

Terms of Reference

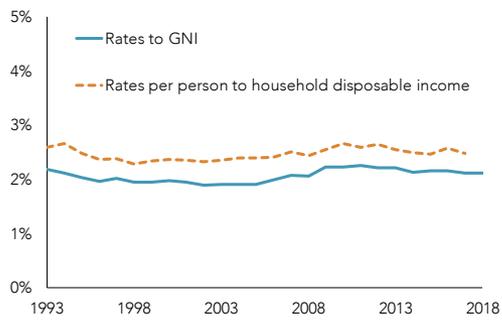
- Understand the drivers of local government costs, now and into the foreseeable future
- Assess the adequacy, efficiency, sustainability, equity and affordability of the existing local government funding and financing framework
- Advise whether new or improved approaches are required

The inquiry evidence base:

- 136 submissions
- 70+ engagement meetings
- Four in-depth case studies
- Expert advice and input

Local government funding & financing at a glance

Rates have grown in line with population and incomes



Local government spending growth has been focused on essential infrastructure

- Roading and 3 waters accounted for 56% of capex over the last decade
- Capex has had flow-on effects to opex (depreciation and interest)
- The prices faced by local government grew faster than those for general consumers
- Real local government expenditure growth per person has been modest (1.2% a year)
- Debt has risen significantly, but for most councils and the sector as a whole, is not a concern

The current funding and financing framework is broadly sound

- Radical reform is not required; and there is no clearly superior alternative to a property-tax-based system
- However, there is significant scope for councils to make better use of the current funding tools, and improve their performance, productivity and decision making

The best way of using the current funding tools

- The "benefit principle" should be the primary basis for deciding who should pay for local government services
- Councils should consider "ability-to-pay" in a second step, taking into account central government's primary role in income distribution
- Local services should be funded by local ratepayers. Where local services also benefit national interests, central government should contribute funding
- User charges or targeted rates should be used wherever possible and efficient

Better use of existing tools

- General rates
- Targeted rates (incl. uniform charges)
- Fees and user charges
- Development contributions
- Central government funding
- Debt

Funding pressures

- 1 Meeting the demand for infrastructure in high-growth areas
 - 2 Tourism hotspots
 - 3 Unfunded mandates
 - 4 Climate change adaptation
- Case study: 3 waters performance

Funding gaps



Reforms and new tools

- Special Purpose Vehicles
- Volumetric charging for wastewater
- Road congestion pricing
- Value capture
- Payment based on new building work
- Accommodation levy
- Portion of the international visitor levy
- "Partners in Regulation" protocol
- Extended NZTA model
- Local Government Resilience Fund and Agency
- Nationally-led science and legal framework
- New regulatory regime and regulator

Equity and affordability

- There is little or no evidence that rates have become less affordable over time, even for lower-income households
- Rates Rebate Scheme is inefficient and inequitable – replace it with a national rates postponement scheme
- Statutory 2-step process for rate-setting (based on the benefit principle and ability to pay)
- Remove differentials, uniform annual general charges and 30% cap on uniform charges

Improved decision making and performance

- Capability building
- Mandatory, independently-chaired assurance committees
- Streamlined Long-Term Plans
- Fundamental review of performance reporting regime
- Encourage uptake of existing performance improvement and benchmarking programmes

