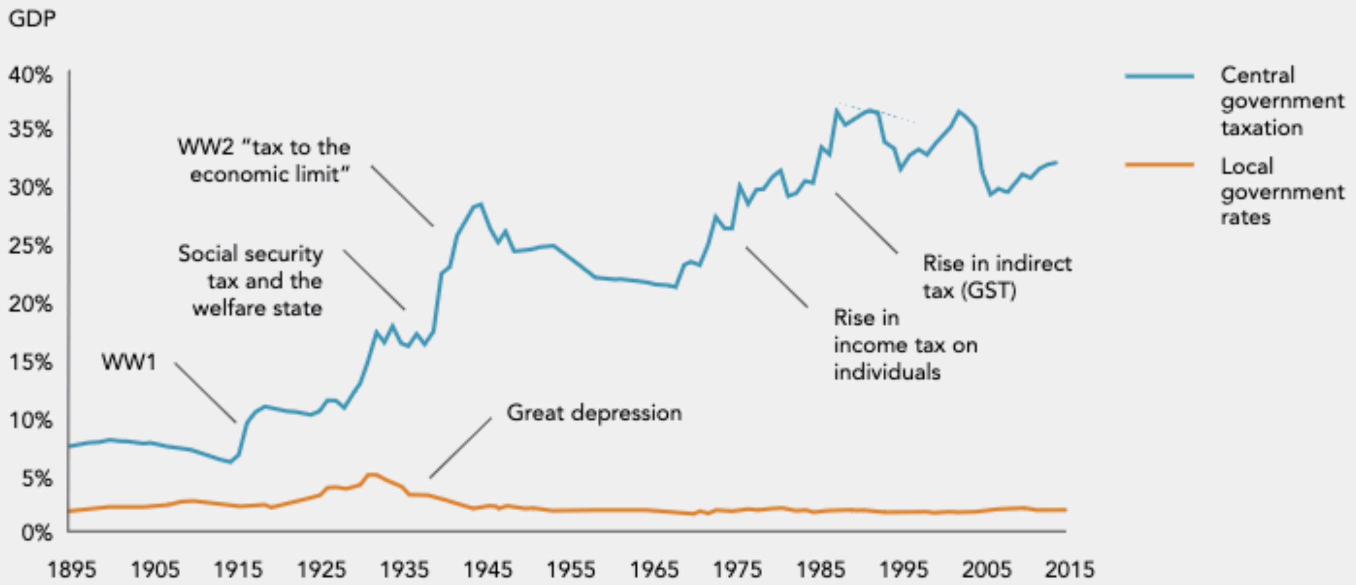
Local Government New Zealand

New ways to fund local government

Presentation to LGNZ SuperLocal Conference, 27 July 2023

The tax burden in New Zealand

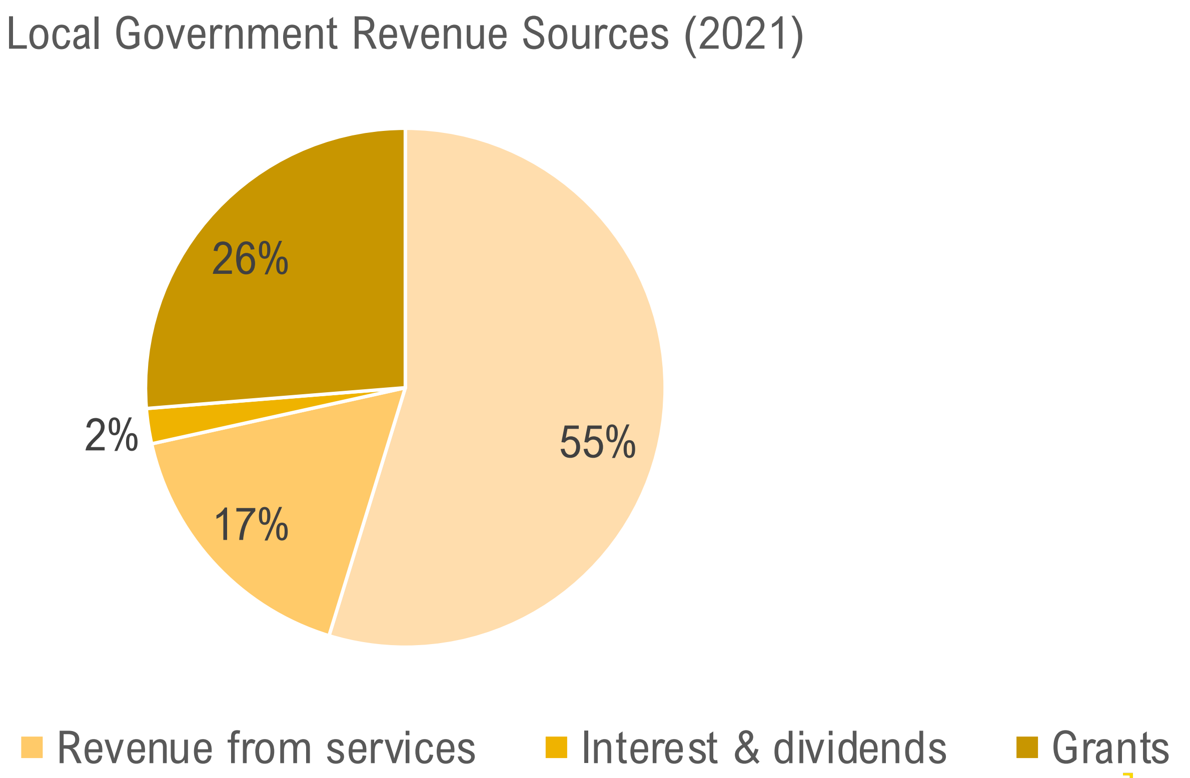
Figure 1 Taxation as a percentage of GDP in New Zealand



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).

Source Productivity Commission

Sources of revenue



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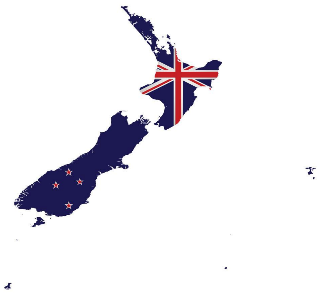
Proportion of public expenditure at local level

Germany – 35%

(NB: Germany is a federation of states) - spending covers education, health, and social housing

United Kingdom – 25%

(NB: Some due to devolved administration in Scotland, Wales and Northern Ireland) Local authorities - social housing, local schools, social services for the elderly, other welfare programmes (similar to Germany). Health delivered by the NHS (2022 health and social care reforms goal for greater integration between NHS and local government).



New Zealand - 10%

This would shrink further if spend on water shifts out of local government.

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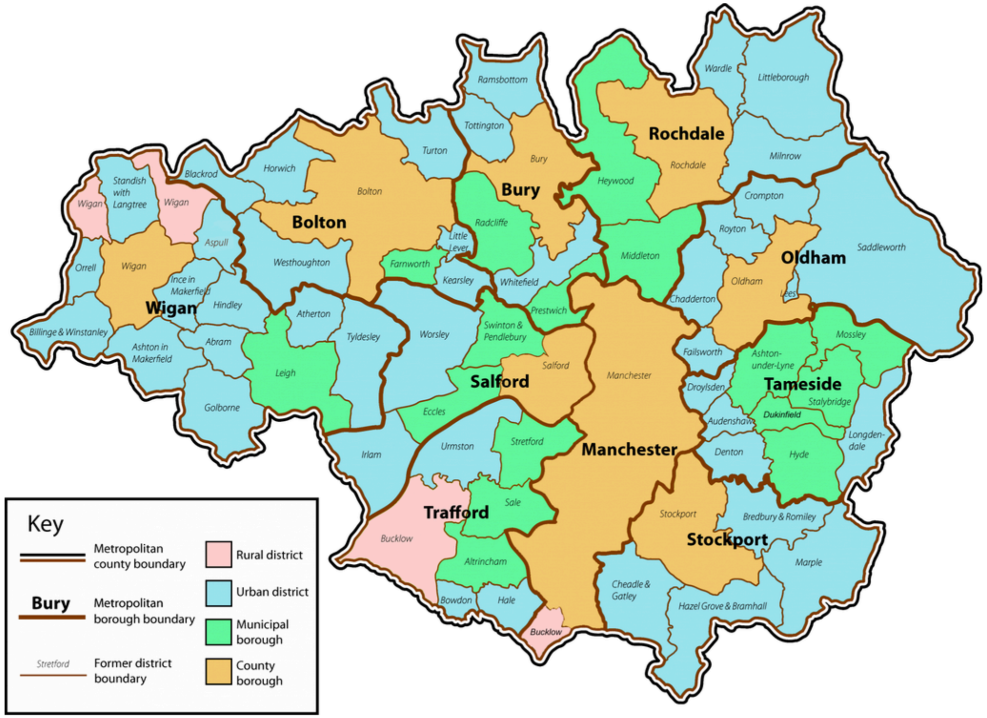
Sir Howard Bernstein



Greater_Manchester_County_(3)

Sir Howard Bernstein served as the Chief Executive of Manchester City Council from 1998 to 2017 and played a significant role in the city's regeneration and transformation.

He is widely recognized for his leadership in driving Manchester's economic growth and major development projects.

One notable initiative led by Sir Howard Bernstein was the Manchester City Deal, also known as the Greater Manchester Devolution Deal.

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Conversations with Sir Howard

Follow link to view
https://youtu.be/0vcIQJs0z3A

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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The Republic of Ireland

No barriers to foreign investment

Pro-active development of property for lease/sale to prospective investors

Strong emphasis on high quality education, from early learning to tertiary

Grants and subsidies (outside Dublin)

Low corporate tax rate (12.5%)

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Surface of opportunity

Value capture

New types of levies

Integrated funding pools

City/region deals - ”Place-based agreements”

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Value Capture

Photo: RNZ / Dom Thomas

Already in existence:

- Development contributions
- Infrastructure funding and financing schemes for new housing developments
- Special (targeted, differential) rating schemes
- **Land acquisition in advance**

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Congestion charges

Photo: Road Traffic Technology

Congestion charging schemes have been successfully implemented in Stockholm, Gothenburg, Milan, London, Singapore and Oslo.

Investigation into a scheme in Auckland commenced in 2004

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Sir Howard on devolution

1. What did the evidence from the independent economic review [of Manchester] tell you and how did it shape your priorities?

2. How did you win the argument with government for devolved powers?

Follow link to view
https://youtu.be/nPjU3LT5tRM

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Manchester City Deal

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

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.

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.

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

The City Deal encompassed a range of agreements and initiatives

Source: Kalimena Advisory (www.kalimena.nz)

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The Earn Back mechanism

The Earn Back Model built on the GM Transport Fund established in 2009:

- Brings together central and local funding into one pot
- Investment is prioritized based on net GVA impacts at Greater Manchester level
- 60% is provided locally through debt, raised against future *revenues* plus a levy to local authorities
- The Earn Back Model uses a formula, to provide a new *revenue stream* (from business taxes) to GM if additional GVA is created relative to a baseline (up to $30m pa, over 30 years)
- Incentive for GM to prioritise spending to maximise GVA growth
- Pipeline of 80 projects

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The heart of the Manchester City Deal

The essence of the concept focused on *job creation* through:

- A focus on existing competitive advantage, in particular the strength of the universities. Two existing universities were combined into one.
- Investing in the workforce, through a Skills and Employment Partnership
- Investing in infrastructure and civic amenity to make it a great place to live, starting with transport
- Fostering and incubating business growth to take advantage of opportunities, via a Growth Hub
- Reducing barriers to investment by international companies, including connectivity
- An emphasis on Low Carbon

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A city deal in New Zealand?

1. Identify sources of potential jobs / competitive advantage in a particular location, for example:
   - Creative technologies
   - Renewable energy
   - Advanced manufacturing, e.g. med-tech
2. Establish joint ventures that leverage competitive advantage, for example in Wellington this could be Callaghan Innovation and VUW.
3. Focus on education, growing a skilled workforce
4. Agree on "signature investments" to catalyse growth
5. Invest in infrastructure to support a great lifestyle, e.g transport
6. Proactively support companies to grow

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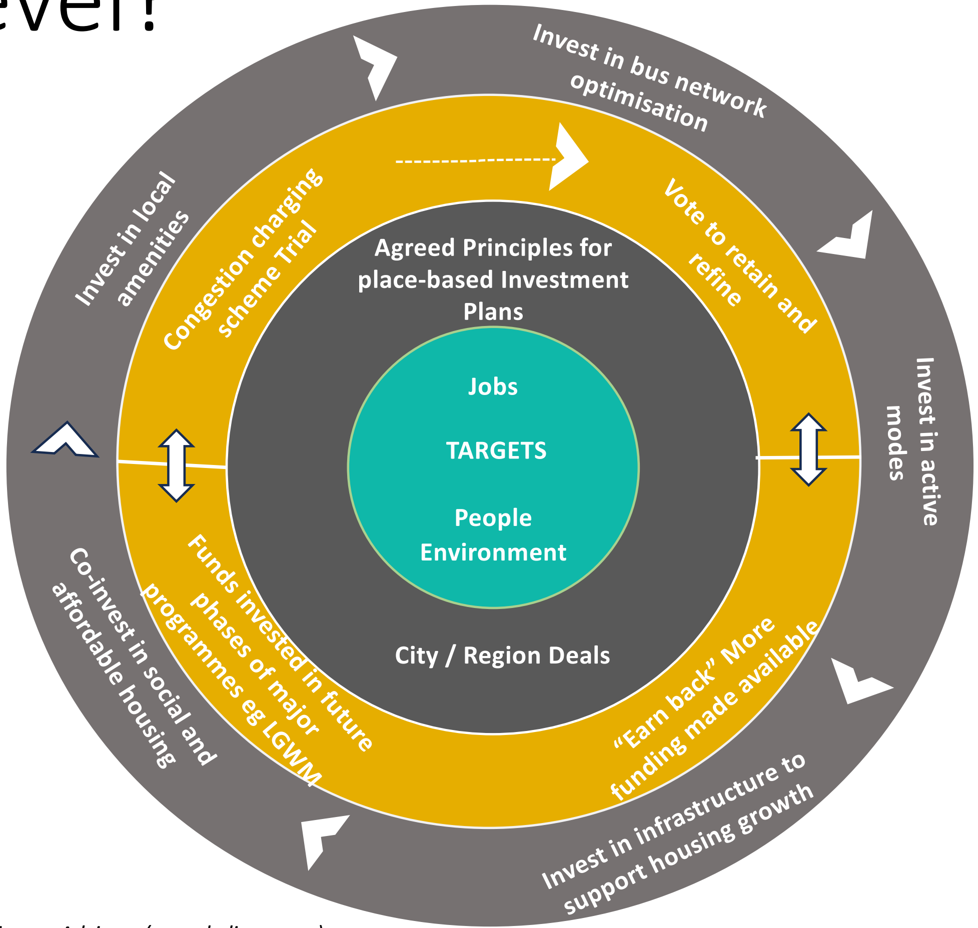
How might this work at a local government level?



Source: Kalimena Advisory (www.kalimena.nz)

- 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 and housing
- Central government funding of signature investments where appropriate
- Central government option to sponsor a congestion charging trial?
- Earn-back of additional funding (share of GST) if GVA targets are met, to support future phases of investment

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Questions

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