

Infrastructure New Zealand Position Paper: **City and Regional Deals - Laying the Foundations for Partnership**



Current problem

We need to get the underlying settings right to deliver successful city and regional deals

Recently, there has been a growing interest in city and regional deals – or ‘place-based agreements’. These long-term deals provide an opportunity to address our infrastructure deficit, but the incoming Government will need to ensure that the underlying settings and performance expectations are right for them to facilitate successful infrastructure outcomes.

Ad-hoc arrangements like the Auckland Transport Alignment Plan and urban growth partnerships provide a basis for partnership to address local issues but do not go far enough in covering a cohesive range of sectors and initiatives, devolving responsibility and addressing underlying funding arrangements.

The case for long term agreements

New Zealand has one of the OECD’s most centralised tax systems, but land use, urban development and resource planning is almost completely delegated to local government. At present, revenue incentives for local governments are at odds with those for central government which gets direct benefits from improved economic performance and is incentivised to proactively pursue economic growth. Three year central and local government election cycles add a layer of uncertainty alongside a competitive and uncoordinated process for the centrally controlled capital funds which supplement rates for discrete programmes and projects.

City and regional deals provide an opportunity to rebalance power, and to address New Zealand’s infrastructure deficit. They are long term agreements – often between 10-20 years – which hinge on agreed regional outcomes that enable central and local government to make joint funding commitments and provide a basis for local authorities to have greater autonomy, powers and responsibilities to deliver a range of urban and regional initiatives.

City and regional deals should act as the first step of a broader devolution agenda and should consist of a joined-up approach to negotiations, new sustainable sources of funding for local government and partnership with iwi and the private sector. The deals would layer onto existing urban and regional policy and plug into national spatial planning, infrastructure investment and governance models. For them to work, coordinated devolution of responsibility alongside sustainable and depoliticised funding will be critical.

Key lessons from overseas

Internationally, infrastructure has been a key focus across deals. There are lessons we should take on board when implementing the approach here.

- In the UK, earn back mechanisms by which the regional council would get a portion of additional tax revenue from gross value-added increases resulting from local investment in infrastructure are valuable. The establishment of combined authorities and local enterprise partnerships have also gone some way to enabling private investment and laying the foundations for later deals through increased scale for local authorities as part of a broader devolution agenda. A lack of national coordination has hampered outcomes.
- Australia has benefitted from the existing capacity and capability of state governments and has focussed less on devolution. Contestable Private Sector Business Enablement funds in some deals support enabling infrastructure for private sector projects which would contribute to economic growth in a given area. There is an opportunity to build on engagement with First Nations people towards substantive partnership.

In both countries, other tools like revolving loan funds, value capture, revenue charges and tax increment financing have also proved successful.

Infrastructure New Zealand's Position

City deals are the next step in establishing enduring equal partnerships between central and local government

The Government needs to approach the deals as part of a broader devolution agenda and not seek to retain all decision making in Wellington. Oversight is necessary, but power-sharing should be negotiated and agreed in the body of any deal. Reducing funding politicisation will be critical to long-term certainty.

Councils shouldn't see the agreements as a competition for centralised funding based on a list of projects in the pipeline. In the first instance, councils should coordinate on deal negotiation. A nationally coherent plan for cities should inform a strategic focus on growth areas.

Sustainable funding is the key to success

Councils should benefit from the growth they're creating, and their communities are paying for. The introduction of new funding and financing tools alongside the improved use of existing ones is required. Earn back mechanisms, user pays charges and GST sharing on housing developments should be considered within the deals.

Long-term partnerships are most successful when they involve the private sector (and private capital) from the start. Partnership is essential and the costs and benefits of delivering the work programmes within any deal need to be shared. Co-investment from iwi and superannuation funds would be a helpful first step.

Against a growing infrastructure deficit, the time is now for New Zealand to try a new long-term approach to infrastructure investment and economic growth in our cities and regions. Getting the right foundations in place will be critical to the agreements' long-term success, and the future of the central and local government relationship.

Key Recommendations

- Local authorities should be empowered to benefit from the growth they create through earn back mechanisms and new revenue tools.
- Iwi and the private sector should be engaged early in long-term deal negotiations
- City and regional deals should represent a first step towards devolution and a coordinated approach to negotiation and delivery should support this.