates to regional initiatives.

Regions and local businesses have recognised the problem, establishing entities like Te Waka, the Waikato regional economic development agency. These are collaborative enterprises across councils, but have very limited resource. New Zealand’s largest such regional entity, the Auckland Council’s regional economic development agency, ATEED, had revenues and

expenditure in 2018 of around \$70 million.⁶² This is less than 0.1 per cent of Auckland’s GDP and is ultimately tied to property charges.

Regional economic development is therefore, counterintuitively, a central activity. Successive Governments have sought to lift regional economic performance, but with little demonstrable success. Major central investments risk the appearance of backing winners. Unequal regional performance is a risk as well as benefit for central agencies. There is national pressure on central government to dial back investment in successful regions and repurpose spending to less successful economies. Growth and income are forgone.

While central government remains deeply involved in regional and local social and economic issues, it has historically been disengaged from national environmental outcomes. Environmental management has been devolved to regional councils on the basis that environmental issues are inherently regional. However, current problems are clearly national. Freshwater quality and carbon emissions, the two leading environmental issues of today, affect regions up and down the country. Regional councils have been unable to respond.

Despite central resourcing, Government institutions can also be affected by inappropriate scale. Although the Ministry of Education oversees the wider schooling sector, individual schools contract their own asset maintenance, reducing opportunities for shared services, greater expertise and economies of scale. Opportunities to collaboratively plan, fund and deliver services can be as difficult as in the local government sector.

There are 20 DHBs serving populations from 33,000 to 600,000. This is a wide variation. There is a high likelihood that either the smaller or the larger of these DHBs are challenged to deliver effective and efficient services.

Capability limited by powers

Individual institutions with a mandate do not necessarily have sufficient powers to promote outcomes.

Local government cannot fund all activities which provide local benefits. As a comparatively small “after tax” charge on property value, rates do not enable councils to fund major investments which lift productivity and facilitate value creation. Unlike

income, corporate and sales taxes which rise with economic output, rates are set each year based on council costs.

Without a revenue stream linked to value creation, councils are not only disincentivised from investing in productive activities, they are impeded from borrowing against future additional tax revenue resulting from a growing economy. Tax increment financing (TIF), municipal utility districts and other innovations cannot be easily applied in New Zealand.

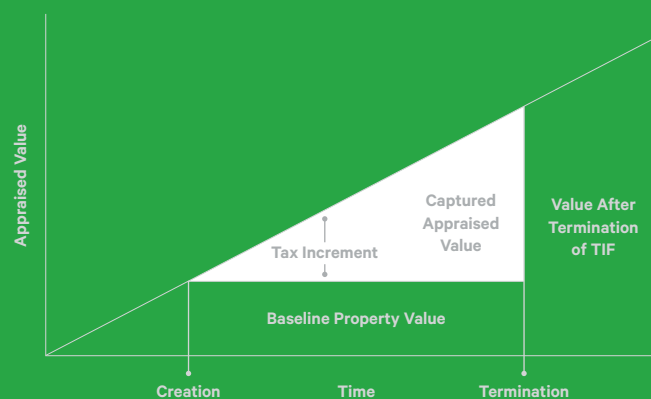
Tax Increment Financing

Tax increment financing (TIF) is a tool to finance urban and economic development. A TIF is a special district that ring-fences additional property taxes to repay revenue bonds. “Incremental” taxes are generated when

the public activity financed by investors improves the value of property within the district. TIF is predicated on the tax being additional to what would otherwise have been possible.

Figure 8

Tax Increment Financing



The shared cost-based characteristics of rates mean that any localised property value improvement from even a clearly defined initiative does not result in additional revenue. Additional rates must specifically be levied on all constituents. Improvisations like targeted rates transfer risk to identified ratepayers, regardless of whether the activity is successful.

Other potential funding and financing tools are also off-limits. Councils cannot raise income, corporate or sales taxes. They cannot convert rates charges into a broader property or land tax, enabling revenue to follow property prices. They cannot levy tolls on local roads or raise fuel taxes without agreement by central government. Councils will fund around half of all infrastructure investment over the next decade with just seven per cent of New Zealand's total tax take.⁶³

Councils are not the only institutions with funding and financing limits which impede capability. The New Zealand Transport Agency (NZTA) manages the National Land Transport Fund (NLTF). It does not, however, set the level of tax levied on fuel or road use. This decision is made by the Government. Nor, barring a relatively minor \$175 million debt facility to manage annual cashflow, can NZTA raise debt.

NZTA is required to deliver Government policy with a revenue stream tied to road use. Investments in alternatives which reduce road use also reduce revenue. Council decisions which change land use, transferring transport costs to NZTA, are not reflected in funding. Billion dollar investments have to be paid out of cash. There is no revenue tied to improving property values. Nor is there additional funding for expensive land purchases resulting from poor local government land use management.

Nor can NZTA zone land to take advantage of its transport investments or consent its infrastructure. Planning powers are concentrated in councils, with independent reporting and accountability structures. Councils can both under and over-zone development around NZTA assets, leading to excessive demand and congestion on one hand, or slow utilisation of assets and wasted investment on the other. NZTA funding does not compensate for poor land use-transport alignment. The same amount of money goes less far. The consequence is a land transport system under immense pressure, delivering poor outcomes.



New Zealand's poor land transport performance

Roads are dangerous. New Zealand has one of the higher death and serious injury rates in the developed world (Figure 9). Around 1/5th of accidents are the result of infrastructure.⁶⁴ Furthermore, performance is deteriorating (Figure 10).

Roads are inadequate. Deloitte Access Economics found two key explanators for the recent increase in road trauma: changes in vehicle kilometres travelled (VKTs) and motorbike registrations. A 1 per cent increase in VKTs was found to lead to a 2.5 per cent increase in the number of crashes.⁶⁷

Figure 9
OECD Road Deaths per 100,000 population⁶⁵

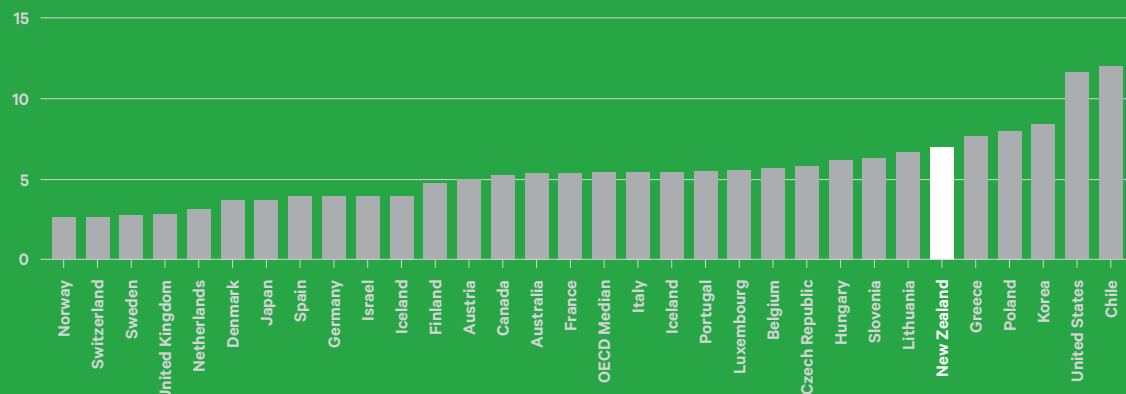
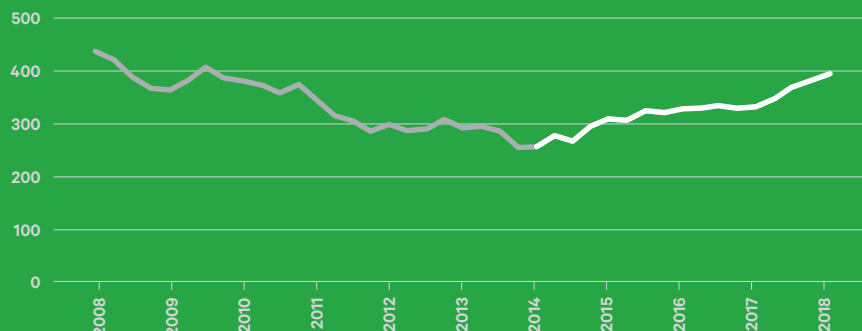


Figure 10
New Zealand's Annual Road Deaths⁶⁶



The proportionate increase is a result of more vehicles on the proportionately less road. Between 2008 and 2017, the amount of sealed road in New Zealand increased 5.3 per cent. VKTs increased 11.7 per cent.⁶⁸ Road construction has not kept pace with recent increases in road demand, leading to increased congestion, frustration, risk taking and error.

Safety is disproportionately affecting provincial New Zealand. Deloitte notes a materially greater likelihood of a severe injury occurring outside of Auckland.

Inadequate road infrastructure is not only contributing to poor safety, it is undermining productivity and competitiveness. The Automobile Association's latest research shows that peak hour speeds on Auckland's motorway network are less than half (42km/hr) free flow conditions. The average peak hour motorway user will spend 85 hours in congestion per annum, up from 79 hours in 2017.⁶⁹ In Wellington, TomTom data shows a driver will spend an extra 19 minutes per half hour when travelling at peak periods.

Congestion is currently costing Wellington \$133 million per annum.⁷⁰ In Auckland, it is costing up to \$1.9 billion.⁷¹

This level of performance is poor. TomTom finds that Auckland and Wellington are the second and fourth most congested cities in Australasia, respectively.

Drivers in the much larger Brisbane and Perth metropolitan areas experience less delay than drivers in Auckland or Wellington.⁷²

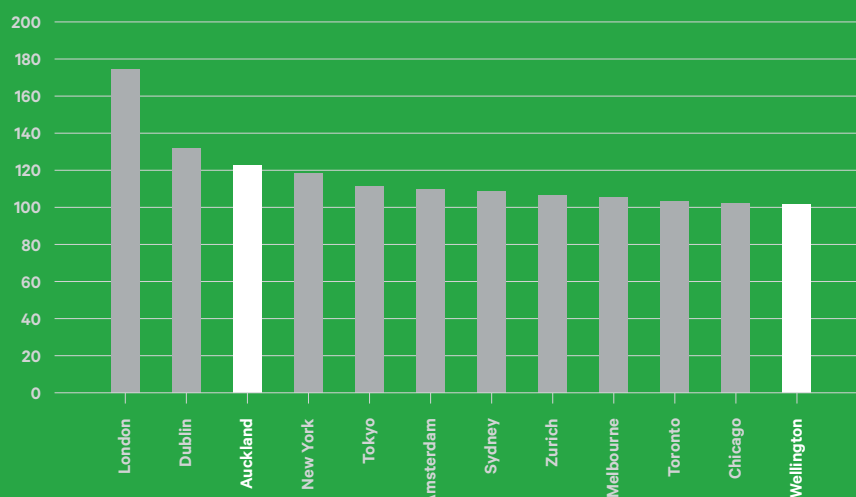
Congestion is not only the result of inadequate roading, it is the product of inadequate alternatives. Fast, affordable and convenient alternatives reduce the willingness of travellers to sit in congestion. Just 15-18 per cent of journey to work trips are by public transport in Auckland and Wellington – our two best-served cities. This is despite both experiencing some of the worst congestion in the developed world for cities of their size.⁷³

Public transport is expensive. A recent Deutsche Bank study found that a monthly public transport pass in Auckland was the third most expensive in the world, behind the much wealthier cities of London and Dublin. Wellington came in 12th.

Public transport is not accessible. Just 15 per cent of new dwellings in Auckland are being consented within a one kilometre walk of rapid transit.⁷⁴ Rapid transit routes are, furthermore, all focused on travel to and from the CBD where less than 15 per cent of employment is located. Only 8 per cent of jobs are currently within 45 minutes of public transport (versus 35 per cent of jobs within 30 minutes by car).⁷⁵ Up to 90 per cent of homes and jobs in Auckland are therefore not within walking distance of quality public transport.

Figure 11

Cost of a monthly public transport pass (\$US)⁷⁶



Despite councils' comprehensive planning powers under the RMA-based planning system, there are vital elements which remain beyond their control. Councils do not have, for example, responsibility for education. Thus, when they are planning urban growth and development, they are dependent upon the Ministry of Education for services essential to effective growth management.

The Ministry of Education, however, is generally funded on an annual basis, with the 2019 Budget being a landmark for earmarking \$1.5 billion over ten years for capital investment. Until 2019, the Ministry of Education was limited in its ability to engage local councils in long term planning because its own planning was compromised by short term horizons.

New communities without schools are unfeasible. Schools add value to land, catalyse development and generate significant transport demand. They are essential town planning inputs, yet have been largely left out of town planning processes. As a direct result, education infrastructure has failed to keep up with demand. In Auckland, almost half of new classrooms

added over the past four years have been temporary pre-fabricated units.⁷⁷ In light of evidence showing a link between good educational infrastructure and learning outcomes,⁷⁸ it is reasonable to conclude student performance is being negatively affected by poorly planned schools.

Weak participation of not just the education sector, but health and other central services, in spatial and land use planning could be ameliorated with central planning powers. Central government has only recently begun to impose national priorities through the planning system. A number of national policy statements and establishment of Kāinga Ora – Homes and Communities are now under development.

In no sector has central government's ability to influence national wellbeing been so limited as in housing. Local government's delegated authority to plan and deliver growth infrastructure has rendered central government efforts to manage the housing crisis ineffective. Initiatives to facilitate infrastructure finance (Housing Infrastructure Fund) and streamline planning (special housing areas) have had limited success. House prices have risen sharply on the back of poor supply, seeing many families pushed into substandard accommodation. New Zealand has among the most unaffordable and inadequate housing in the OECD.

No government department has had the ability to cut through local government planning rules. Infrastructure funding and financing solutions for one council area risk opening an argument for similar assistance elsewhere, disincentivising central government from intervening. Successive central leaders have resorted to public critique,⁷⁹ without changing the statutory settings which have made councils act the way they have.

All the while, public housing costs carried by the government have ballooned. Housing New Zealand, the Government's monopoly provider of state housing has faced the twin challenges of deteriorating assets as homes reached their end of life and increasing demand. Financial limitations until 2017 prevented the organisation from borrowing, severely restricting its ability to deliver more housing. With a weak public backstop and dysfunctional market, New Zealanders have been forced to pay more and more for housing, taking money away from other activities. PwC have estimated that Aucklanders are almost \$100 a week worse off now than they were a decade ago, despite year on year economic growth.⁸⁰



Figure 12

Homelessness rates in OECD countries⁸¹

% of total population

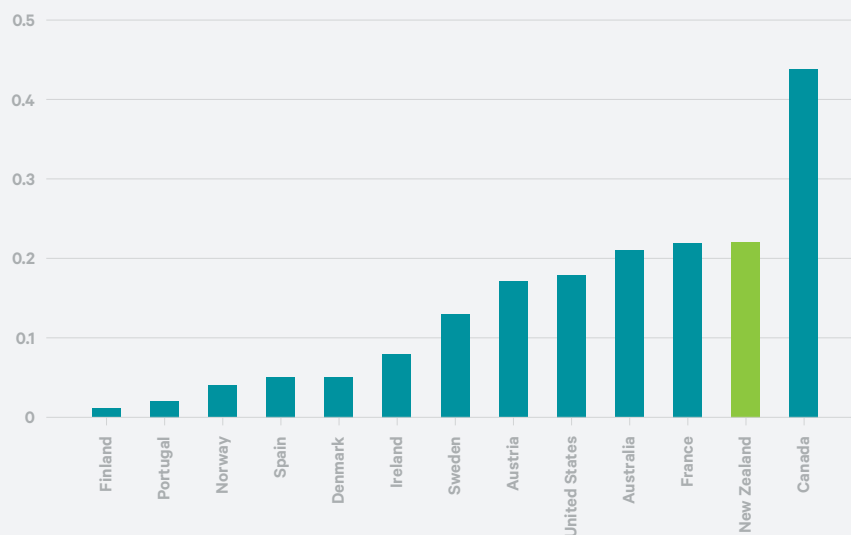
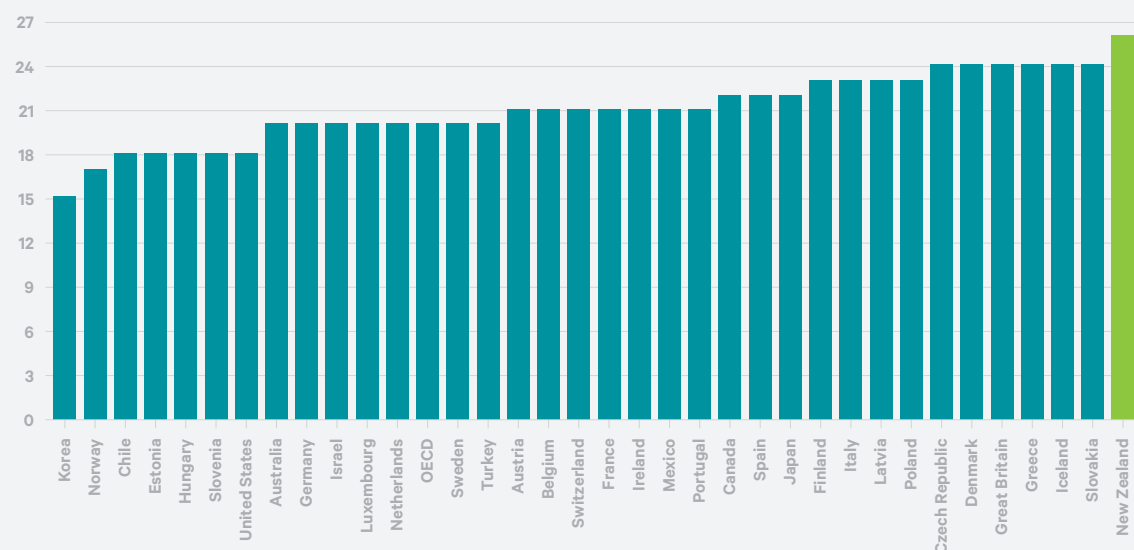


Figure 13

OECD housing costs⁸²

% of gross adjusted disposable income, 2017



3. Weak oversight and accountability

The twin institutional issues of poor capability and misincentivisation explain why New Zealand's institutions are not delivering outcomes consistent with other well-governed states. However, a third factor has allowed poor performance to emerge and prevail over an extended period: weak system oversight and accountability.

New Zealand has no independent “system manager”

New Zealand has strong institutions, such as the Auditor General, to ensure money is spent well, but no entity ensures outcomes are delivered. The only one that can, the Government, is compromised by its major role in public service delivery, leaving the Government as the principal judge and jury for its own activities.

The Government does separate itself from some centrally performed functions. The Reserve Bank of New Zealand, Parliamentary Commissioner for the Environment and Commerce Commission are all central institutions one step removed from the Government of the day. But in transport, housing, education, healthcare, welfare services, environmental performance and other critical areas there is no oversight to know whether services are delivering outcomes at reasonable cost.

The general public is presumed to be the ultimate judge, exercising its approval or otherwise once every three years. However, not all issues and performance are easily visible. Infrastructure in particular, can be poorly maintained with little public awareness until a crisis has emerged. Recent evidence on the quality of health infrastructure⁸³ and water infrastructure⁸⁴ both underline this issue.

Accountability is poor

The lack of an overall system manager has clouded accountability for performance against outcomes. Central government is generally held accountable for major national issues, even those reliant upon local government activities, including housing and congestion. However, the allocation of services across central and local institutions has opened the door for finger-pointing.

Responsibility for delivering local outcomes, as distinct from national outcomes, is not clear. Local authorities can point to central government's role in funding transport, monitoring water quality, fuelling immigration, increasing regulation and otherwise transferring costs to ratepayers.

Central government, meanwhile, is able to highlight local government's dominant role in urban and environmental planning and infrastructure delivery as reasons for poor housing and transport outcomes. In areas where central institutions provide end-to-end services, decisions by previous administrations make associating outcomes with the Government of the day difficult.

Short election cycles

Challenging performance across all wellbeings is the national election cycle and the impact this has on project priorities. Political leaders must always manage the effects of decisions made by previous administrations. Three year cycles provide wide scope for leaders to avoid accountability in their first term so one term governments are extremely rare.⁸⁵

Three years is inadequate to develop policy responses to complex issues or deliver infrastructure. The unproductively short timeframe not only incentivises political leaders to focus on the short term, it facilitates dramatic policy swings. Northland, for example, completed a landmark economic development strategy in 2015 with central government, only for a refresh to be needed two years later with the change of Government.

Conclusion

New Zealand's network of central and local government institutions are collectively achieving poor public outcomes, despite being some of the most well managed in the world. There are two key reasons why a functional organisation fails to achieve its objectives. Either it is not motivated or incentivised enough to trade off other factors or it simply lacks the ability.

Institutions charged with overseeing New Zealand's economic, social and environmental progress are both weakly incentivised to achieve public outcomes and lack the necessary capability. This is the result of an institutional system arrangement which misaligns roles and responsibilities across the public service. Central government entities are performing functions with localised impacts. Local government entities are providing services with regional and national impacts. No one is delivering regional outcomes.

Collaboration across institutions and different levels of government could alleviate pressures. But New Zealand's service-oriented institutional arrangements mean public services can be delivered with little input or assistance from other agencies. Silos are reinforced, service outputs prevail and no one is targeting outcomes. There is no process to integrate public services in pursuit of common objectives.

Strong division of duties is particularly harmful to collaboration and integration between the two levels of government. Taxation to fund public activities is almost completely monopolised by central government. Planning is almost completely delegated to local government. Central organisations cannot plan and invest long term. Local organisations can plan, but with little funding have no certainty as to whether plans can be delivered. Neither are able to see the world, or even local areas, through the same lens.

No one is overseeing the system to ensure it functions. Central government's extensive service provision responsibilities conflict with its role as the only viable national economic, social and environmental system manager. As both "judge and jury", central government has been challenged to identify and resolve issues across centrally provided services.

As long as institutional structures, powers and responsibilities are misaligned, public service

organisations will not be incentivised and capable of promoting public outcomes. Changes are required to central and local government functions, structures and resources.



Shifting to an outcomes-oriented system



How does a country prioritise outcomes?

Could public “service” entities simply be repositioned as public “outcome” entities? Perhaps, instead of delivering transport or unemployment services, public agencies might deliver mobility and employment. This would facilitate a whole-of-agency focus on key desired outcomes, rather than a focus on roads, rail or back-to-work schemes.

However, apart from being unprecedented, this approach would not resolve the core issue of agencies needing to collaborate. The “mobility agency” would need to coordinate closely with the “housing agency” to ensure plans to deliver mobility support, not contradict, plans to ensure residents have access to warm, dry, affordable homes. Failure to deliver outcomes would still be attributed to previous political decisions or temporary setbacks and transparency would arguably be worse. A new risk would emerge to service performance if sector capability was diluted.

Relevant expertise in the provision of discrete services like health, transport and income support still needs to be consolidated under dedicated, professional bodies. Remaining fiscally responsible should still be a peak priority. But there also needs to be explicit recognition that all public services are part of a wider system of economic, social, cultural and environmental wellbeing. The standard approach used internationally to integrate public services in pursuit of shared objectives is spatial planning.

If institutions are not set up to pursue public outcomes, they will not. The existing system of independent public departments, agencies and councils has been arranged to manage public service costs down, and is has. To improve outcomes for New Zealanders, the Government needs to realign roles, responsibilities and resourcing across the wider public service system to influence institutional incentives and capability. Oversight to ensure the system delivers for the short, medium and long term is required.

But what does an arrangement look like which has institutions that are incentivised to optimise public outcomes, that have the capability to deliver and are held to account?

Institutionalising outcomes through spatial planning

Spatial planning provides institutions with the means to engage and collaborate with each other, the private sector and communities. It converts services into outcomes by using “place” as a common and shared variable to integrate and align activities. By layering a spatial planning framework onto an otherwise service-oriented institutional framework, both outcomes and efficient and effective services can be delivered.

Spatial planning differs from conventional land use planning as practiced in New Zealand. Land use planning under the RMA is not strategic. It is effects-based and reactive. It is designed to minimise the impacts of physical development on other residents, activities and the environment. It is not designed or set up to proactively promote outcomes.

Spatial planning brings together all of the key public services, physical and non-physical, across a defined area to collaboratively develop long term service delivery. It can occur at a national or local scale, but is most common at provincial or regional scales. Zoning of land for residential and commercial activities, sequencing the servicing of land with transport and utilities, supporting growth with new schools and health facilities and making provision for parks and recreation are all core spatial plan activities.

Although implementation is ultimately focused on projects and the physical environment, the value of spatial planning is to interrogate and understand the wider economic, social and environmental impacts of different land uses and investments. Addressing unemployment, poverty, housing affordability, crime and truancy are as central to spatial planning as the delivery of roads and water.

Spatial planning does this through the strategic application of capital investment and land use planning powers. Issues and opportunities across a connected location are targeted by infrastructure and development, rather than managed reactively as effects from market activity. Public authorities use investment and opportunity as a mechanism to shape positive market behaviour and promote public outcomes, rather than use rules to mitigate negative effects.

The process of spatial planning requires integration across different levels of government, the private sector and affected businesses and communities. As well as breaking down institutional silos, the forward engagement with affected parties helps build understanding of issues and impending responses. It is designed to depoliticise often controversial projects and planning initiatives, as well as exploit local expertise to achieve the best on-balance outcomes.

New Zealand should move to a spatial planning model where wellbeing is proactively targeted by authorities.



Doesn't New Zealand already have spatial planning?

New Zealand has already produced a number of “spatial plans”, including in the Waikato and in Auckland.

However, these plans are subordinate to district plans under the RMA and Long Term Plans (LTPs) under the LGA. Strategic land use allocations identified in spatial plans are a consideration when developing RMA-based plans, not a determining factor.

Investments are not committed until funding is guaranteed through LTPs or from central government. Territorial authorities contributing to the spatial plan are supposed to be the principal funders, but their responsibility is tied to their constituency, not the region. When funding has to be allocated, there is no certainty it will be signed off.

Central government resourcing is even harder to predict. In Auckland, the top investment priority for

the first spatial plan was initially not supported by the Government. Another leading priority is being redesigned by the new Government.

Without strong statutory and funding linkages across the institutional system, spatial plans are aspirational, rather than implementable. Weak certainty over delivery impedes engagement with communities and the private sector. A joined-up approach is not possible.

New Zealand's best emerging example of spatial planning is the new central-local collaboration along the Hamilton-Auckland corridor, Hei Awarua ki te Oranga (H2A). Being led by central government, the H2A initiative will coordinate strategic infrastructure, housing and planning. But it is also operating outside of planning and governance statute, leaving it heavily dependent upon commitment from the Government of the day.

Figure 15

Waikato Plan⁸⁶

-  **Significant growth areas:**
Growing a strong city and towns with character
-  **Hamilton:**
Strengthening high level urban services in a central hub
-  **Future connections:**
Integrating safe and efficient road, rail and port networks
-  **Cycle paths and walkways:**
Developing a nationally significant cycling and walking experience
-  **Core natural areas:**
Linking our outstanding natural and cultural areas to recreation and tourism opportunities
-  **Rivers and lakes:**
Valuing, protecting, managing and conserving water
-  **Destination places:**
Enhancing our destination places



Figure 16
The Waikato H2A⁸⁶



Who does spatial planning?

Spatial planning is inherently collaborative, but ultimately requires political trade-offs. An economic initiative to improve competitiveness must be sequenced alongside a recreational investment. Outcomes are seldom finite, so resources have to be prioritised. Planning powers are significant and involve the allocation of natural land, air and water resources. These decisions can only be made at the political level.

The standard approach internationally is to spatially plan at the scale at which services impact society. In small city states like Singapore and Hong Kong, only one spatial plan may be feasible, integrating the full spectrum of “national” and “local” activities. In large countries, like China, spatial planning can occur at multiple scales.

Spatial planning is often not undertaken at a national level.⁸⁸ In combining planning with investment, spatial planning is a powerful tool and if performed centrally leaves little room for local decision making. The “aspatial” whole-of-country view of central government usually leads to national planning being reframed as national development planning, as in Ireland, or as policy direction to guide local government, as is the case with Scotland’s National Planning Framework.

“Spatial planning” per se is not normally performed at a level below that of cities. Cities and their surrounding hinterland form a continuous economic and social system, with employees, businesses and families interacting daily. Major spatial decisions impact beyond local boundaries and decisions beyond boundaries impact planned outcomes. In sub “regional” areas, conventional land use planning is instead applied. Land use planning is less strategic, more rules driven and typically excludes investment decisions.

Spatial planning's impact on wider institutional arrangements

Spatial planning is more than just an activity to align and sequence investment. It is a fundamentally different way of approaching governance.

In contrast to New Zealand's existing service-based system, which sees institutions focus on their core public service as efficiently as possible and respond to issues as they arise, spatial planning is forward looking and proactive. It leverages governing activities in planning and infrastructure to avoid issues in the first place. Physical investment becomes a key vehicle to achieve long term economic, social, environmental and cultural wellbeing.

The consequences for public institutions are significant. Key public service providers, particularly those with a physical component – transport, water, health, education, public housing, parks and facilities – must align and coordinate their activities over the short, medium and long term. Broader public activities in fiscal management, social welfare and other core areas are also affected. All levels of governance must cooperate and compromise, not just with themselves, but with communities and the private sector.

Changes to institutional arrangements are necessary. The use of “place” as a tool to integrate major public services reorients institutions around the geographic provision of services, reducing the role of singular, vertically integrated and centrally funded organisations. The role of coordinated area-specific institutions becomes more important. Responsibilities across governing authorities themselves is affected.

Conclusion

For New Zealand to move to an outcomes-oriented governance model which prioritises wellbeing above more narrow public objectives, much better alignment and integration across institutions is required. The common and proven method to do this internationally is through spatial planning.

Spatial planning combines the range of public services provided by authorities in an identified location. It leverages governing responsibilities in physical development to promote wider intangible economic, social, environmental and cultural wellbeing. This type of approach to public service delivery is fundamentally different to that employed in New Zealand today.

Hong Kong's HK2030+

Hong Kong's lead strategic planning document, HK2030+ is an exemplar of integrated, long term strategic spatial planning.

As a strategy, HK2030+ follows a format comparable to other spatial plans globally. It provides an agreed evidence base for opportunities, challenges and projections into the future and sets a vision for the city:

Our vision is to become a liveable, competitive and sustainable “Asia’s World City”.

What makes HK2030+ unique is its identification of a “planning goal” and subsequent injection of urban planning into the strategy:

Our planning goal is to champion sustainable development with a view to meeting our present and future social, environmental and economic needs and aspirations.

To promote the planning goal, three building blocks are identified:

- 1 **Planning for a Liveable High-density City**
- 2 **Embracing New Economic Challenges and Opportunities**
- 3 **Creating Capacity for Sustainable Growth**

Rather than the three building blocks serving as high level strategic guides for each of economic, social and environmental wellbeing, as per international convention, the building blocks instead provide a bridge from intangible strategy to tangible development. Building Block 1 highlights common urban goals – a compact, diverse, integrated, vibrant, healthy city.

Building Block 2 turns the focus to facilitating economic development and, specifically, the planning system's contribution to economic development. It identifies pressures on land requirements for different industries as well as the innovation, employment and productivity opportunities of securing land for growth into the future.

Building Block 3 takes the final planning step towards implementation and identifies the long term (beyond 2040) land requirements for housing, employment, recreation and infrastructure. Its analysis found new land supply from existing projects to equal 3600 hectares while the total required land supply was 4800 hectares. Building Block 3 also highlights the infrastructure, environment and other projects planned to support wellbeing.

Finally, HK2030+ translates the building blocks into a conceptual spatial framework. The framework identifies three major strategic spatial priorities for the city:

- 1 **Metropolitan business core** – focused employment development around the traditional centre of Hong Kong
- 2 **Two new strategic growth areas** – a new 1000 hectare island reclamation called the East Lantau Metropolis for up to 700,000 residents and 200,000 new jobs and a new town in the north of the territory for up to 350,000 residents and 215,000 jobs.
- 3 **Three axes** – a Western Economic Corridor focusing on access to the port and airport; an Eastern Knowledge and Technology Corridor focusing on existing tertiary, knowledge and hi-tech industry; and a Northern Economic Belt focusing on the last remaining holdings of undeveloped land for logistics, warehousing and research.


Figure 14

Hong Kong 2030+ Spatial Concept





Applying an outcomes-oriented institutional framework to New Zealand



What would an outcomes-oriented institutional arrangement look like in New Zealand?

For New Zealand to move to an outcomes-oriented institutional framework, changes to the existing system are required. New powers to spatially plan need to be established to integrate public services and objectives. Institutions aligned around shared outcomes need to be capable of delivering on those outcomes.

This section describes an institutional framework for New Zealand where spatial planning is adopted and public service providers are reorganised around outcomes. Conceptually, it starts from a “blank sheet”, assuming all levels of government, institutions, roles and responsibilities are under review.

However, its focus is on the major public services which impact key economic, social, environmental and cultural outcomes: transport, water, energy, telecommunications, health, education, major facilities, parks, economic and social development and environmental management. Remaining central government responsibilities, for example in defence and law and order, would only be peripherally affected and are assumed to remain in their current form.

Institutionalising outcomes through spatial planning

The spatial planning scale most likely to promote outcomes in New Zealand is “regional” spatial planning. National spatial planning vests too much power in central government and sub-metropolitan area spatial planning does not capture the common range of social and economic interactions.

Regional authorities, governing areas of shared economic and social interactions, would be established and vested with spatial planning powers and responsibilities.

Central government institutions would participate in spatial planning and the Government would provide guidance to the planning process through a national development plan.

To simplify processes, enable local (sub-municipal) input into planning and facilitate democratic decision making, spatial plans would not comprise full land use rules. Land use planning would still be performed by lower levels of governance with strong links to local interests. Local land use plans would need to “give effect” to spatial plans.

Local authorities representing local communities would perform land use planning to implement spatial plans.

Institutionalising capability to provide services and implement plans

Institutions need to be capable of delivering spatial plans.

Institutions would need the **scope** to engage in spatial planning processes and to implement their responsibilities in accordance with the plan. Delivering services in a silo is not sufficient to deliver outcomes. Direction would be needed to ensure relevant institutions participate in spatial planning processes and adhere to the plan.

New legislation would be necessary to require spatial planning and require all relevant parties to participate.

Institutions would need the necessary **powers** to deliver spatial plans. Spatial plans would carry statutory weight, enabling land to be zoned and activities consented, consistent with the plan. If spatial plans are not expected to be implemented, the public will not engage. Local land use planning would “give effect” to regional spatial plans and be focused around the look, feel and identify of the local area.

Supporting legislation would require public services to be delivered in accordance with the agreed spatial plan.

Infrastructure and other major investments needed to implement spatial plans cannot be held back by resourcing deficiencies. Powers would extend to resourcing for critical services. Private infrastructure providers (energy, telecommunications and some airports and ports) can raise debt to fund capital works and maintain networks. Regulators would incorporate spatial plan requirements into estimates of investment needs.

Public infrastructure is the key risk to effective spatial planning and outcomes performance. Infrastructure which cannot be privatised would be corporatised where there is a revenue stream to fund activities. Corporatised public agencies would sit off local, regional or central balance sheets, enabling debt to be sourced independently.

Ports and airports would be privatised, sold down or corporatised and structurally separated from governing bodies to enable debt to be raised to deliver the plan.

Drinking and wastewater can be sustainably and affordably managed with user charges. Volumetric pricing for water would enable water provision to be restructured so that publicly provided two waters infrastructure sits off general public balance sheets. An agreed operational subsidy for stormwater would enable full three waters service specialisation independent of councils or the Government. Regulated, structurally independent water agencies will be capable of meeting growth when and where required.

Water services would be structurally separate from wider governance responsibilities, corporatised and majority funded by user charges.

Transport's role as the key enabler for economic and social interaction and development, together with indirect pricing, creates challenges for independent provision. Dynamic road pricing may in the future allow road activities to be structurally separate from public bodies and implementation should be accelerated. In the medium term, there is no clear alternative to funding and financing transport on public balance sheets, supported by taxes. Revenue streams which encourage and incentivise transport authorities to deliver services in accordance with the plan are critical to preventing transport system failure.

Resourcing for health and, especially, education are also risks to spatial plan implementation. Failure to deliver schools in accordance with the plan will undermine spatial outcomes. Lack of alternatives to public funding and the importance of equivalent services requires public provision.

Transport, health and education would remain publicly provided and sit on balance sheets, creating a significant risk for plan implementation. Binding statutory requirements would seek to prevent infrastructure and service resourcing failure.

Financing tools can help overcome short-term funding barriers for transport and other public infrastructure. The Government's new Infrastructure Funding and Financing (IFF) workstream enables property charges to repay infrastructure debt over the long term and would be expanded. In addition, tax increment financing, infrastructure bonds and public-private partnerships are all financing tools which would be assessed against value for money and effectiveness considerations for major projects.

Financing tools linked to targeted property taxes would be developed to enable flexible solutions to infrastructure and service investment challenges.

Institutions need appropriate scale to execute their responsibilities. Activities with large capital investment and asset management needs where economies of scale and technical specialisation can improve efficiency would be scaled up. Activities with lower capital requirements, more community engagement and limited economies from scale would be devolved down. The benefits of scale need to be balanced against other factors, including whether service impacts are mostly local, regional or national and to what extent cross-subsidisation is desired.

Retaining success

Moving to an outcomes-oriented institutional system provides an opportunity to do some things better, but equally important is building on performance in areas of strength.

Services still need to be provided in a fiscally disciplined and efficient manner. The benefit of achieving outcomes needs to be balanced against affordability and willingness to pay. Transparency and ethical use of public resources is paramount.

The balance between reallocating resources from those who are thriving to those who are not needs to be optimised. Some services which could be devolved to lower levels of government could help achieve localised outcomes. However, the process may also impede wider national redistribution, leading to unequal outcomes in basic health, education and economic opportunities.

Local demands for representation and identity are real and critical to a functioning democracy. Spatial planning and services need detailed community buy-in and participation to be successful. Local communities require tools to meet local demands which are outside regional spatial priorities and not in conflict with regional or national plans.



Incentivising institutions to implement spatial plans

Roles, responsibilities and revenue across capable public institutions – central, regional and local – need to be linked to the outcomes of the spatial plan.

Annual budget allocations at all levels of government would reflect the coming year's spatial plan programme in order to align **fiscal** incentives. If institutions are not provided with the necessary resources, they cannot make their contribution to the programme. Failure by one party to perform its function, will undermine the work programmes of others, carrying wider costs.

While interdependency carries risks, it also exerts pressure on contributing parties to not “let the team down”. Shared commitments across communities, institutions and levels of government increase the costs of policy reversal by any one party, strengthening implementation.

Annual budget and longer term investment allocations would prioritise services in the plan. Service providers would be statutorily required to meet the plan, unless by agreement.

Taxation revenue would be designed to align financial incentives across levels of government and encourage authorities to invest in accordance with the plan.

Spatial plan activities including zoning, infrastructure delivery and new schools increase land values. Land taxes send a price signal to land-owners indicating highest and best use, influencing incentives on both the supply and demand sides of development. Tax revenue tied to land or property value would increase income to authorities in proportion to activities, encouraging timely project delivery.

Land or property taxes tied to the value of improved property would be levied, with a commensurate reduction in other taxes, and shared across local, regional and central authorities.

A share of economic taxes – income, corporate and sales taxes – redistributed to lower levels of government would replicate the incentives driving central government decision making. A tax “swap”, with central government receiving a portion of higher property taxes and local government a portion of economic taxes, could improve policy alignment between different levels of decision makers. Regions would more aggressively target productivity, private investment and development. Effective incentivisation needs to be balanced against transparency and simplicity in the tax system.

Central government would continue to have sole powers to levy sales, income and corporate taxes.

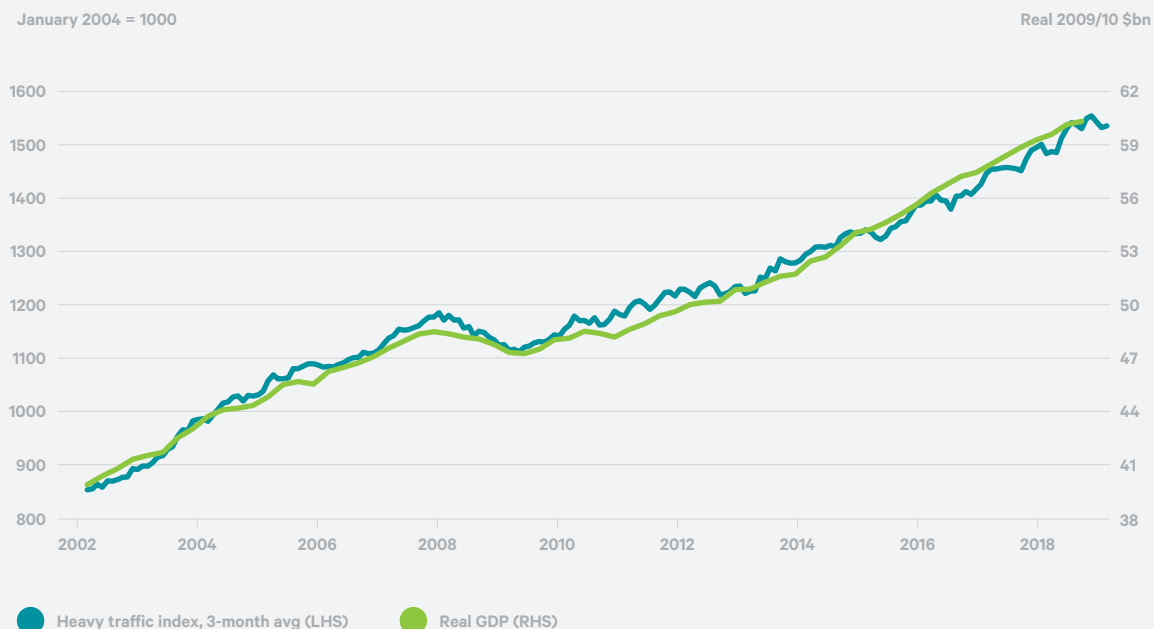
Regions would receive a proportion of regional GDP sufficient to incentivise regions to go for growth and fund greater responsibilities, without compromising fiscal sustainability.

Local authorities would retain property rates, with strengthened access to targeted funding and financing tools.

Transport policy emphasis would shift to achieving wider outcomes distinct from, and additional to, standard travel flows. Transport investment and services are linked to economic activity (Figure 17) and property values.⁸⁹ Overdependency on inadequate user charges is constraining economic activity and increasing property prices, with severe equity impacts on accessibility and housing affordability.

Figure 17

ANZ Truckometer indexing heavy traffic growth to GDP⁹⁰



Transport funding would be delinked from road use charges and aligned with a beneficiary pays model. Public transport fares would balance affordability against other factors. Transport funding would be sourced from a combination of user charges, reflecting user benefits, property taxes, reflecting land value benefits, and economic taxes, recognising transport's role in improving competitiveness, productivity and equivalent access to employment opportunities.

Road operational funding and renewals would be sourced from road use charges, until direct pricing is implemented.

Public transport operational funding would be sourced from both user charges and property taxes.

Active transport operational funding would be sourced from property charges.

Transport capital improvements would be funded through a combination of economic taxes (proportionate to agglomerative benefits) and property taxes (proportionate to property value improvement).

Funding for health, education, public housing and social welfare is redistributive. Funding would continue to be sourced largely from sales, income and corporate taxes, as well as new property tax revenues. Economic and social development impacts generally and would also remain funded by general taxes.

Structures of authority and decision making need to be aligned with outcomes. National institutions will prioritise national outcomes. Regional institutions will prioritise regional outcomes and local institutions will prioritise local outcomes. Higher level institutions can standardise services, reducing local characteristics and, potentially, outcomes. Lower level institutions can undermine the wellbeing of the majority for the wellbeing of a minority. Arrangements which balance services and impacts at different scales and integrate delivery are necessary to align structural incentives.

Some key public services are inherently national and there is limited feasibility in them being delivered at a subnational scale. Electricity transmission and rail are two such examples. Options for governance include corporatisation (the present state) and privatisation, but do not include local or regional delivery.

Electricity transmission and rail delivery would remain under the management of state- owned enterprises.

Health, education and welfare services all impact at the local and regional level and in many cases are provided locally overseas. School infrastructure also heavily impacts, and is heavily impacted by, spatial form. However, under central management, each also perform a strong redistributive function, ensuring New Zealanders all receive equivalent educational opportunities and care.

General health, education and welfare outcomes are also all acceptable, relative to other countries. The infrastructure components of health and education, however, are challenged to meet need. Devolving school infrastructure to regions would improve spatial planning alignment, but would also create some regional performance inequities.

Health, education and welfare service delivery would remain under the management of central government.

Independent oversight of health and education infrastructure would be established.

Devolution of health and education infrastructure responsibilities would be considered if performance could not be improved.

Regional government would lead the development of spatial plans. To avoid disaggregating the closely-related activities of spatial planning and transport, land transport (excluding rail) would also be devolved to regions. Transport provision involves extensive use of capital, providing room for economies of scale and travel patterns are regional.

State highway management, as well as local roads and public transport would all be managed by regions as a single network connecting related communities. Central government direction would be provided via a policy statement (as current) and bottom lines established for safety, congestion and other objectives.

Public housing would be devolved to regions. Public housing is needed to address market failure, as well as wider social inequality. Market failure is the result of underperforming planning and infrastructure delivery. Housing impacts are local and regional in nature, with housing needs different in urban Wellington versus rural Southland.

Regional economic development would also be devolved. National economic management is conflicted by localised performance and undermines innovation. Investments which generate economic activity at the subnational level, including irrigation, convention centres and stadiums would be devolved to regional government. Parks would also be a regionally-led responsibility.

Regional government would conduct spatial planning, deliver transport and public housing and lead regional economic development.

Local government would conduct land use planning to give effect to spatial plans. Local communities would focus on fine tuning spatial plans to give them local characteristics. Local councils would move away from service operation to focus on targeted funding and financing of new local services, where these are not inconsistent with spatial plans.

The smaller, more community-oriented role of local councils would enable smaller, more representative councils to emerge. Restrictions on council creation and dissolution would be removed to maximise local representation. Local government would engage in social development activities, in partnership with central government institutions.

Local government would conduct land use planning, would fund and finance one-off community initiatives with targeted rates and represent local communities on social and economic issues.

A broad and diversified range of delivery mechanisms are necessary to avoid **toolkit** misincentives. Each layer of governance needs a range of funding, financing and planning options to promote outcomes at each scale. The first option to overcome a funding deficit should be to grow productivity. The preferred planning response should be to open more desirable opportunities for development, rather than preclude less desirable opportunities.



Ensuring services and outcomes are delivered

To ensure New Zealand's institutions are delivering long term public outcomes, an entity is needed to perform the role of overall system manager. Under the current system, this role largely resides with the Government of the day and with the public exercising approval every three years. But a conflict of interest exists. Central institutions directed by the Government deliver the majority of public services, leaving the Government to monitor its own performance.

This approach has failed to prevent severe deficiencies from emerging in key areas like housing and transport. Complexity of government and services, separation of activities and short electoral cycles have clouded accountability and made it difficult for the public to recognise performance failure. Outcomes are suffering.

The only entity capable of overseeing the wider system of governance, institutional performance and delivery of public services is the Government. Under the current system, where central institutions deliver the majority of public services, the Government is both “judge and jury” and is expected to monitor its own performance. Issues are not being addressed.

Under an outcomes-oriented system, the Government would step back from service delivery and focus on oversight of the system as a whole. Lower levels of government or the private sector would deliver services “on the ground”, ensuring they meet national expectations. Central resourcing would be tied to performance against these expectations.

The Government's principal role would be to ensure lower levels of government are delivering the outcomes the Government expects. Transparent monitoring and benchmarking of subnational institutional performance would be a key function to inform service providers and the public. Support on major initiatives, identification of economic, social, environmental and cultural bottom lines and development of agreed data inputs (such as population growth, etc) would also be critical.

The voting public's role would remain to determine whether outcomes are being delivered nationally and locally. The electoral cycle would be expanded to provide additional time for policy outcomes to be realised. A four year cycle, with general and subnational elections alternating every two years would provide a balance of democratic and policy outcome needs at different levels of government.

Devolution of health and education infrastructure responsibilities would be considered if performance could not be improved.

Environmental management would be performed by national agency.



A model for an outcomes-oriented institutional framework

An outcomes-based institutional framework would look very different to the service-oriented model currently in place. Planning, funding and delivery of key public services would be aligned across all levels of government.

Delivery would be linked to outcomes. Investment in critical public services would be strategic, integrated and designed to promote economic, social, environmental and cultural wellbeing at the central, regional and local level.

Funding would be linked to plans. Tax revenues would

be allocated to initiatives in and aligned with plans. To receive central resources, Regional Spatial Plans would have to demonstrate implementation of the National Development Plan. To receive regional resources, local councils would need to accommodate growth in their land use plans. Plans would guide investment.

New funding tools to facilitate implementation would be added. Land taxes would improve system-wide price signals. A 1 per cent residential land tax would generate around \$10 billion per annum, enabling a more than 10 per cent reduction in corporate and income tax revenue.

	Funding	Planning	Delivery	Outcomes
National Government	Economic taxes (sales, income, corporate taxes)	National Development Plan	Electricity transmission Rail Health Education Justice Welfare	National wellbeing National growth International competitiveness
Regional Government	User charges (water charges, road user charges, etc.) Land taxes	Regional Spatial Plan	Schools Water (corporatised) Transport (excl. rail) Public Housing Regional Facilities	Regional and local wellbeing Regional growth and development
Local Government	Property rates Targeted rates	Local Development Plan	Parks Land use planning Targeted initiatives	Community participation Local democracy Social outcomes
Corporatised Public Sector		Water		
Private Sector		Telecommunications, Energy		

Options for regional New Zealand

There are many options for regional reform. Larger regions would provide added scale and capability. Smaller regions would emphasise identity. Demonstrated capability and competence would lead to greater devolution. Smaller regions would have less control. Affected communities could choose.

Here are four potential scenarios.

Figure 17

Five regions

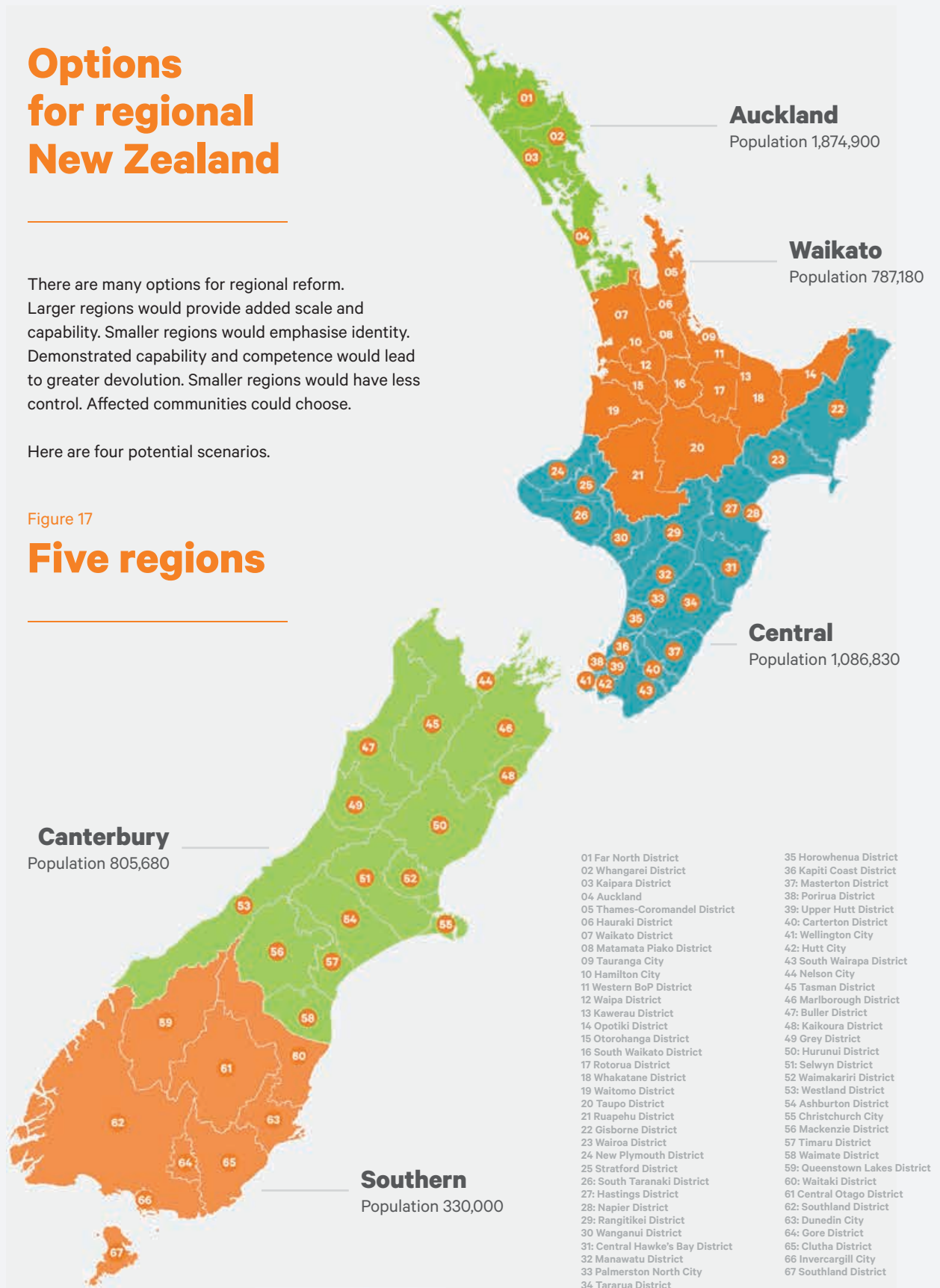


Figure 18

Ten regions

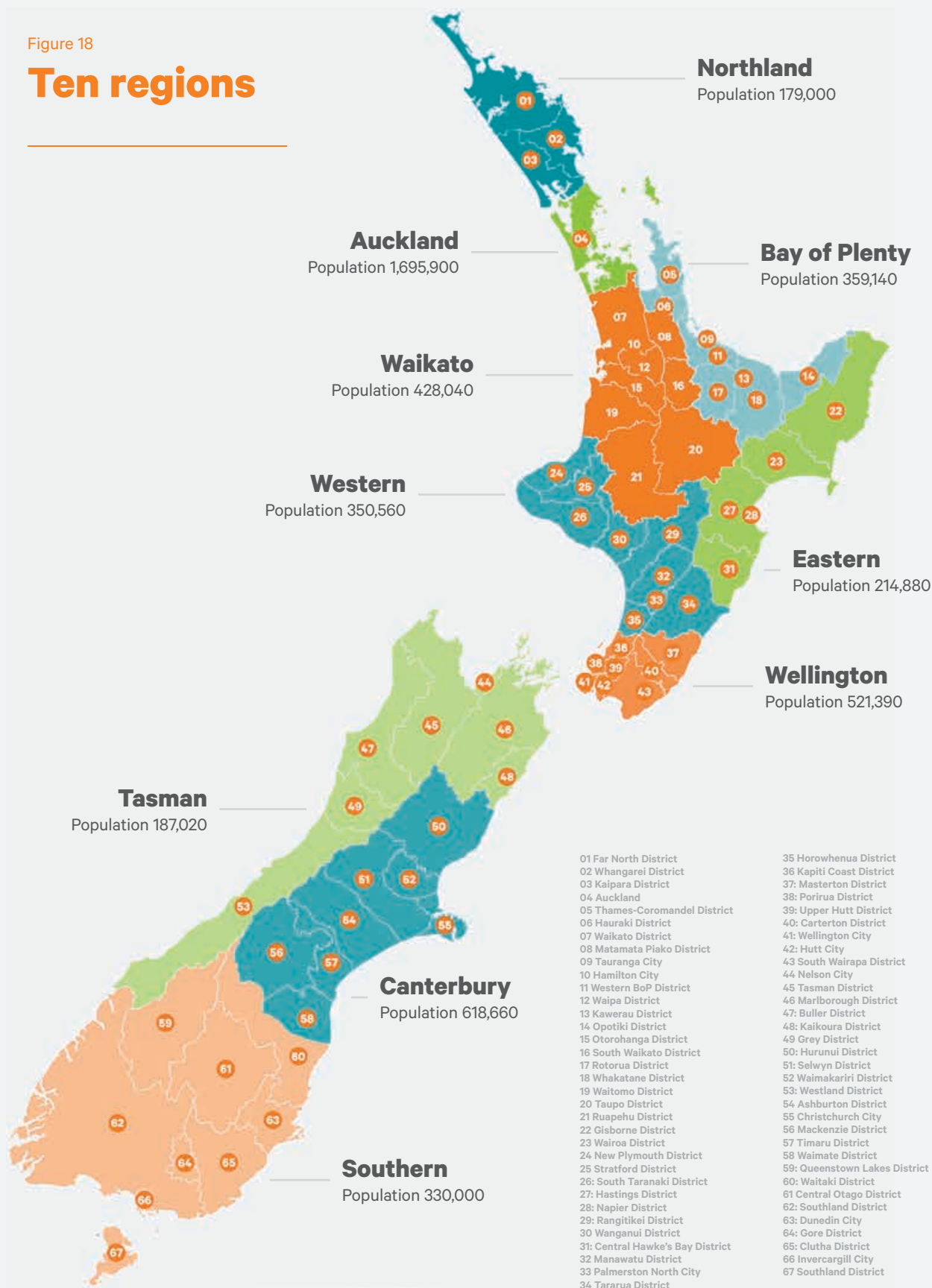


Figure 19

Fourteen regions

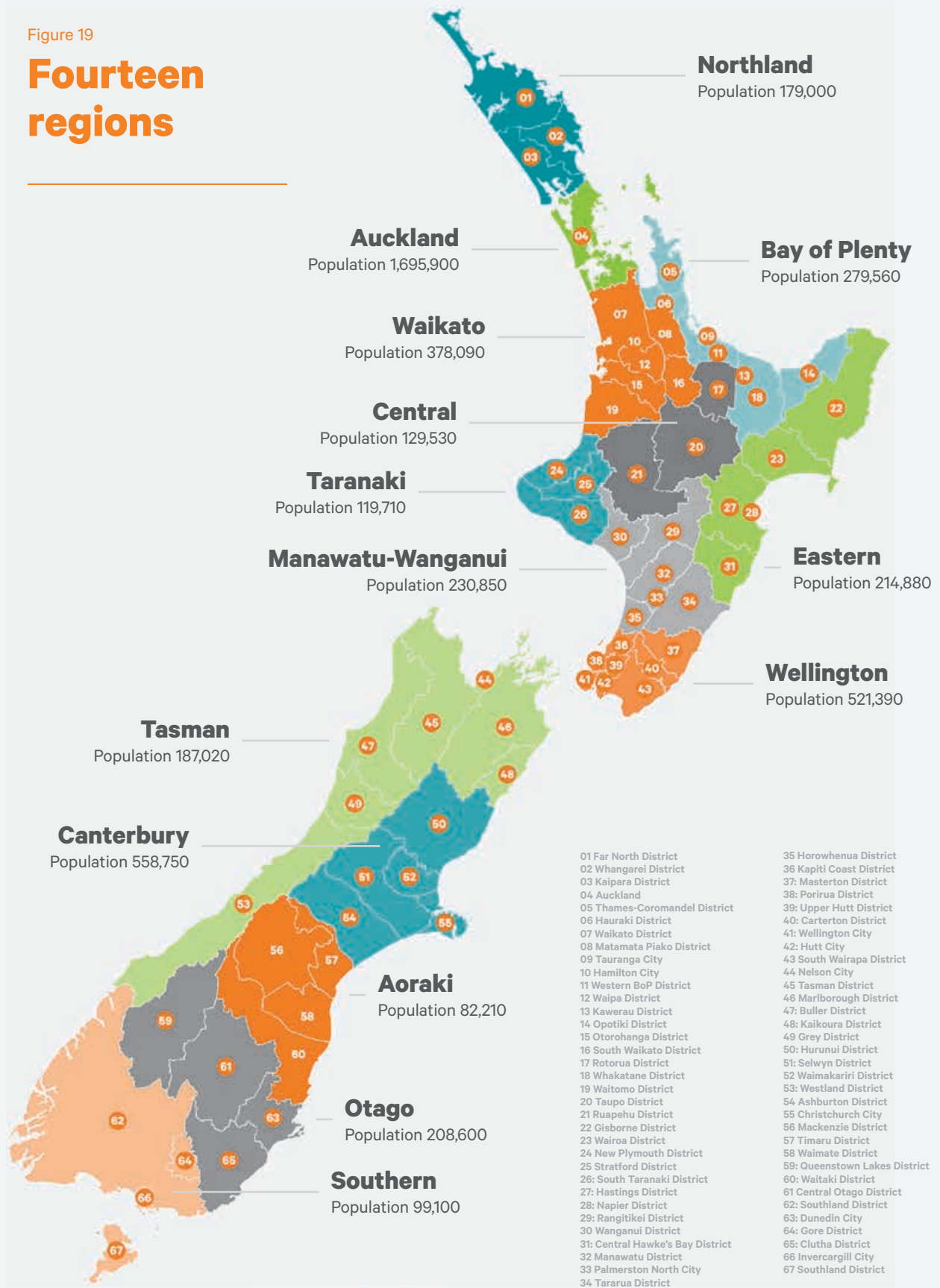
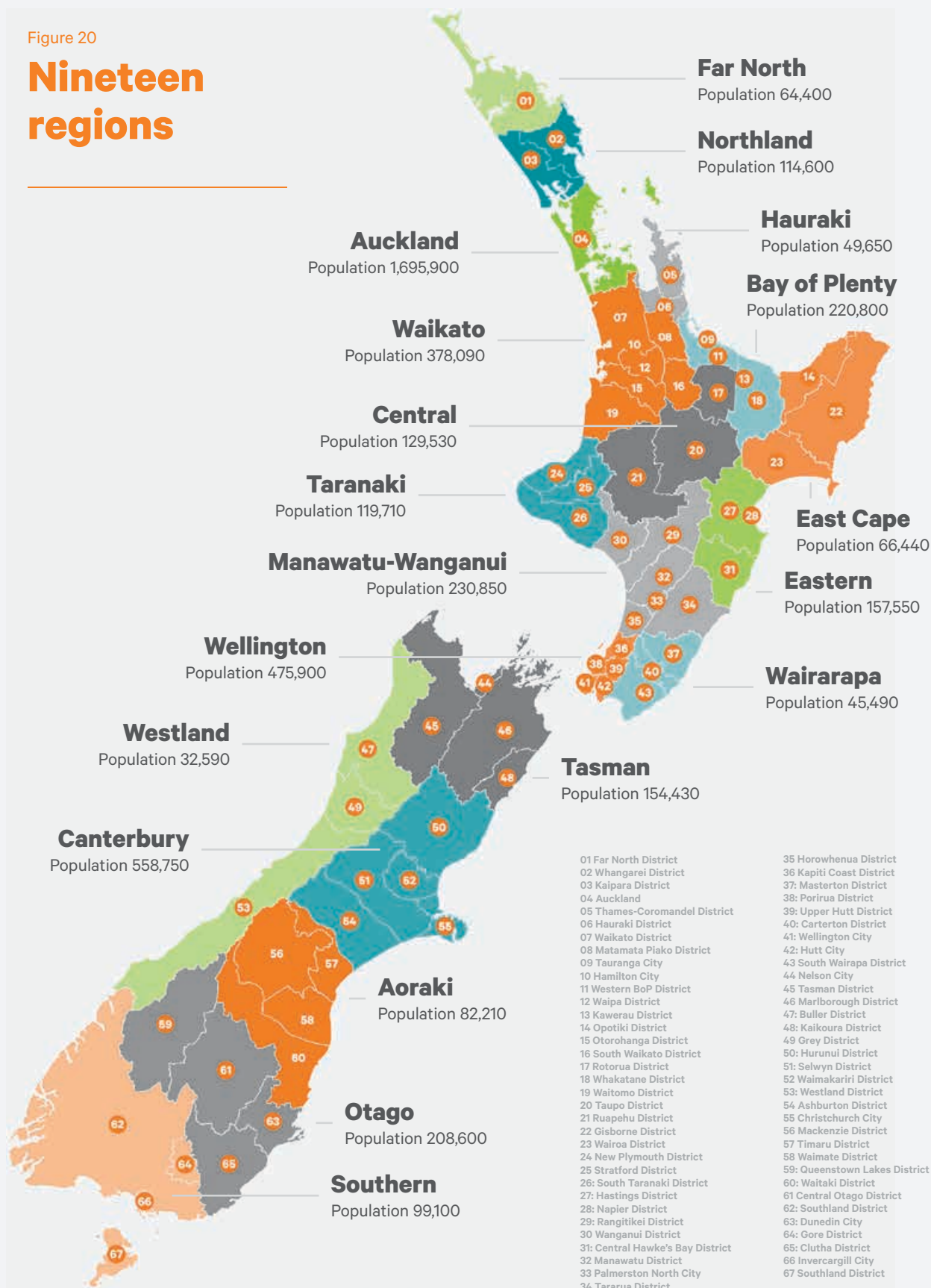


Figure 20

Nineteen regions



Moving towards an outcomes-oriented system

An outcomes-oriented institutional framework looks very different to the service-based model currently employed in New Zealand. If established, however, it would refocus central, local and regional government on economic, social, environmental and cultural wellbeing. Steps can be taken today to accelerate the process of reform and redirect New Zealand's high performing but misaligned institutions.

Many reforms are already underway

The Government already has a major programme of reform underway, including:

- Establishment of a new agency, the New Zealand Infrastructure Commission – Te Waihanga, which will improve central oversight of New Zealand's critical infrastructure and enhance project delivery capability.
- Replacement of the State Sector Act, to improve the fiscal incentives which have placed so much focus on institutional efficiency that departments have become siloed and inward-looking.
- A review of the Resource Management Act to improve environmental outcomes and enable urban development.
- A series of National Policy Statements to better align local government planning decisions with national outcomes.
- Establishment of a new central authority, Kainga Ora – Homes and Communities, to provide the Government with a means to step into urban planning and improve urban outcomes.
- Local Government Act reforms, which have already redefined the purpose of local government to promote broader economic, social, environmental and cultural wellbeing.
- Infrastructure funding and financing tools to overcome funding capability barriers within local government and mitigate financial misincentives impeding urban development.
- Strategic transport planning reform to enable longer term thinking and better land use-transport alignment.
- Three waters reform, to establish an expert central water quality regulator and further investigations into optimised delivery.
- Creation of the \$1b per annum Provincial Growth Fund to facilitate investment outside the main centres and drive regional economic development.

This is the most significant institutional reform in a generation. It is too soon to know how successful initiatives have been, or even whether they will all be implemented. If legislation is able to be passed and the Government is able to follow through on its aspirations, there is a high probability that improved performance across key economic, social, environmental and cultural outcomes will be achieved. Refocusing institutions alone on what really matters is a major step forward.

The risk of centralised planning, funding and delivery

However, the reforms are not without risk. Proposals have to date relied heavily on central government strengthening its management of all aspects of governance. Central policy direction has been considerably strengthened through national and transport policy statements. Centralised delivery is being enhanced through the new urban development authority. Central funding capability has been retained and financing capability expanded to empower the likes of Housing New Zealand and Crown Infrastructure Partners.

Well-considered reforms to the underlying incentives and capabilities of central government institutions have not been applied to local government. More prescription and less room for local decision making may reduce the scope for poor local decisions, but undervalue the benefits of regional integration and local knowledge. With the right incentives, strong and capable subnational institutions will achieve both local and national outcomes.

Changes are needed in each area of responsibility, but the consolidation of authority inside central government creates risks. Will a new Government maintain reforms, or reject them, leading to another abrupt change in national policy? What would a different Government do with the added powers and enhanced central capability? Who is making sure central government gets it right – what if a Government gets it wrong?

The period of economic and social reform from 1984 was precipitated by an economic crisis born, in part, out of Government policy. Many of the changes were designed to minimise the potential for central government, as the principal planner, funder and deliverer of public services, to ever again overextend the nation's resources. They achieved this by constraining the activities of central government institutions and devolving planning powers.

By expanding the mandate of Government institutions, strengthening delivery and bringing planning powers back to the centre, current reforms risk repeating the mistakes of the past. Recent policy swings which have damaged the economy are likely to become worse, not

better. New Zealand needs a way of achieving both the benefits of outcomes-oriented institutional integration, on one hand, and financial and policy stability on the other.



Building regions as a means to strengthen governance

The means to achieve this is by devolving greater responsibilities away from central government, while strengthening the Government's overall management of the system. Devolving or delegating greater revenues and responsibilities to capable and competent subnational government at the same time as strengthening central planning is a opportunity to achieve better alignment across public services. Enhanced governance at the subnational level can better represent regional and local outcomes as well as strengthen local decision making and democracy. National outcomes will not suffer if New Zealand's high-performing institutions are capable and appropriately incentivised.

This cannot happen overnight. Councils do not have the scale to manage and deliver many current services, let alone additional responsibilities. Local government in its current form lacks the confidence of the public.⁹¹ Without legislation to clarify central government's oversight role, empowered local government institutions do risk undermining national outcomes.

Added responsibility at the subnational level of government first requires subnational government to demonstrate acceptable levels of competency. Regional government needs to have the scale to deliver "regional" services achieving regional and national outcomes.

Make it optional, make it work

Local constituents have clearly demonstrated through successive consolidation referenda that local identify and representation is a top priority. Truly local representation is a bottom line. Forced consolidation could have undesirable effects, including the possibility of policy reversal leading to long term impacts for social and economic wellbeing.

This challenge can be overcome with an approach which strengthens both regional and local decision making. Stronger, more capable regional government focused on delivery of services opens the door for more local representation on issues of broader importance to local communities. Without responsibilities covering network infrastructure, new local councils could be more flexible, consolidating or separating depending on local identify. Free from conflicts of interest between their delivery and community representation responsibilities, local councils would become genuine community representatives.

Democratic local decision making would improve at the same time as regional capability helped balance central and subnational outcomes. Local councils could compete for new residents and rates, changing the incentives of local communities to want growth. Regional government would compete for private investment and economic development, driving regional economic development. Central government would manage the system as a whole. National outcomes would be promoted, regional outcomes would be promoted and local outcomes would be promoted.

An outcomes pathway

Infrastructure New Zealand considers that the current policy environment provides a once in a generation opportunity to think about the full system of government in New Zealand.

The following pathway will build off current reforms and continue momentum towards a nationally, regionally and locally-aligned institutional framework which incentivises and enabled public service organisations to promote wellbeing.

1. 2019: Establish the National Infrastructure Commission (NIC)

Complete establishment of the arms-length National Infrastructure Commission – Te Waihanga (NIC). NIC provides strategic advice to government and project support to central and subnational government. NIC advises the Government and institutions as to the adequacy of public and private infrastructure in New Zealand. NIC monitors performance of centrally provided infrastructure and helps represent central government through spatial planning development.

NIC develops national infrastructure project pipeline and, by 2023, leads Government delivery of the first National Development plan, identifying key priorities for national development. NIC applies enhanced Investor Confidence Rating Scheme to new regional governments to ascertain readiness for greater responsibilities.

2. 2020-2023: Establish a Regional Development Fund

From 2020, expand the \$1 billion per annum Provincial Growth Fund into a \$2 billion Regional Development Fund (RDF) covering all of New Zealand. RDF is open to all existing local authorities who collaborate across a wider economic area to develop and deliver an evidence-based regional spatial plan. Payments follow key milestones, including completion of the plan, delivery of agreed projects, transfer of water responsibilities and changes to zoning and other planning rules.

3. 2020-2023: Reform the planning system

Merge the Resource Management Act, Local Government Act and Land Transport Management Act into two new Acts: the Environment Act and the Development Act.

The Environment Act would put the environment first. A national environmental regulator replaces existing regional council functions. National bottom lines identified and regions given scope to strengthen bottom lines depending on local aspirations.

The Development Act consolidates the planning functions of the Resource Management Act with the Local Government Act and the Land Transport Management Act. It provides opportunities for, and processes to establish, regional government, subject to a local referendum.



4. 2023 onwards: Subnational government reform

From 2023, a referendum in each local area held seeking support for strengthened regional governance. Local communities choose which region they identify with. Any changes take effect from the following election.

From 2026, following a vote of popular support, new regional government established across supporting territorial local authority areas. Existing regional council disestablished and environmental management responsibilities transferred to central environmental regulator.

Some rating powers, land transport and strategic planning powers vested in new authority. Territorial local authorities remain, with reduced responsibilities, but more flexible forms of funding and financing to meet local needs. Further local community discussion over right form of representation at the lowest level.

Regional government, once established, begins negotiations with central government for added responsibilities and revenue. Investor Confidence Rating Scheme used to evaluate investment capability. Land transport (excluding rail) funding and delivery, housing, regional economic development and spatial planning to ultimately become regional activities, subject to demonstrated capability and capacity.

5. 2023: Water reform

Three waters services structurally separated from territorial local authorities and corporatised into 3-5 regional water providers nationally. Volumetric charging introduced for water supply and wastewater. Operational subsidy from local ratepayers for stormwater.



6. 2026 onwards: increased devolution

New and expanded powers devolved to new regional governments which demonstrate capability to strategically plan, collaborate and deliver. Regions ultimately receive a proportion of economic activity to incentivise positive growth management.

Land/property taxes introduced and income and corporate tax reduced in tax neutral “swap”. Tax swap incentivises labour and productivity, disincentivises inefficient land use. Development and financial charges removed, simplifying the tax system and incentivising development.

7. 2026 onwards: further reform

Electoral cycle shifts to four years to improve consistency of decision making. Division of powers across central and regional government balances enhanced decision making capability from lengthened cycle.

National road pricing introduced and used to supplement transport investment. Fuel levies and road user charges removed. Dynamic price signals improve efficiency of the road network.



Development Act 2023

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