

Infrastructure New Zealand Position Paper: **Better Local Government**



Current problem

Aotearoa faces a number of challenges to meet current and future infrastructure needs. As a result of decades of underinvestment, we have an infrastructure deficit of at least \$210 billion. This will only grow as ongoing deferred maintenance and renewal, as well as the impacts of recent and future climate change events continue to take a toll on our infrastructure assets. We have many of the tools to build a sustainable, and much needed, pipeline of work. The challenge we put forward is the need to change our political, planning and funding systems and to leverage our existing toolkit and partnerships to deliver better long-term, sustainable outcomes for New Zealanders.

Local government settings create a separation between planning and funding functions

Our local government arrangements separate and isolate two of the most powerful governing responsibilities. Planning is almost completely delegated to local government, while fourteen out of fifteen tax dollars are collected by central government.

This creates incentives that are fundamentally misaligned fiscally, financially, and structurally. Central and local government both face different (and often competing) motivations. Local government's primary source of revenue – rates – is detached from council performance and is instead linked to voters' priorities, which often focus on vertical infrastructure with tangible outcomes and near-term impact. These priorities can crowd out much needed investment in horizontal infrastructure that can at times be less visible but is no less important. This misalignment of incentives often leads to situations in which local government is not adequately equipped to plan for or fund infrastructure needed to address local challenges such as growth and rising sea levels. This puts local government at odds with central government who gets direct benefits from improved economic performance and is incentivised to proactively pursue economic growth.

As a result, we lack a certain and built-out pipeline that would allow the sector to gear up to deliver on the infrastructure that New Zealand urgently needs. Infrastructure New Zealand (INZ) has long advocated for system change to align incentives to deliver the infrastructure outcomes New Zealanders deserve. In 2019, our report entitled *Building Regions: A vision for local government, planning law and funding reform* outlined a vision for a governance and funding system that leverages regional coordination and reallocates roles and responsibilities.

Fragmentation hinders regional outcomes

There is also a misalignment of incentives at a regional level. 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.

Councils are disincentivised from investing in long-term projects with diffuse benefits and pursuing collaboration with other governance bodies in the region where benefits don't accrue immediately, or only, to local constituents. The Resource Management and Three Waters reforms will go some way to addressing planning fragmentation and lifting investment in water infrastructure. However, without changes to the way roles and responsibilities are allocated, we will struggle to deliver the infrastructure New Zealand needs now and into the future.

Infrastructure New Zealand's Position

We need to reallocate roles and responsibilities in the system to align incentives

There is a need to fundamentally re-align incentives. INZ recommends empowering regional government with functions that have spatial effects, with local governance being refocused on community wellbeing and service delivery. Land transport (excluding rail and a well-defined strategic national road network) planning, funding and delivery, housing, regional economic development, and spatial planning should ultimately become regional activities, subject to demonstrated capability and capacity.

We need to take a joined-up approach to funding and financing our infrastructure

To support the delivery of infrastructure outcomes by regional and sub-regional entities, system change needs to be met by joined-up funding and financing that enables infrastructure delivery and certainty for the sector. Regional deals, based on city deal-style arrangements, would allow regional bodies to engage with central government to agree regional outcomes, negotiate greater certainty of funding and drive growth in the long-term through the delivery of infrastructure projects which increase the region's economic capacity. Stronger alignment on regional outcomes can provide a basis for central Government to explore new funding tools such as bed taxes or sharing of GST on new builds.

However, neither central nor local government can fund New Zealand's infrastructure needs alone. We must involve private sector capital to support infrastructure delivery through approaches that involve private sector capital and delivery capability by more effectively using existing, and creating new, alternative financing tools, as well as other funding and financing approaches.



Key Recommendations

- Roles and responsibilities across local, regional, and central government need to be reallocated to ensure that incentives are effectively aligned to deliver infrastructure outcomes.
- Government should explore tools and opportunities to improve the incentives facing councils so that they strive to enable growth by getting the benefits, not just the costs.
- A joined-up funding and financing approach that includes regional, city-deal style, arrangements should be common practice.