

Local Government NZ

City deals – options and
key considerations

November 2023



The role of City Deals

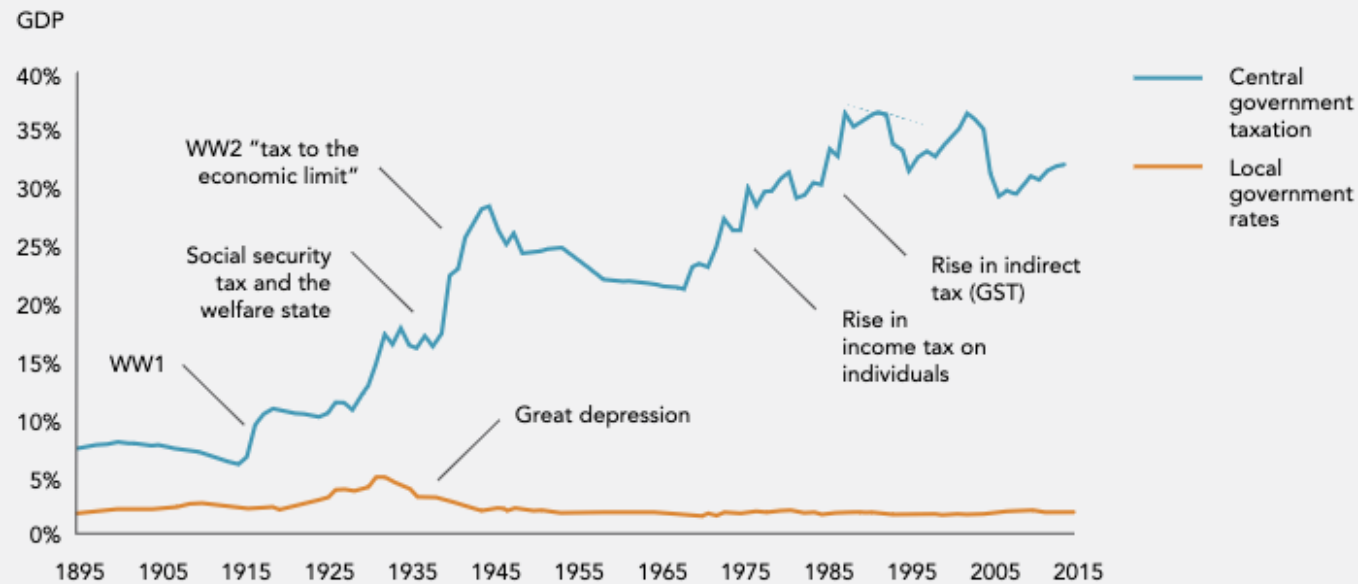
City Deals have the potential to be an important new tool to promote economic growth, add jobs, facilitate high value infrastructure investment, and promote urban renewal in targeted cities and regions.

Well designed and implemented City Deals should:

1. Stimulate economic growth by attracting investment, fostering innovation, and creating jobs in designated cities and regions.
2. Accelerate the planning and delivery of critical infrastructure projects, with a particular focus on cities where growth is being held back due to infrastructure deficits.
3. Create vibrant, livable communities by revitalising urban areas, and addressing the impacts of significant damage-causing events.

The tax burden in New Zealand

Figure 1 Taxation as a percentage of GDP in New Zealand



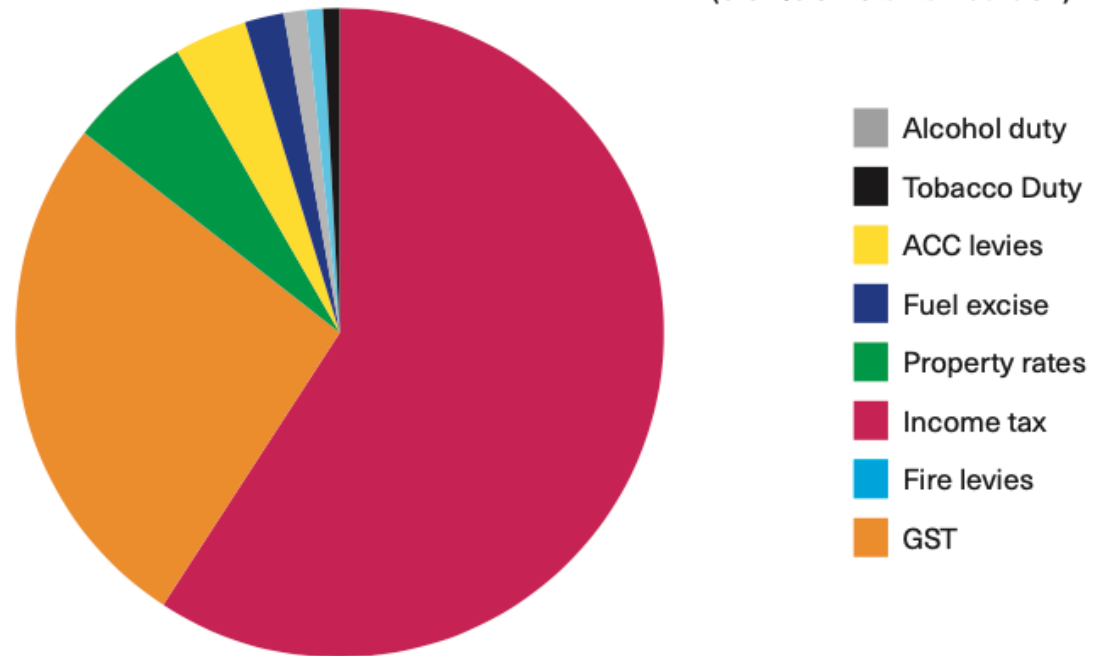
Source:

Chart adapted from Craven et al. (2019), historical data from Goldsmith (2008), recent data (1993 and onwards) are NZPC calculations based on Stats NZ (2018, 2019) and OECD (2019).

Funding – what do we pay in taxes?

Average taxes paid by New Zealanders over their life¹:

- *Income tax* - \$649,000
- *GST* - \$291,000
- *Rates* - \$67,000
- *ACC levies* - \$40,000
- *Fuel excise* - \$21,000
- *Alcohol and tobacco* - \$18,000
- *Fire levies* - \$10,000
- *Total* - \$1,097,000



1. Source "2023 Lifetime Tax Report" prepared by NZ Taxpayers Union
https://assets.nationbuilder.com/taxpayers/pages/2590/attachments/original/1697085214/231012_NZTU_LIFETIMETAX.pdf?1697085214

Sir Howard Bernstein – the architect of City Deals



Sir Howard:

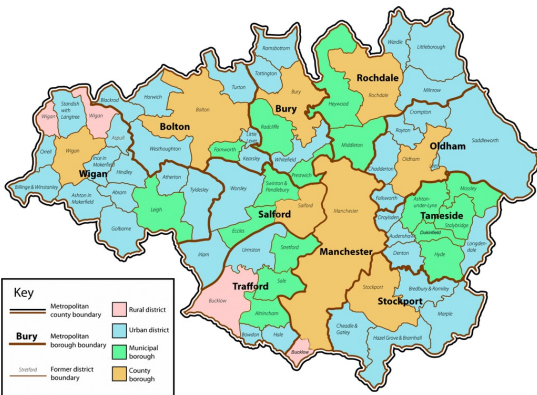
- “Cities are crucial engines of economic growth.”
- “Transport, housing, economic development, skills and job creation are best addressed at city-region level.”
- “Only by assuming greater freedoms and powers devolved from Whitehall can we begin to realise the full potential of our cities.”

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City deals in Australia

- City deals in Australia were an initiative of the federal government, and aimed for much greater co-ordination between federal, state and local government
- A key difference in Australia is the role of states, meaning there is already significant devolution from a federal level.
- City Deals in Australia do not typically include any real devolution or change to existing policy and funding settings (from state to local).
 - ***“Largely packaged up things that have been in the pipeline”***
- They are a mix of big urbans (Western Sydney – centred around the second airport) and smaller regional cities (e.g. Townsville).
- Each project within the “deal” tends to have a bespoke funding arrangement (from grants to special rates to value capture), and delivery is delegated to a single agency.

City Deals in the UK



Greater_Manchester_County_(3)

The best known is the Greater Manchester Devolution Deal. What started as an agreement to pool funding across agencies, led to the creation of the Greater Manchester Combined Authority, and eventually to increased devolution and revenue earn-back arrangements.

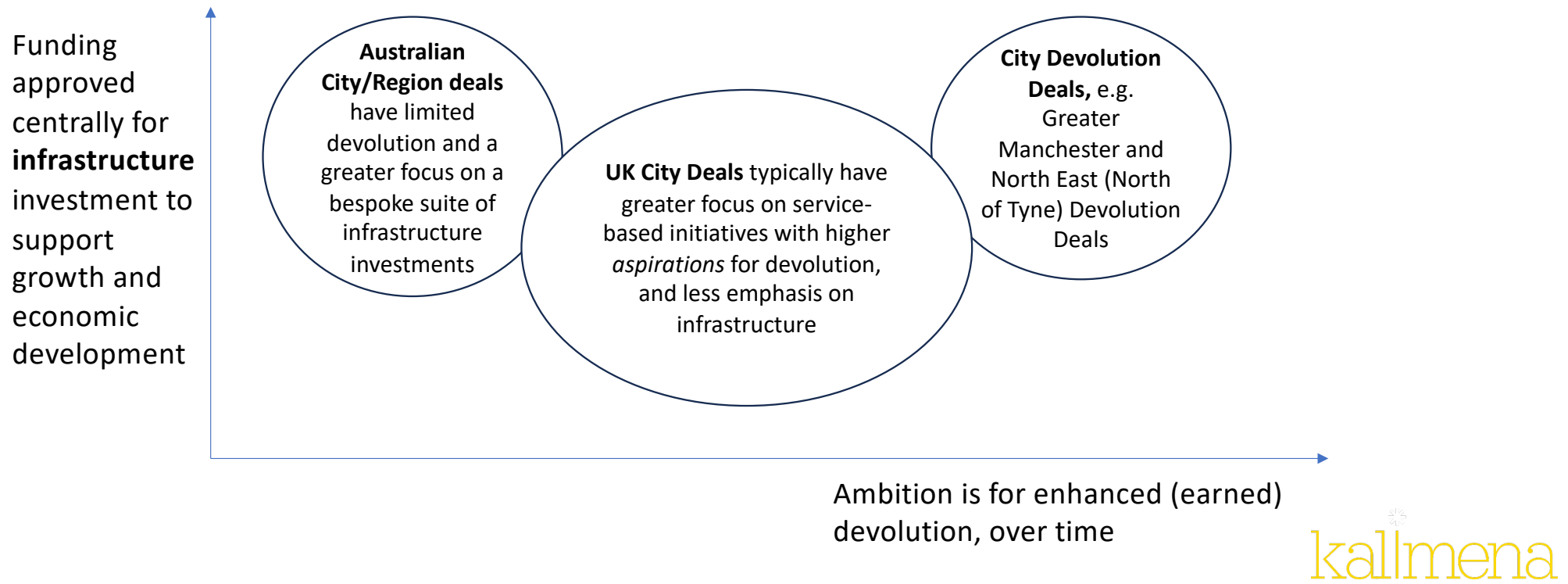
More recently the North East Devolution Deal is expected to see a new North East Mayoral Combined Authority to come in effect March 2024 with authority to invest GBP4.2B (over 30 years), and scope to enter into negotiation for further devolution.

North East Devolution
A £4.2bn package of investment and powers for the region

The block contains logos for the following entities: Durham County Council, Gateshead Council, Newcastle City Council, North Tyneside Council, Northumberland County Council, South Tyneside Council, Sunderland City Council, and the North of Tyne Combined Authority.

Spectrum of City Deals

City Deals tend to fall on a spectrum internationally.



Option 1: Provincial Growth

- Emphasis on infrastructure to drive **population growth & housing affordability**
- Support enhanced **community resilience**
- Designed to stimulate **regional economic development**
- **Wider range of infrastructure** investments, beyond road/rail/water; Examples include stadia, community amenity, town centre renewal, natural disaster recovery
- Often leverage existing **Growth** or **Workforce** strategies
- Stronger linkage between **spatial planning** and infrastructure investment
- Support the expansion **of existing business** / industry
- Funding and financing more traditional **grants/loans or co-funding**.

Examples:

- **Australia** - Townsville, Darwin, Hobart, Geelong
- **UK** – Plymouth/SW Devon, Scottish Highlands, Midlands Engine Strategy, Belfast

Example
Provincial
Growth City/
Region Deal -
Townsville

Australia's first city deal, signed December 2016, for investment over 15 years. Key projects completed to date under the Townsville City Deal include:

- Stadium
- Port of Townsville channel upgrade
- Water security pipeline
- Workforce Development Plan
- Health and Knowledge Development Strategy



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Option 2: Jobs Growth (Key Focus Industry)

- Designed to support key industries where a city or region has **global competitive advantage**
- May leverage a national **Sector Strategy** (e.g. tourism, energy, food, technology, primary sector)
- Attracting **foreign investment** may be a KPI
- Include investments in **industrial parks, connectivity, ports, digital infrastructure, workforce development and liveability**
- Funding and financing arrangements could include **earn-back or value capture**

Examples:

- **Australia** – Darwin/Townsville (defence), Adelaide (innovation economy)
- **UK** – Glasgow (creative industries), Edinburgh (data & digital), Cardiff (semiconductors)
Birmingham (advanced manufacturing & engineering), Aberdeen (new energy)

Example Jobs Growth – Edinburgh & SE Scotland

- A collaboration between the UK government, the Scottish government, and local authorities (2018)
- Overarching goal is to create job opportunities in the region, with a particular focus on **data-driven innovation**, life sciences and financial services.
- Investments include initiatives to enhance digital technology and data-driven innovation capabilities.
- Total of GBP1.5B over 15 years, including range of investments to attract inward investment:
 - Fibre infrastructure
 - Creation of an Innovation Campus at Heriot-Watt University
 - Expansion of the tram network
 - Affordable housing for an expanded workforce
 - Cultural amenities and public spaces



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Option 3: Major Urban Centre

- Often a response to significant population growth in an urban centre
- Significant existing pressure on infrastructure
- Emphasis on improving housing affordability, and quality of life
- Strong focus on transportation, congestion reduction and digital technology
- Often include airport, port and public transport improvements
- Precinct planning integrated with infrastructure investments
- May include focus on nationally important industry sectors to create jobs
- An alternative to local government amalgamations
- Funding and financing could include congestion charging and other forms of user charges, alongside value capture

Examples:

- Australia - Western Sydney, Perth, SE Queensland
- UK – Liverpool Region, West Yorkshire (Leeds), Greater Birmingham, Glasgow

Example Major Urban – SE Queensland

- Partnership between the federal and state government and the SEQ Council of Mayors.
- 29 commitments designed to support one of the fastest growing regions in AU
- Population projected to grow a further 42% by 2041
- Designed to complement delivery of the Brisbane 2032 Olympic & Paralympic Games
- Significant investments in:
 - Transport – roads, rail, public transport
 - Digital connectivity
 - Liveability including waste, rivers, cultural assets
 - Housing infrastructure to support growth
 - SEQ Innovation Economy Fund



Option 4: City/Region Devolution Deal

- Seen as a pathway to meaningful partnership between central and local government
- Additionally, significant involvement of private business – including in leadership roles
- Designed around a jointly developed economic growth strategy
- Provides a pathway to increasing levels of devolution, often starting with transport
- Intentional investment to support job creation, encourage inward investment and workforce development (including research and development)
- Integrated funding pool(s), and new funding & financing tools available

Examples:

- Greater Manchester, North East England (Newcastle upon Tyne and surrounding)



Greater Manchester City Devolution Deal

2014 Manchester City Deal - Agreement between the UK government and the Greater Manchester Combined Authority (established in 2011 by Manchester City Council & 9 other local authorities)

*The priorities identified in the **Greater Manchester Strategy** formed the basis of proposals in the City Deal*

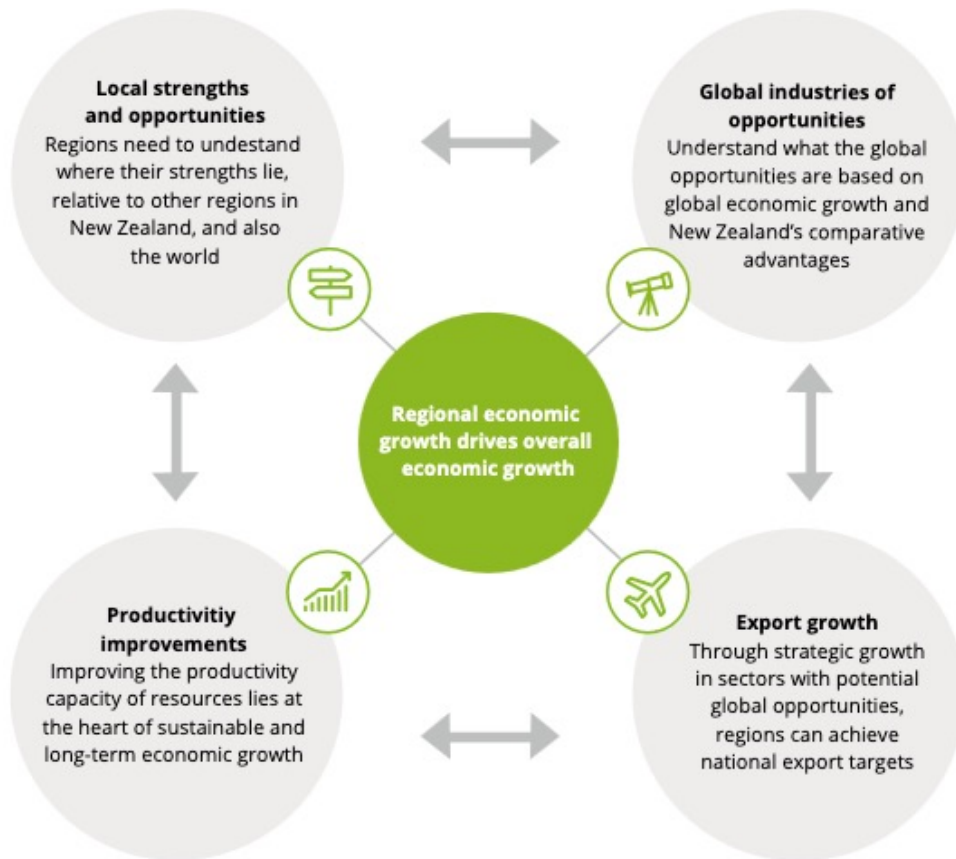
Devolution of Powers - Increased decision-making powers in areas such as transportation, housing, planning, and skills development.

Investment and Funding - Significant investment from Central Government and the Greater Manchester local authorities. Funding for infrastructure projects, housing developments, transport improvements, and economic regeneration initiatives.

The City Deal encompassed a range of agreements and initiatives

Earn Back Model - Allows Greater Manchester to retain a portion of the additional tax revenues generated from economic growth and investment in the region. Revenue reinvested in further development projects.

Key Focus Industries for New Zealand



Source: Deloitte Access Economics

The biggest opportunities sit at the intersection of global opportunity and local economic advantage. For New Zealand these Key Focus Industries are:

- Agri-business
- Tourism
- Food innovation and processing
- Advanced manufacturing (e.g. med-tech, fin-tech, gaming)
- Energy (emerging)
- Logistics (to support all of above)

Which sort of City Deals for New Zealand?

Simple re-packaging of existing pipeline



More advanced leverage of evidence-based strategies thru collaboration



Ambitions for devolved decision-making: earned autonomy



Economic stimulation & resilience



Leverage global comparative advantage



Agglomeration benefits in cities



Enable localism

Pathfinder City Deals for New Zealand?

Taking these factors into consideration this could suggest the first tranche or “pathfinder” City Deals are those with:

1. Strong economic growth and job creation potential, due to:
 - Good existing, or potential for excellent connectivity due to port/airport access.
 - Key Focus Industry (KFI) cluster, with potential to grow & add jobs.
 - High functioning tertiary education sector presence to support workforce development and innovation.
 - A great place to live – attractive for inward investors.
2. Nationally important infrastructure projects, expected to drive significant economic benefits and unblock constraints on economic growth.
3. Possibly also...high priority location for climate adaptation investment (or natural disaster recovery).

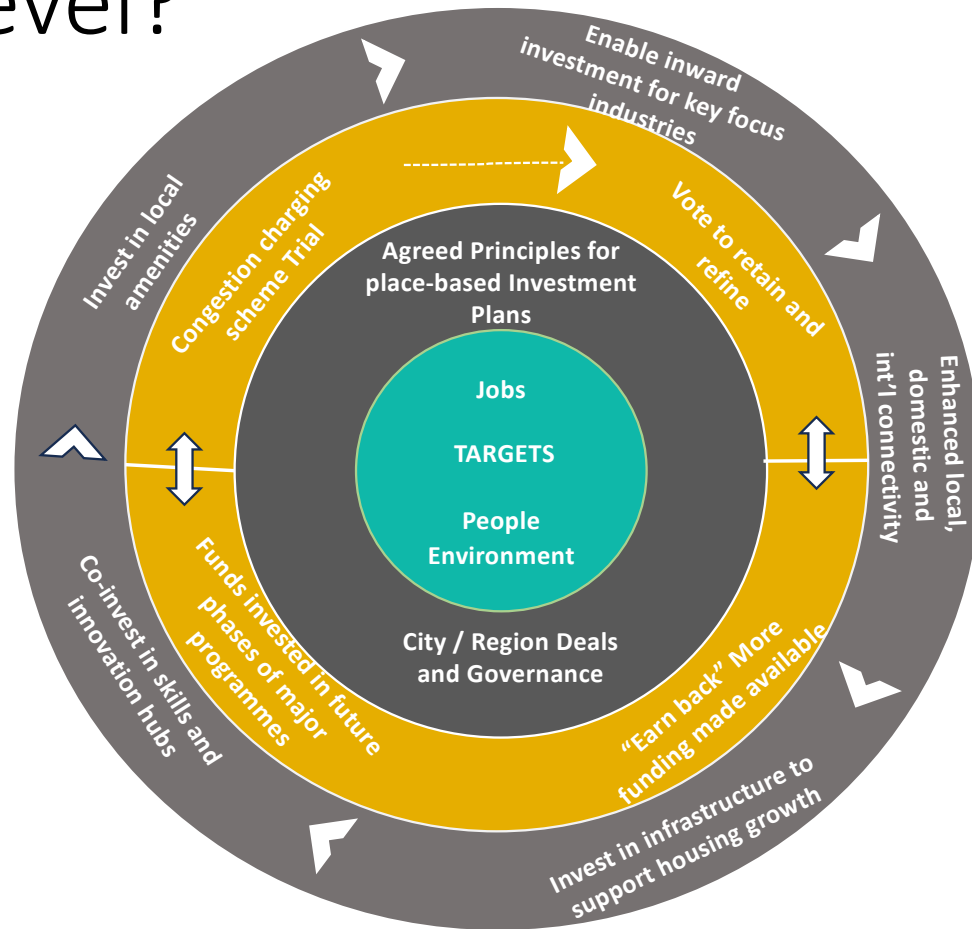
Illustrative deals – could be a mix of the following

	1 - Major Urban	2 – Job Growth	3 – Provincial Growth	4 – Job Growth	5 – Job Growth	6 – Provincial Growth
Connectivity - domestic/international						
Key Focus Industry cluster(s)	Agri-business	Advanced Manufacturing	Tourism	Energy	Food	Logistics
Workforce development (strong tertiary)						
Great place to live (attractive to FDI)						
Nationally important infrastructure need						
Cyclone impact / climate change adaptation						

Key take-aways for New Zealand

1. Identify sources of potential jobs / competitive advantage in a particular location,
2. Collaborate to leverage competitive advantage, for example JVs between universities and centres of innovation.
3. Focus on education; growing a skilled workforce (and not just tertiary)
4. Agree on strategy and use this to prioritise investments to catalyse growth.
5. Invest in infrastructure to support a great lifestyle, e.g transport
6. Connectivity to global markets remains vital
7. Don't forget about cities – agglomeration benefits are important
8. Good governance is critical, but elusive

How might this work at a local government level?



- Councils must find mechanisms to effectively **work together**
- Commit to a set of **principles** for place-based investment, and outcome targets
- **Co-invest** in infrastructure to support growth, civic amenities and housing
- Invest in improving **urban livability**, including transport
- **Central government funding** of signature investments where appropriate
- Central government could opt to sponsor a **congestion charging** trial
- Targeted use of **IFF schemes**
- **Earn-back** of additional funding if targets are met, to support future phases of investment

Time for discussion

Questions to the group:

- What work has already been undertaken by your council to develop or get ready for a city deals model/approach?
- What are the specific needs of your community that need to be met?
- What are some non-negotiable principles that LG would need to make these work on the ground?



Any further questions?

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Funding and Financing Options

All city deals should have an element of co-funding. Innovative approaches to financing and procurement should be baked in to enhance VFM. Options to consider:

1. Co-funding central - local government.
 - Leverage mechanisms developed by Kānoa-RDU
 - Consider “Earn-back” arrangements to enable capital recycling (e.g. Council earns back GST on new rateable units by meeting defined economic KPIs)
2. Enable new forms of financing, leveraging the value created through investment
 - PPPs partially repaid by new sources of revenue (user charges, levies)
 - Allow for land-valued based rating methodology in approved zones
 - Support special purpose or “place-based” Public-Private (P2) partnerships (P2Ps) – private sector finances, builds, and maintains infrastructure at no cost to government, in expectation of increased property values or a share of other revenue generated by a project in a particular location