3 February 2020

Resource Management Review Panel
Per email: rmreview@mfe.govt.nz

Infrastructure New Zealand is the peak industry body for the infrastructure sector and promotes best practice in national infrastructure development through research, advocacy and public and private sector collaboration. Infrastructure New Zealand members come from diverse sectors across New Zealand and include infrastructure service providers, investors and operators.

This submission represents the views of Infrastructure New Zealand as a collective whole and may not necessarily represent the views of individual member organisations.

Infrastructure New Zealand submission to the Resource Management Review Panel on the Issues and Options Paper

Infrastructure New Zealand supports this review.

As a member of the Resource Reform New Zealand (RRNZ) partnership with the Environmental Defence Society, Employers and Manufacturers Association (Northern), Property Council of New Zealand and Business New Zealand, we have campaigned for many years to initiate a major review of the resource management system (RM system).

We are pleased that consideration has been given to the wider RM system both through the Terms of Reference and by the Panel and congratulate the Panel for producing such a comprehensive, yet accessible, summary of the key issues affecting New Zealand’s RM system.

Given the scope of the challenges facing the RM system, and the need for substantive reform, we are concerned that the Review Panel has been given insufficient time to fully consider all potential options.

As much as we support rapid changes, we are also conscious that getting the settings right will take time. If the Panel considers that it has insufficient time to consider the full range of options, we encourage the panel to request further time or to recommend an additional review stage.
Summary

We have for many years, and in partnership with other strategic policy-oriented organisations, held the view that the resource management (RM) system is undermining New Zealand’s economic, social, cultural and environmental wellbeing.

Most notably, the RM system has failed to adequately provide for growth, causing New Zealand’s housing crisis.

The flow on effects from a failure of the RM system to provide a sufficient supply of affordable development-ready land has increased inequality, reduced financial stability, consumed discretionary income and unevenly impacted different groups across New Zealand.

The negative impacts of the housing and wider infrastructure crisis which has emerged under the RMA-based RM system has not been limited to poor economic, social and cultural outcomes; the environment has also deteriorated.

As the purpose of the Resource Management Act 1991 (RMA) is, broadly, to safeguard the environment and provide for public outcomes, we conclude that the RM system has substantively failed.

It has failed for reasons well-articulated by the RM Review Panel in its discussion document.

We add one further reason for poor system performance to the 12 identified by the panel – weak price signals.

Weak and distorted price signals have misinformed individual property owners and businesses, on one hand, regarding the value of public services they receive and, on the other, under-resourced public service providers who deliver critical services which give value to land.

We find that 12 of the 13 reasons for RM system failure are the result of two main issues:

1. The permissive, effects-based orientation of the current system heavily devolves resource management decisions down to affected parties and away from strategic public outcomes.
2. Governance arrangements misallocate important and often complex planning, investment and environmental decisions to small, under-resourced and poorly incentivised councils.

To address the reasons for RM system underperformance, New Zealand needs an approach which moves away from the effects-based regime and which empowers appropriate institutions to successfully perform RM system functions.

In replacement of an effects-based regime, we support an RM system which balances “top-down” public outcomes needs against “bottom-up” desires to exercise property rights and promote local aspirations.
Regional spatial plans developed across connected economic geographies, guided by national direction and developed in coordination with central government, iwi and local communities are the most effective means we have observed to promote public outcomes through the RM system.

To develop effective and deliverable spatial plans, parties responsible for implementing those plans must be willing and able to fulfil their roles; the current allocation of roles, responsibilities, resourcing and powers across different levels of government is not suited to implementing strategic spatial plans.

Strengthened regional government with the ability to fund and deliver on plans combined with an enhanced central leadership and oversight function is needed to achieve outcomes and protect the environment.

Our proposals to reform the oversight and execution of a successful RM system which achieves shared public outcomes and protects and enhances the environment are set out in the attached report, Building regions: A Vision for Local Government, Planning Law and Funding Reform.

We acknowledge the complexity and breadth of the RM system, as well as the need to make progress in the medium term. Three recommendations thus comprise our three key priorities for this review process:

1. The Panel is clear that the RMA and wider RM system has failed to achieve the purpose of the RMA to promote sustainable management.
2. The Panel explores approaches to resource management which move away from the effects-based approach.
3. The Panel investigates a restructuring of responsibilities, roles and powers across governing bodies to align planning with funding and governance in order to deliver on agreed plans.

We would support the Panel in its application for more time or a second phase of the review process should the Panel consider it has had insufficient time to adequately complete this review.
Introduction

We support this review.

We have long held the view that the RMA-based RM system is incapable of delivering shared outcomes due to the effects-based orientation of statute which “integrates” environmental protection with land use planning, but “disintegrates” land use planning with funding and governance.

It is the fundamental conflict of effects-based natural resource management with outcomes-oriented public policy which is the ultimate cause of issues and challenges accurately articulated by the Panel in the Issues and Options paper.

Explaining this conflict and proposing options to resolve it are the primary objectives of this submission.

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<th>Resource Management: Is it policy or is it process?</th>
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<td>Is resource management a process to reconcile competing demands for finite natural resources or is it the activity of allocating those resources in the public interest?</td>
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Under the current RMA-based system, resource management is a process. The RM system provides a framework for interested parties to promote and protect their interests with a high degree of independence from government policy objectives. The policy assumption has been that public outcomes could be optimised by limiting government intervention in resource management.

The alternative is to approach resource management as policy. Governments allocate natural resources to activities which support public outcomes and wellbeing.

Under a process-oriented approach, natural resources are implicitly assumed to be owned privately. Under a policy approach, the implicit assumption is that they are owned publicly.

Which is right?

PART 1:
The resource management system has failed

As an initial, and in our view critical, starting point for an honest and frank first principles review of the RM system, we consider it is necessary to acknowledge that the Resource Management Act 1991 (RMA) has failed.
The purpose of the RMA is to promote the sustainable management of natural and physical resources where sustainable management means managing natural and physical resources in a way which provides for social, economic and cultural wellbeing while sustaining and safeguarding the environment.

In our view, both “pillars” of sustainable management under the RMA have not been promoted:

1. Social, economic and cultural wellbeing have not been adequately provided for; and
2. The environment has not been safeguarded.

A. Social, economic and cultural wellbeing have been poorly provided for

Over the last three decades New Zealand has witnessed significant declines in important outcomes relating to the RM system.

Most notably, key outcomes relating to land resource management have suffered.

New Zealand now has one of the highest rates of homelessness in the OECD.¹

In Auckland, the region where the best quality information is available, the region has not delivered enough housing to meet population growth in any year since 2007. Between the census years of 2013 and 2018 (the years with the best regional data) the Auckland’s population grew by 125,200,² while only

33,315 new homes were delivered over the same period, well below the 41,700 homes needed to meet the current ratio of approximately 3 persons per dwelling (itself an unusually high ratio relative to comparable cities and the rest of New Zealand).

New Zealanders now spend a greater percentage of their income on housing than anywhere else in the developed world.

Given the priority of housing as a basic human need, high housing expenditure means less money to spend on less essential items, but items which improve lifestyle and wellbeing. A median Auckland family has 100 fewer “discretionary” dollars (income minus tax, transport and accommodation) each week than it did a decade ago and all New Zealand growth centres have performed materially worse than Australian cities over the time period.

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5 OECD.

6 PwC, Competitive Cities: A Decade of Shifting Fortunes, 2018.
“Median” data understates the severity of the impact on social wellbeing. Many New Zealanders have become wealthier as house prices have risen and mortgages have been repaid, while others have seen rental growth exceed income growth for a protracted period. The housing crisis has directly increased inequality.

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7 MBIE.
Maori and Pacifica communities have been especially impacted. Home ownership rates and incomes across these two groups are comparatively low, leaving them exposed to housing cost increases above the rate of income growth.\(^8\)

High and rising house prices over a protracted period have created an expectation of capital returns, attracting further investment. New Zealanders now own around $1.2 trillion of residential property, compared to a market capitalisation of around $260 billion for the NZX.\(^9\)

New Zealand’s ratio of housing/sharemarket investment is circa 7.0x, while Australia, an economy with 30-40% higher productivity and wealth, has a ratio of circa 3.6x – we have drastically overinvested in housing at the expense of productive assets.

Housing debt remains a key risk to the financial system.\(^10\)

The extent to which non-productive housing investment has starved more productive activities of capital is likely to explain part of New Zealand’s poor productivity performance over the past three decades.\(^11\)

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\(^9\) As of January 2020.
\(^11\) OECD.
While it is clear that the housing “crisis” has undermined many social, cultural and economic outcomes, it is less clear that any one factor is to blame, including financial factors, building material costs and regulation, market competition, or indeed the RMA itself.

However, what is clear is that high house prices, and therefore high housing expenditure, is overwhelmingly the result of high land prices.

In 2012, before the recent and most extreme increase in house prices, the Productivity Commission observed that land prices in Auckland had moved from comprising 40 per cent to 60 per cent of an average home’s price.\textsuperscript{12}

\textsuperscript{12} Productivity Commission, Housing Affordability Inquiry, 2012.
Across parts of Auckland and Wellington, cities where information is most readily and publicly available, land value now frequently comprises upwards of 80 per cent of a home’s total value.\textsuperscript{13}

Section prices in Auckland sit at around $1000m2 and around $600m2 across other main centres.\textsuperscript{14}


\textsuperscript{14} REINZ.
A 500m² section, i.e. before any dwelling is constructed, in Auckland now tests the upper limit of affordability for a median income family (earning approximately $100,000 per annum).

Analysis conducted by Infrastructure NZ in 2017 found the full cost of building a home (including land, infrastructure and dwelling, but excluding GST and sales margin) on rural land in Auckland’s south to be $375,000 – significantly less than the price of a zoned and serviced section today.

Our findings were consistent with multiple studies over an extended period which have shown rural land in Auckland to carry a value around one-tenth that of adjacent land inside Auckland’s metropolitan boundary.\(^15\)

By contrast, successive investigations and studies of building material costs have shown limited differences in the price of key house inputs.\(^16\)

Financial factors are important but, given that different housing markets around New Zealand are all subject to the same financial environment yet vary significantly in the cost and supply of land for housing, it is also clear that financial factors are not the cause of high home prices and associated issues.

It is the price of build ready land which is responsible for high and increasing house prices.\(^17\)


\(^{17}\) Deloitte.
Build-ready land is land with necessary planning approvals and infrastructure.

Thus, while there remains a lack of conclusive evidence that the RMA is responsible for New Zealand’s housing crisis, there is overwhelming evidence to show that the RM system is.

Some combination of inadequate land management under the RMA and insufficient infrastructure investment to unlock that land under the wider RM system has failed to provide enough housing for social, economic and cultural wellbeing.

We would make much the same observation of the transport sector, where the resource management system has underprovided for movement, leading to congestion, inequitable access and high travel costs, and across numerous other sectors.

**B. The environment has not been sustained and safeguarded and effects have not been avoided, mitigated or remedied**

It is not just that the wellbeing of people and communities has not been satisfactorily enabled through the RMA, it is also that the costs on future generations and the environment from these poor levels of service have been unacceptably high.

The potential of natural and physical resources to meet the reasonably foreseeable needs of future generations has not been protected.
The previous section highlighted deficiencies in land resource management which have now pushed the price of land for housing beyond the reach of most household incomes.

A particularly damaging aspect of this rise in house prices is that families which have benefitted from recent land price increases are in a position to support subsequent housing investment. For families which have not previously owned a home, or have otherwise not benefitted from rapid home price inflation, the ability to support, for example, their children’s first home purchase, is affected.

The current high price of land does not necessarily make it more difficult to buy a first home, it makes it more difficult for particular groups to buy a first home, helping to institutionalise intergenerational inequality.

Land resources necessary to sustain the reasonably foreseeable needs of future generations have not been provided for.

Freshwater resources have been equally impacted. In most catchments across New Zealand, freshwater is now overallocated. Absence of a clear and fair system for trading water rights makes it difficult or impossible for those without existing water rights to access freshwater.

Water resources necessary to sustain the reasonably foreseeable needs of future generation have not been provided for.

The RMA has failed to achieve purpose 5.2(a).

The Environmental Defence Society describes New Zealand as enduring a “biodiversity crisis”. 18

In its latest assessment of New Zealand’s environment, the Ministry for the Environment finds that biodiversity has “declined significantly”. 19 While extinction risk has improved for 26 species monitored by the Ministry over the past decade, it has worsened for 86 species in the past 15 years.

Waterways in rural areas are polluted. Over 70 per cent of river length in pastoral farming areas have modelled nitrogen levels that can affect aquatic species and 82 per cent of river length in pastoral farming areas is not suitable for swimming. Almost all (94 per cent) river length in urban areas is unsafe for swimming and contains nitrogen levels that can affect aquatic species.

Of concern, the true extent of increasing and decreasing risks to New Zealand’s environment is unknown with significant gaps across some areas. 20 This in itself highlights a failing of the current monitoring system which has not kept pace with changes to the life supporting capacity of the environment.

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The life-supporting capacity of air, water, soil, and ecosystems has not been safeguarded.

The RMA has failed to achieve purpose 5.2(b).

While many effects, including those likely unforeseen by the architects of the RMA, have been avoided, remedied and mitigated, cumulative effects have not.

The RMA has not been able to avoid, remedy or mitigate gradual degradation of waterways from land use change.

The RMA has not been able to avoid, remedy or mitigate gradual depletion of ecosystems and biodiversity.

The RMA is not well suited to avoid, remedy or mitigate gradual increases in carbon emissions.

The RMA has failed to adequately achieve purpose 5.2(c).

C. The RMA-based system has failed to achieve its purpose

Thus, while we agree that technological and environmental changes since 1991 warrant a review of the RM system, we think it is important to note that the overriding necessity for this review is that the RMA-based system we have had in place for 30 years has failed.

To be clear, the RM system has not failed at all times, in all places and for all people. We note and agree that the RM system has had some successes, including reduction of point source contamination of waterways. It is also true that the RM system has resulted in major benefits for some New Zealanders, particularly those with existing land and water rights which have been insulated to change and in a position to capitalise on demand.

The system has, rather, failed to substantively achieve its purpose set out in its leading Act, the RMA, to promote the sustainable management of natural and physical resources, where sustainable management means providing for social, economic and cultural wellbeing while sustaining, safeguarding and generally protecting the environment.

Acknowledging substantive failure and not just that it is time for a review is a first necessary step to providing a recommendation which does substantively deliver wellbeing while protecting the environment.

- Recommendation 1:
The Panel is clear that the RMA and wider RM system has failed to achieve the purpose of the RMA to promote sustainable management.
PART 2:
Why the RM system has failed to achieve its purpose

The Panel identifies 12 reasons why the RM system has not responded effectively or, in our assessment, has failed to achieve the RMA’s purpose.

We agree with each reason and commend the Panel on its clear and comprehensive analysis.

We would add one further reason, which is an absence of price signals to reflect public investment in physical resources which enable the use of scarce natural resources.

A. Reason 13 for RM system failure: Weak price signals

Under the current system, owners of natural resources do not generally pay a charge or “rent” to authorities for usage rights: no one “owns” water itself, with water rights attached instead to property ownership and water charges, where applied, reflecting infrastructural needs; property charges are imposed as a “rate” to reflect local public services provided to the land, rather than a “tax” or charge on land and water ownership itself.

There are exceptions, including in the marine and mineral sectors, where central government does impose usage fees.

But for the great majority of resource management activities which impact people and communities, natural resource rights are incorporated into property values and traded between owners. Home, farm and other property sales values rise and fall in regard to real and perceived scarcity, with owners of property capturing (or, in some cases, losing) value.

The issue with this approach is that natural resources in themselves often have little or no value independent of publicly provided services which enable these resources to be utilised.

If the road in front of a house were to suddenly close, it (by which we really mean the land upon which the house sits) would have greatly reduced value.

Likewise, when planning approval for a new development is confirmed, land value increases. When public infrastructure to unlock that land is committed, its value rises further, irrespective of an affected landowner’s actions, intentions or desires.

In general, when publicly subsidised services like transport, parks, water and schools are provided to a location, land values rise in response to improved amenity. This rise in land value represents a transfer of wealth from taxpayers to affected property owners.
But if public funding is limited, which it is, then public investment decisions must be made on the basis of where most value can be provided. Public service providers must anticipate where demand will be highest and make investment decisions based on these assumptions.

If wider service providers and local landowners do not respond in the way anticipated, for example, by delivering new infrastructure and homes, then the value of that public investment will diminish. Price signals to landowners and other rights holders of limited natural resources are needed to ensure private decisions regarding natural resources do not undermine public decisions regarding infrastructure and other services.

It is the weak level of price signals on land (through cost-based property rates), on water (which is legally free and not easily tradeable) and, increasingly, on air emissions which contribute to private decisions being made which conflict with public outcomes.

Stronger price signals on air, land and water access to reflect levels of relevant public investment and incentivise natural resource owners to act in alignment with community wellbeing would have assisted the effectiveness of the RM system.21

Price signals are important because they not only impact the beneficiaries of investment, but the providers of public investment.

Whether by user-pays or by taxes which increase in proportion to the value of services received (i.e. a land tax, but also corporate tax, GST and income tax where business productivity improves in response to public investment), efficient price signals provide a revenue stream with which to fund investment which activates natural resources.

Weak price signals have undermined revenue for infrastructure providers leading to misuse of the planning system; councils have limited the supply of natural resources, particularly land, to manage down costs, something we commend the Panel for highlighting.

Stronger price signals relating to land value, as a proxy for the value received from public services, or full application of user pays for infrastructure services would have helped public agencies respond to demand and incentivised them to manage natural resources more equitably and efficiently.

21 Alternately, much greater use of user pays to limit private capture of public investment or public “overbuilding” to guarantee enough private decisions align with public outcomes could have improved RM system performance.
B. Addressing the key reasons for RM system failure

We note the issues highlighted by the Panel in the Issues and Options Paper.

We agree that the issues raised by the Panel are important. However, we also note the orientation of these issues leans towards the existing RM system, which we consider to have substantively failed.

Our preferred approach is to retain focus on the reasons for the current system’s disappointing performance and propose a framework which addresses these reasons from a “first principles” perspective. Addressing the reasons will, in our view, also resolve the main body of issues identified by the Panel.

Our analysis of the Panel’s 12 reasons plus our additional reason points to just two key issues underlying RM system failure.

First and most notably, the permissive, effects-based orientation of the current system which heavily devolves resource management decisions down to affected parties and away from strategic public outcomes is the key contributor to most of the reasons for suboptimal resource management.

The permissive effects-based approach has led to:

i. **Lack of clear environmental protections** – clear environmental protections are less easily reconcilable with devolved effects-based resource management. The essence of devolution is recognition that local issues and appropriate responses are different, whereas clear environmental protections reduce the scope for individual local approaches.

ii. **Lack of recognition of the benefits of urban development** – the tangible and specific negative effects of development will always be prioritised above general public benefits under an effects-based regime because negative effects are definable and immediate, but positive future outcomes are hard to define and realised in the future.

iii. **A focus on managing the effects of resource use rather than planning to achieve outcomes** – planning to achieve outcomes is the opposite of managing effects.

iv. **A bias towards the status quo** – incumbent parties perceived to be adversely affected engage in the process while those standing to benefit from change perceive few impacts and are underrepresented.

v. **Lack of effective integration across the resource management system** – the focus on effects and the ability of those affected to object has undermined wider long term planning and strategy.

vi. **Excessive complexity, uncertainty and cost across the resource management system** – the interface between the effects-based RMA and outcomes-based LTMA and LGA impede plan making and increase the need for legislative workarounds.

vii. **Lack of adequate national direction** – the devolved approach to managing effects increases the complexity and appropriateness of meaningful national leadership.
viii. **Weak and slow policy and planning** – affected parties can relitigate decisions and the complexity of interpreting various planning documents lengthens document development.

Second, governance arrangements which devolve important and often complex planning and environmental decisions to small, under-resourced and poorly incentivised councils account for most of the remaining reasons, including:

ix. **Weak compliance, monitoring and enforcement** – many local authorities lack the scale to properly resource compliance, monitoring and enforcement and invest in innovative new tools.

x. **Capability and capacity challenges in central and local government** – devolution has left central government unable to adequately represent the national interest in planning decisions and local government's limited activities in social and economic development have left plans underinformed on the wider impacts of planning decisions.

xi. **Weak accountability for outcomes and lack of effective monitoring and oversight** – central government has devolved responsibility for planning and the environment down leaving no one to oversee the whole system.

xii. **Weak price signals** – councils have limited exposure to the social and economic costs and benefits of planning decisions and use the planning system to reduce council costs even where decisions increase net costs to residents, businesses and central government.

Our analysis of the reasons for RM system failure identifies **insufficient recognition of the Treaty and lack of support for Māori participation** as the only issue outside of two key problems relating to the effects-based planning approach and misallocated governance responsibilities.

If New Zealand can reorient the planning system towards outcomes and realign governance responsibilities then 12 of the 13 leading reasons for system failure will be been addressed.

- **Recommendation 2** – the Panel explores approaches to resource management which move away from the effects-based approach.

- **Recommendation 3** – the Panel investigates a restructuring of responsibilities, roles and powers across governing bodies to align planning with funding and governance.
PART 3:
Fixing New Zealand’s resource management system

A. Recommendation 2 - Moving away from effects-based planning

Infrastructure New Zealand has examined a number of different resource management, planning and governance systems internationally which seek to achieve the same broad objectives of the RMA and wider RM system, specifically, to provide for social, economic and cultural outcomes while sustaining the environment.

Each country and system is different, reflecting respective geographies, cultures, political systems, stages of development and other factors.

However, each approach consists of a blend of two different means of sustainably reconciling demands for finite air, soil, water and ecosystem resources while enabling outcomes which benefit all of society:

- “Bottom-up” resource management – where rights to develop, use water and consume other natural resources are settled independent of government policy and through some form of negotiation or settlement between affected parties.
- “Top-down” resource management – where decisions to utilise natural resources are determined politically and aligned with wider strategic objectives.

Bottom-up resource management

Under the bottom-up approach, demands for natural resources are reconciled between interested parties themselves, rather than allocated by governing authorities.

Property rights under this model more strongly rest with existing owners and rights holders of natural resources.

Government generally receives little or no revenue from natural resources, as this implies ownership. In a country like New Zealand, for example, no one “owns” water itself, with water rights attached instead to property ownership. Property charges are imposed as a “rate” to reflect public services provided to the land, rather than a “tax” or charge on land and water ownership itself.

The advantage of bottom-up resource management systems is the protection of private property rights and the according empowerment and certainty brought to individuals and communities. Land and other rights owners possess tangible value which can then be used as collateral to invest and support economic development.

The key challenge for bottom-up resource management systems is the promotion of society wide economic, social, cultural and environmental wellbeing. Private ownership of critical resources can impede authorities from allocating natural resources across all levels of society, increasing inequality.
Examples of bottom-up resource management systems include those in many states in the USA, such as Texas.

**Resource management in Houston, Texas**

Houston, Texas is an example of a resource management system which relies much more heavily on bottom-up allocation of natural resources than top-down.

With no comprehensive system of zoning, the metro-region of Houston relies heavily on markets to reconcile demands for natural (land) and physical resources. Individual property rights are strongly respected and there are comparatively few limitations on what a landowner can do with their land (outside of areas with covenants). Physical resources which carry value for land (e.g., roads, pipes, sewers, etc.) are either funded through user pays systems or through property taxes.

Resource management outcomes are by and large the product of individuals making decisions about how to use their air, land and water, within the law. Long term strategic planning is used to minimise impact on private property rights and comparatively high property taxes (averaging 2 per cent across the state compared to around 0.25 per cent in Auckland) provide a price signal to landowners of the value of their land.

The combination of price signals with planning flexibility has resulted in a very responsive system to rapid urban growth. Development closely follows demand, enabling property prices to remain affordable and stable at between 3 and 3.5 times median income. As a result, discretionary income in the city is high and the city is very attractive to migration.

At the same time, environmental pressures have grown as limitations on private property rights are difficult to enforce. Areas are sinking as the water table has reduced. Carbon emissions are high as flexible development combined with low fuel prices enable urban expansion and the dynamic nature of land use change has led many to criticise the city’s urban form.

**Top-down resource management**

At the opposite end of the spectrum is top-down resource management. Under this approach, authorities play a stronger role in determining how natural resources are allocated and shared across society.

Ownership of natural resources under this model is weighted more heavily in favour of the state, rather than individuals, groups or businesses.

Through increased control of natural resources, governing bodies can allocate land, water and other resources to activities like housing and agriculture in accordance with government policy.
Public outcomes are prioritised above private property rights, with greater degrees of land acquisition and stronger guidance as to the optimal use of land and other natural resources.

The advantage of top-down resource management systems is the promotion of public outcomes. Economic, social and environmental wellbeing can be actively provided for through the allocation of soil, air, water and ecosystem resources in alignment with policy. Authorities can influence and even set the price of natural resources, enabling infrastructure, housing and other services to be delivered quickly and affordably.

The disadvantage of top-down resource management systems is the potential for infringement on perceived property rights and according impact on wider economic confidence. Since the value of resources is ultimately determined by government policy, there is a risk of misallocation and suboptimal utilisation of limited resources.

Examples of top-down resource management systems include those in Singapore and China, as well as pre-1984 New Zealand.

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<td>Singapore is an example of a resource management system which relies heavily on top-down management of natural resources.</td>
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The state owns roughly 80 per cent of land in the county, including a similar proportion of land under housing, having acquired most land following independence. The country’s limited water resources are controlled by a public utility and the state’s strong integrated management of the water cycle has overcome barriers to enable wastewater recycling.

A comprehensive outcomes-based planning system integrates strategic and land use planning. Demands for housing, transport and other land uses are forecast and the state ensures sufficient land and water is available to meet growth. The masterplan identifies where and when housing is required to be revitalised or intensified to meet growth. Implementation is comprehensive. There are limited opportunities for affected communities to oppose planned improvements.

House prices are very affordable for such a land constrained country, at under 5 times median income, but housing choice is determined by the Government. For those unable to afford their own home, and who meet social thresholds relating to age and marital status, heavily subsidised housing is available. Access to quality housing and water (as well as healthcare, education and other public services) is equitable and close to universal for Singaporeans.

The environment is increasingly well protected. Carbon emissions are quite high, due principally to lack of renewable electricity options. Vehicle emissions are low and the Government controls ownership and manages demand to achieve economic, social and environmental outcomes.
Historic environmental impacts have resulted from major land reclamation to support development, but decisions to reclaim are balanced against alternatives including land acquisition and reduced land supply.

There is no perfect system

No resource management system which we have examined is universally supported and each comprises elements of both top-down leadership and bottom-up individual and community resolution.

In Texas, authorities still retain and enforce acquisition powers. Long term planning which involves the forward application of resource management is used to try to lessen the impact on private property rights, so affected parties are informed.

In Singapore, public consultative procedures do exist and help shape national and community priorities.

In other systems, including across the UK and in Australia and Canada, hybrid approaches are preferred. These can and do work where individuals, communities and authorities share ownership of natural resources, each effectively giving up rights and control in the interests of balancing private wellbeing with public.

But New Zealand's effects-based system is different

New Zealand’s RMA-based system of resource management is fundamentally different from approaches we have examined elsewhere.

It is neither top down nor bottom up.

Neither individuals nor the public in general appear to truly “own” natural resources; all those who claim to be affected by changes in those resources do.

The result is legal property owners who are impeded from responding to market and price signals which reflect demand for resources, particularly land, and authorities who struggle to optimise shared natural and physical resources for the public good.

It is difficult to see how effects-based management can work

As long as those who are affected by changes in natural and physical resources are deemed to have rights to those resources but bear no cost of their acquisition and maintenance, the effects-based approach will produce the reasons for poor performance set out above and by the Panel.

Strategic planning, particularly, effective and efficient long term spatial planning will be undermined once the effects of long term plans become realised.
It may be possible to price entitlements to natural and physical resources, including through imposition of a material land tax (as distinct from a “rate”).

With a land tax as well as water and air emissions charges and trading systems in place, effects would materialise as changes in land values and, in turn, taxes paid.

Rather, then, those affected by resource management decisions contesting through planning and legal processes rights to natural and physical resources, the financial system would operate as a proxy for the value of those effects.

We have, however, highlighted the economic efficiency, equity and opportunity of land tax many times in the past, and there has so far been very little public or political support for such an approach.

Support for effects-based management appears rooted much more strongly in the ability for existing rights holders to minimise change and impacts on perceived rights than pay for those changes, impacts or the benefit they get from existing rights.

We cannot see how effective long term strategic development planning (“spatial” planning) can be performed under an effects-based model.

**We support an end to the effects-based approach**

The priority for a revised RM system should be to facilitate a movement away from effects-based management of natural and physical resources.

The Panel may wish to move in the direction of a bottom-up system where legal owners of natural and physical resources are permitted broad scope to utilise their resources. Under this approach, representing general public ownership rights to air, land and water resources, in particular, is more challenging.

Carefully balanced taxes, charges and other price signals, together with clear and effective long term planning, are necessary to promote private decisions which achieve public outcomes.

Alternatively, the Panel may wish to move more in the direction of top-down resource management. Under this approach, the common ownership of natural and physical resources would be given precedence over private ownership and authorities would work to allocate and reallocate finite resources to maximise public outcomes. Private property rights as currently understood would need to evolve.

**We support a hybrid top-down/bottom up approach**

Our preferred approach for managing natural and physical resources would comprise elements of both top-down and bottom-up models.

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22 A land tax would reflect in all land ownership the total amenity of associated air, land and water rights at a given point in time, rising and falling as the value of amenity is impacted by changes in nearby natural and physical resources.
Central government would set national direction, including priorities for economic, social and cultural development.

Authorities would set clear rules and bottom lines for the usage of air, land, water and physical resources to ensure the environment is, broadly speaking, protected and enhanced.

Regional strategic spatial plans would identify areas for development and non-development, corridors for infrastructure and environmental zones for improvement, as well as other regionally and nationally significant spatial elements.

Spatial plans would be consulted on publicly and agreed.

They would be audited to ensure it could respond to foreseeable demands for housing, employment, recreation, environmental achievement and other key performance indicators.

They would be reviewed regularly and provision would be made for new growth areas and activities, depending on community and market demands and opportunities.

Funding and delivery of public services, including land use planning and infrastructure operation, would be linked to the spatial plan; delivery of those services in alignment with the agreed spatial plan would be required.

The spatial plan may, for example, identify a transport corridor. By virtue of being in the spatial plan, that corridor would be “consented” and funding would be agreed. When the time arose to add to or change that corridor, public discussion would consider, for example, the mode or the alignment within that corridor. It would not, however, relitigate whether the corridor was the right one or whether it was best used for transport or housing.

Similarly with private land resource decisions, the spatial plan would identify areas for private housing and development. The spatial plan could zone that land or a separate land use planning process to implement the spatial plan could provide zoning. Regardless, once zoned, activities within that zone and which do not breach the conditions of land use, would be consented. If the zone allowed for up to three level apartments, this activity would not require resource consent and would not be subject to relitigation.

Individuals, businesses and public service providers would be given some scope to operate flexibly within the terms of their consents to ensure public outcomes are promoted “from the top-down.”

Once the terms of those permissions are agreed, individuals, businesses and public service providers would be given full rights to operate within the terms of those permissions, shaping outcomes “from the bottom-up.”
In our view, such a structure, set out in greater detail in our attached *Building Regions: A vision for local government, planning law and funding reform*\(^2^3\) report would help reconcile the need for public outcomes to be promoted at the same time as property and community interests are represented.

Whether the Panel agrees with each of these proposals is for us less important than the key point that New Zealand must move away from an approach which emphasises reaction to individual effects over the promotion of strategic public outcomes and national wellbeing.

The RM system architecture needs a design which overcomes the effects-based tendency of the current framework. It is for this reason that we have advocated for a splitting of the environmental protection components of the RMA from the broader planning components.

Again, whether the Panel agrees that legislation should be combined or separate is less important than a framework which ensures strategic priorities are identified and promoted, not relitigated based on predominantly environmental effects.

**B. Recommendation 3: Realigning governance roles, responsibilities and powers**

Much more important, in our view, than integration of environmental protection with planning is the integration of plans with the ability to deliver those plans.

Delivery of plans relating to the RM system means that strategic plans (including vision of where communities, cities, regions and the nations want to go) are integrated with land use plans (providing legal RM powers) and investment plans (which not only identify, but commit, public funding) and governance arrangements.

For spatial planning to be effective, spatial plans must be delivered. To be delivered, spatial plans need to be funded. To be funded, bodies overseeing investments need to benefit from investments made and have the ability to raise resources.

If entities responsible for delivering plans and elements of plans are not incentivised or capable of performing their role then implementation will fail and so will plans.

We strongly encourage the Panel to consider whether, in their preferred model, public institutions have both the willingness and the ability to ensure plans, and therefore public outcomes, can and will be delivered.

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\(^2^3\) Available at [https://www.infrastructure.org.nz/reports](https://www.infrastructure.org.nz/reports)
Following on our work with Resource Reform New Zealand, Infrastructure New Zealand has extensively considered the structure that an effective resource management system ought to have. The structure of the necessary reforms is outlined in our attached 2019 *Building Regions* report.

**Conclusion**

The current RM system has failed. It has failed because of poor strategic planning, a focus on managing effects rather than striving for outcomes, and lack of funding.

We believe an outcomes-based spatial planning process, supported by an overhaul of governing resources and responsibilities in New Zealand is required to see proactive action taken to safeguard the environment, build healthy communities, and create prosperity for future generations.

We support this review and encourage the Panel to take an ambitious and whole-of-system approach to their proposed reforms.

If the Panel finds that there is inadequate time to complete its review, we support the Panel’s request for additional time and/or a secondary phase.

We thank the Panel for the opportunity to comment.
Building Regions

A vision for local government, planning law and funding reform.

August 2019
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Executive summary

New Zealand’s institutions are among the best in the world.

Independent analyses from the likes of Transparency International’s report on fighting the lack of corruption. Surveys of business operation from organizations like the World Economic Forum demonstrate the ease of doing work with the author’s views. Reporters Without Borders finds the press free and unimpeded.

It’s difficult to find any evidence that the departments, agencies and other public bodies across central and local government are not world leading.

Any evidence, that is, except the outcomes these central bodies produce.

New Zealand’s economic performance is mediocre. GDP per capita is around 30th in the world, once New Zealand’s high cost of living factored in. Productivity is 40 per cent lower than where it needs to be.

The country is leading in areas it would rather not. It boasts some of the highest rates of homesickness and environmental degradation in the developed world. Income inequality beats most of the OECD, too.

Carbon emissions are not decreasing as fast as most other nations and freshwater quantity is declining.

These are not the expected outcomes for a country with effective public net national governance.
How can the institutions which deliver public services and govern economic, social and environmental performance be so apparently good and bad at the same time?

The answer is an nst tut ona system arrangement which makes good responses and resources across the public service.

Central government entities within national objectives are performing functions with long-term impacts. Local government entities without scale or resources are providing services with reg ona and national impacts. There are often delays to respond to the common as they are affected by and no one observes regional outcomes.

Coaboration across nst tut ona dfferent levels of government could alleviate pressures. But New Zealand’s service areas or entities nst tut ona arrangements mean pub lic acts can be verified with input or assessment from other agencies. In theory, nst tut ona are efficient. In practice, they are not. There is no process to integrate pub lic service n purposes of common objectives.

Two of the most powerful government responses have been separated and so ated. Panama is a most comp ete and aggregated to oca government. Fourteen out of every fifteen tax dollars collected by central government. Central organ sat ona cannot pan and invest ong term. Local organ sat ona can pan, but within funds there have no certainty as to whether pans can be verified. Ne ther are abe to see the world through the same lens. D 3agreement and mistrust are pervasive.

No one oversees the system to ensure functions. Central government’s extens ve serv ices prov e poor responses which are often in conflict with the ony and abe nat ona econom y, soc a, and environment system manager. Issues which should be acknowledged and addressed are instead of poor taced and poor ares. Problems are not being solved.

Instead, of coord nat ng and average the comb ned strengths of government, w the private sector and community, nst tut ona have been set up to pror the nd v dua agency outputs. Severe infrastructure underinvestment has been confused with short-term organ sat ona efficacy. Chronic social w de isues and poverty have been unaddressed. Central public service providers are focused on the wrong things. The system cannot respond.

The result is an nst tut ona arrangement which has eft New Zealand and otherw se function with pub lic service bodies with the ncent ve or the capability to promote econom y, soc a, and environment outcomes.

The country’s bare ho dng ts own when record terms of trade suggest that should be our finest hour. Any dec ne nforty tous y hgh export pr ces or mm grat on, the two pr nc pa dr vers of New Zealand’s recent econom y expands on, could leave the country bad y exposed.
Reforms are underway

The Government has recognised the seriousness of the situation. An opportunity for improvement has been dented. The most significant programme of reform is underway.

Oversight of infrastructure is being strengthened with the creation of the New Zealand Infrastructure Commission – Te Whanga. Government departments are responsible for services and have noted the need for changes to the State Sector Act 1988. Central planners and developers have been given more responsibilities and freedoms.

These reforms and many others are helping address the core needs of regional and city services and expand the capability of central government.

The result is that the authority may have the Government effect change and integrate public services to deliver outcomes, but it creates risks.

The severity of policy reversals from each change in Government has increased. The relevance of local decisions has decreased.

By expanding the mandate of Government, central government can stand back and view the system as a whole to make sure that local government, central government, and local government in the future will make the most of the Government.

Three waters provision would be consolidated into a small number of at-scale corporate public water providers, structurally separate from local government, and funded by property tax.

Taxation and revenue can be used as a mechanism to enable and incentivise different levels of government, while keeping tax rates the same or lower.

Building a capable and incentivised institutional framework

By reassigning roles and responsibilities across different levels of government, New Zealand can strengthen governance without overdependency on central government constrained by three-year electoral cycles.

Functions with predominantly spatial effects – transport (except rail), regional economic development and housing could each be provided by regional government. Consolidating functions with regional impacts in a new empowered level of regional leadership can strengthen representation and promote regional objectives.

Refocusing local governance on community well-being, identity and targeted service delivery can enhance democratic local decision-making, without compromising regional network operations.

Central government can stand back and view the system as a whole to make sure that New Zealand’s economic, social and environmental management are the natural activities of the Government.

Three waters provision would be consolidated into a small number of at-scale corporate public water providers, structurally separate from local government, and funded by property tax.

Taxation and revenue can be used as a mechanism to enable and incentivise different levels of government, while keeping tax rates the same or lower.

The way to do this is by building regions.
Enabling collaboration and wellbeing: spatial planning

Integration across these datasets and functions would be achieved through reg onal spatial planning.

Spatial planning brings together all the key public and non-public areas across a defined area to co-operate and deliver outcomes by using "pace" as a common and shared variable to integrate and align outcomes. Public and private use investment and opportunites as a mechanism to shape positive outcomes, rather than use rules to mitigate negative effects.

Central government would provide guidance to regions through a National Development Plan.

Central government departments and agencies would part implement regional spatial plans and development. A response by Minister would signal off-regional spatial planning.

Local government would retain and use planning, growth strategy to target specific and funding scope foroca responses and businesses to shape the look and feel of the region.

Empowering regions with the space and capability to deliver public service would allow central government to ensure the system delivers. Stronger national oversights would be achieved, contributing to improved national wellbeing.

More agile and innovative regional councils would promote regional economies and culture. Locally owned, locally managed.

A new central fund framework would incentivise each local government to achieve the objectives and contribute to wealth national wellbeing.

A new co-operative, not adversarial, approach to governance would advance mutual outcomes. A part of central, regional, and local government — with the private sector and communitees would contribute.
Getting there

Infrastructure New Zealand considers that the current policy and environment provide a once-in-a-generation opportunity to think about the future system of government in New Zealand.

The following pathway builds on current reforms and continues momentum towards a national, regional and local governance framework where national and local governments work together to promote wellbeing.

1. **2019: Establish the National Infrastructure Commission (NIC)**

Completed establishment of the arms-length National Infrastructure Commission (NIC). NIC provides strategic advice to government and project support to central and subnational government. NIC advises the Government on national and regional issues to enhance public and private infrastructure in New Zealand. NIC monitors performance of central government infrastructure and helps represent central government through spatial development.

NIC develops national infrastructure project pipelines and, by 2023, leads Government to develop one of the first national Development Plans. NIC advises the Government and stakeholders as to the adequacy of public and private infrastructure in New Zealand. NIC monitors performance of central government infrastructure and helps represent central government through spatial development.

NIC develops national infrastructure project pipelines and, by 2023, leads Government to develop one of the first national Development Plans. NIC advises the Government and stakeholders as to the adequacy of public and private infrastructure in New Zealand. NIC monitors performance of central government infrastructure and helps represent central government through spatial development.

2. **2020-2023: Establish a Regional Development Fund**

From 2020, expand the $1 billion per annum Provincial Growth Fund into a $2 billion Regional Development Fund (RDF) to support regional development. RDF is open to all, with support for projects that coalesce across a region or area to support economic growth and development opportunities. RDF supports the generation of agreed projects, transfer of water resources, and changes to zoning and other planning rules.

3. **2020-2023: Reform the planning system**


The Environment Act would put the environment first. A national environment regulator replaces existing regional functions. National bottom lines are identified and regions given scope to strengthen bottom lines depending on local aspirations.

The Development Act consolidates the planning functions of the Resource Management Act with the Local Government Act and the Land Transport Management Act. It provides opportunities for, and processes to establish, regional government, subject to a local referendum.

4. **2023 onwards: Subnational government reform**

From 2023, a referendum in each local area is held seeking support for strengthened regional governance. Local communities choose which region they identify with. Any changes take effect from the next election.

From 2026, following a vote of popular support, new regional governments are established across supportable territorial council areas. Exchanged responsibilities are transferred to central government. Further local communities discuss the right form of representation at the lowest level.
Proactively released

5. 2023: Water reform

Three waters services structure separated from territorial authorities and corporates into 3-5 regional water providers. Vaumetric charging introduced for water supply and wastewater. Operating subs are from oca ratepayers for stormwater.

6. 2026 onwards: increased devolution

New and expanded powers devolved to new regional governments which demonstrate capability to strategise, plan, co-operate and deliver. Regional authorities receive a proportion of economic activity to incentivise growth management.

7. 2026 onwards: further reform

Electorally elected for four years to improve consistency of decisions on making decisions of powers across central and regional government byances. Enhanced decision-making capability from strengthened cycle.

Land/property taxes introduced and income and corporate tax reduced. In tax neutrality “swap”. Tax swap incentive for heavy and productivity development. The incentive for heavy and use. Development and finance charges removed, so the establishment of the tax system and incentive for heavy and development.

Natural road pricing introduced and used to supplement transport investment. Fuel levies and road user charge removed. Dynamic pricing on a new basis to improve efficiency of the road network.
**Introduction**

New Zealand’s institutions are the global benchmark

The country’s ways features at or very near the top of the world in assessments of fair and sound institutions. New Zealand and its institutions were rated the third best of 195 countries in the most recent Global Competitiveness Report. It was expected. When New Zealand was rated second among corrupt countries in the world in 2018 by Transparency International, it was not widely reported – perhaps because in 2017 the country had been rated first. Expectations are such that many are concerned to know that Reporters Without Borders recently ranked New Zealand on its 7th in the world for press freedom.

The justice system represents the law. Decisions are made on the basis of established procedures and subject to appeal. The state ensures fair access to competent representation. Judgments are independent of the Government and transparent. Law enforcement is respected and imparts a sense of the rule of law.

Freedom of the press and the expression of opinion are protected. Individuals can speak freely and without fear of the state suppressing views. Reporters are enabled with rights to protect sources and journalists.

Public finances and fiscal policies are transparent. Examples of financial management are rare and compared very favourably with other countries. Public bodies are subject to due process. Independence of the service ensures money is spent in a way that meets expectations.

New Zealand’s education system has ensured a fair and effective market. Workers are protected from exploitation. Investors have established rights. Businesses operate ethically.

Service performance is mixed

Despite the nation’s institutions and practices at or near the top of the world in many measurable measures, New Zealand’s service delivery is much more mixed.

Education performance is generally good. Improvements have been significant, but otherwise, New Zealand ranks among its peers. The OECD’s Programme for International Student Assessment (PISA) examine students in New Zealand and students in the top ten key subjects. Key reading, mathematics, and science. Education on the same is good.

Health performance is generally above average, though around average for a wealthy nation. New Zealand’s life expectancy is around the median of the OECD. Wealth is distributed above average among OECD countries. New Zealand and its taxes are among the highest in the OECD and for non-fatal and for rates of cancer deaths.

Transport service performance, on the other hand, is poor. New Zealand and roads are more dangerous than the OECD average. Congestion is worse. Movement expenses by car and by aternate they.
Outcomes are disappointing

If the services provided by New Zealand and its other extensive robust nst tut ons are mixed, overall outcomes are surprising very poor. The vaue attributed to act vs New Zealand and undertakes we be ow ead ng nat ons. New Zealand's nom na GDP per capita is current y ranked 22nd in the world by the Internat ona Monetary Fund and 21st by the Wor d Bank and Un ted Nat ons.6

Sitting just outs de the top 20 rema ns a genera y acceptab e performance, espec a y when the top pos t ons tend to be fi ed by sma countr es w th un que cond t ons. nc u nd Qat ar, Luxembourg and Macau. However, when GDP sa cu ated us ng purchas ng power par ty, wh ch contro s for oca currency vaue and cost of v ng, New Zealand and drops from around 20th to around 30th across maj or nd ces.5

Product v ty s not on y surpr s ng y weak, t s a so fa ng re at ve to other wea thy countr es (Figure 1). New Zealand anders work harder for ess compensat on than sm ar workers n countr es w th more corrupt, ess ef cient nst tut ons. Recent teacher and nurs ng str kes both focused on hours worked above pay,7 suggest ng work ng hours may have to reduce n some sectors. Un ess product v ty reverses three decades of dec ne, New Zealand and GDP w fa and w th t government spend ng capac ty.

Even more perp ex ng s the very h gh terms of trade New Zealand's current y exper enc ng. Hgher terms of trade s gne that New Zealand's export pr ces are r ng re at ve to mport pr ces. These shou d be ha d ng an econom c boom as the pr ce of goods exported by New Zealand and exceed the pr ce of mports. New Zealand and s bare y ho d ng ts own when t shou d be exc ng (Figure 2).

Figure 1
Hourly labour productivity9

<table>
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Figure 2
New Zealand merchandise prices and terms of trade indices (June 2000 = 1000)

Figure 3
Gini Coefficient (working age population) 2016 or latest available year

Before taxes and transfers  After taxes and transfers
Comparative performance is magnified by inequality. New Zealand’s after-tax Gini Coefficient is higher than the OECD average (Figure 3).

Inequality is unequally distributed. Māori outcomes are much poorer than for other groups. Māori have lower incomes, lower life expectancy, and are disproportionately represented in areas of deprivation, such as urban housing and imprisonment (Figure 3).

It’s not just socio-economic performance that’s poor relative to what might be expected of one of the world’s most cost-effective systems; New Zealand performance is weak. New Zealand ranked 17th in the world in the latest Environment Performance Index. For a country with such low population density, green brand, the ranking is deceptive.

Environmental performance is a source of national pride. The Ministry for the Environment’s most-recent assessment of New Zealand’s performance found that national risk had improved for 28 species, but deteriorated for 86. Other indicators, such as for water quality, would be expected to show significant decreases in performance if adequate data were available.

New Zealand’s greenhouse gas emissions are not expected to be the rest of the world. However, there has been little to no per capita reduction in recent years. Even the United States, where political debate surrounds the role of human activities in climate change, has seen a greater reduction in per capita emissions (Figure 4).

**Figure 4**

**Carbon emissions per capita 1990-2014 – New Zealand vs other OECD countries**

![Graph showing carbon emissions per capita from 1990 to 2014 for selected OECD countries, with New Zealand having a lower trend compared to others like the United States, Australia, and others.](image-url)
The New Zealand paradox

How s t that a country can be at the top of the wor d n the organ sat on and performance of ts most v ta ns t tut ons, but the serv ces they prov de uneven and the outcomes produced med ocre, f not unacceptab e?

New Zea nd’s sma sca e and d stance from markets s often b amed for weak econom c performance. But th s does not exp a n why Austra a, a so a remote country w th not an espec a y arge economy, cont nues to perform we above the OECD average. Nor does t exp a n why New Zea nd once enjoyed among the very h ghost ncomes n the wor d, and no onger does.

Even f geography and other not eas y reso ved factors are used to excuse econom c performance, t s much more d ff cu t to exp a n why New Zea nd s most v tant ut ons, but the serv ces they prov de uneven and the outcomes produced med ocre, f not unacceptab e?

What are New Zealand’s “institutions”?

In th s report, New Zea nd’s “ nst tut ons” are the organ sat ons wh ch oversee the governance of New Zea nd and the de very of pub c serv ces. It nc udes a of the centra nd oca government ent t es wh ch operate under the d rect and nd rect eadersh p of the Government and counc s.

Inst tut ons nc udes government departments, such as the Treasury, M n stry of Transport and Department of Correct ons, as we as the var ous ent t es overseen by government, nc ud ng the New Zea nd and Transport Agency, d str ct hea th boards, the New Zea nd and Po ce and the Commerce Comm s. Structura y ndependent pub c ent t es ke the Reserve Bank and the courts and just ce system, the r powers and respons b t es are a so nst tut ons.

Terr tor a (d str ct and c ty counc s), reg ona nd un tary counc s, as we as the r respons b e ent t es ke Auck and Transport and the North and Reg ona Econom c Deve opment Agency are a core part of New Zea nd’s nst tut ona framework. Var ous empowered co aborat ons across oca and w th centra government, nc ud ng reg ona nd transport comm tees and We ngton Water are nc uded.

Pr vate compan es and nd v dua s are cons dered to be outs de the defin t on of nst tut ons n th s report. In some cases the d st nct on between nst tut ons and pr vate compan es s ess c ear. Transpower, the 100 per cent government owned e ectr c ty transm ss on owner wou d be an nst tut on, because of the pub c funct on t performs as e ectr c ty system operator.

Ha f-pub c major “gent a ers” Mercury, Genes s and Mer d an wou d not be as the r funct ons are m ted to commerc a act t es.

In pract ce, however, the focus of th s report w be on the major po cy mak ng ent t es across centra nd oca government and the r powers and respons b t es. It s the dec s ons they take, the ru es they enforce and the strateg c d rect on they set, wh ch determ ne the performance of New Zea nd’s w der po t ca, econom c, soc a and env ronmenta system.

Building Regions
A vision for local government, planning law and funding reform.
New Zealand institutions

The Government’s A to Z of public agencies lists 845 institutions, including 29 government departments, 20 district health boards, 26 tertiary education institutions, 300 crown entities, and 11 regional and 67 local councils.

What are outcomes?

There are three overreaching outcomes which guide public policy decisions on making countries and cities smarter for New Zealand:

1. **Economic** – the objective of growing the product value of assets undertaken by society and which impacts the prosperity of citizens and fiscal position of government.

2. **Social** – the objective of meeting the needs of people, including mental health and safety, the vibrancy of towns and cities and general societal wellbeing.

3. **Environmental** – the objective of protecting and enhancing the air, land, water, flora and fauna of the natural, rural and built environment.

Different societies phrase and prioritize the three outcomes differently. Hong Kong has a strong focus on the economy to be “vibrant, competitive and sustains a culture”. The Scotty Sh Government assessed for Scotland to be “a more successful country, with the opportunity to flourish, through increased economic growth”. Despitex nor changes in emphasis, nations consider Infrastructure New Zealand and has examined the same three high-level outcomes prevails.

New Zealand’s somewhat unusual regard, typically defining a fourth outcome. Culture being an inherent part of the Local Government Act 2002 and Resource Management Act 1991, among other paces, and recognising part of our Māori outcomes. These can be different from, or inadequate by, the standard three outcome approach.

The “four we beings” are the principle outcomes for public policy decisions on making New Zealand and are the reference for the following discussion.
Issues with New Zealand’s institutional arrangements

Is it possible for good people working in good institutions to make bad decisions?

New Zealand’s two big challenges

There are two reasons why New Zealand’s institutions are not as good as any in the world, but the reasons are not as obvious as the problem.

First, institutions do not have the drive and motivation to progress public outcomes – they are “more concerned with doing the right things” and responsibilities are not aligned with achieving public outcomes, causing efforts to focus on the wrong things.

Second, where institutions do have the motivation to advance outcomes, they lack the capability to do so. The powers are not sufficient, the scale is inadequate or the mandate is restricted.
1. Institutions are misincentivised

New Zealand’s public institutions are not necessarily designed to make decisions which advance outcomes. In fact, they are in some cases incentivised to do the opposite.

**Fiscal incentives**

Institutions are incentivised to promote near-term budget priorities at the expense of longer-term service performance.

Central government services are fisca lly incentivised to spend. Providing public services with a budget that has superseded provider funding pressures on front-line workers. Fiscal imperatives to hold down expenditure have translated into longer hours and less staff, often at the expense of quality and service provision and compromising service delivery.

**Financial incentives**

Locally, government institutions are incentivised to spend and defer funding. With a focus on short-term pressures, the major issue facing councils is that the principal source of revenue - rates - are detached from areas of performance and instead linked to consumer perception of need and affordability. Rates must be approved each year by the council, resulting in higher charges and reduced funding across many areas.

The government has recently announced an overhaul of the State Sector Act 1988 to change the way public services operate. The Act has transformed New Zealand’s and government agencies into service entities that are responsible for the provision of services, and have fragmented the public sector and created service entities.

The State Sector Act has enabled New Zealand to rank very highly in terms of efficient fiscal management. The public sector is transparent, public service salaries are neutral, and professionalism is now a concern. But it has also been challenged to balance economic,c, social, and environmental outcomes against financial inputs. In noprevious sector is the sector more valuable than the infrastructure.

Congestion increases the result of inadequate road capacity and a bottleneck at a main vehicle crossing. Homelessness reflects underinvestment in housing. Prefabricated temporaryras and easy-to-assemble hostatate demonstrate anacknowledgement of investment in social infrastructure. New Zealand has invested in central assets and has used investment to improve efficiency, with increased costs in other areas, the result of a more efficient economy and prosperity.

Non-infrastructure public service providers have a so been affected. Recent teacher and nursing staff strikes have highlighted the immense staff pressure on front-line workers. Fiscal imperatives to hold down expenditure have translated into longer hours and less staff, often at the expense of quality and service provision and compromising service delivery.
Local government’s financial misincentives in action

It’s not an accident or unexpected that a major part of Par ament have called for removal of the Auck and metropolitan boundary, where success ve Auck and Council administrations have defended it. Removal of the boundary unblocks and, cataly ng private investment and increasing housing supply, government savings, corporate and income tax revenue will increase signi cantly. Government costs, by contrast, may fall. Competition and supply will increase demand for public and subs ible housing and now spends a most $2 billion per annum on the accommodat on supp ement.33 This is equa ent to a th rd of a rates.34

Impacts have spread nto the wider economy. New Zealand’s compar at vely poor econom c performance partly re ects ow spend ng. R ses housing costs are consum ng hous eho de xpend ture that wou d otherw se be driving consum pt on, investment and econom c exp ans. PWC est mate that Auck and househo ds are $96 per week worse o than a decade ago. Higher mortgages and rents resu t ng from the housing crisis and the flow- on effects for the price of goods and services have strang ed disposable income.

Removal of the boundary unblocks and, cata ys ng pr vate investment and increases housing supply. Government savings, corporate and income tax revenue will increase signi cantly. Government costs, by contrast, may fall. Competition and supply will increase demand at pr ces Auck anders can afford. New homes will benefit new resdents. Oppos t on to growth wres. Pos s to y and ﬁnancially, remov ng the boundary makes no sense.
Structural misincentives

Institutions are so m s cent v sed by the w der
r st tu one arrangement. Nat one bod es are prov d ng
rvrvse wth oca impac ts. ed ng t o b anke t and
genera sed po cy responses to area-spe c fic
issues. Loca bod es are prov d ng network serv ces wth
mpac ts beyond the r boundar es. Reg ona outcomes
are under-represented.

Centra government s de ver ng oca serv ces. Pub c
serv ces wh ch are spat a y spec fic (e. wch ch mpact
across a sma nd def ined sub-nat on a area), nc ud ng
schoo s, pub c hous ng and prov nc a hosp ta s are a
prov ded by cen tra government. In add t on, we are
management and transfers to nd v dua s and fam es
are a man aged by oca branches of cen tra agenc es.

The resu t s a one-s ze-fits-a approach to cha enges
wh ch are of ten oca y spec fic. A sm ng hea th and
educat on on system must do ver fa r and equ tab e
resources to North and’s de pr ed and of ten so ated
Máor commun ty es as we e as Queenstown’s aff dent
tour sm-centr c commun ty. State ass stance
frameworks must be broad enough to respond to the
soc a nd econo c needs of young men growing up
h gh-unemp oyment North is and towns, as we e as
or der women strugg ng wth earth quae traum a
h gh-unmp oyment Chr stchurch.

Performance has been no ons stent. State-based
agenc es have strugg ed to des gn and m p ement
so ut ons wth ch so ve the prob om. Effort has
concentrated on m t gat ng the wst effc ts, but
progress a ev at ng mpac ts on Máor. Pac fic and
other commun ty es wth ong stan ng iss ues has been
m t ed.

For the most stubborn iss ues, success s judged on
whether resources are even y str bu ted, not whether
outcomes are equa v ent. After years of we -recog ned
requ es in the soco-econo c perform c e of
reg on ngke North and G sborne, there s t e to
sugg est outcomes are mprov ng. If perform c e s
not equa v ent across New Zea nd, t s d ff cu t to
understand why a cen trasstream approach s used.

Counc s, by contrast, are poor y ncent v sed to
max m se reg ona nd nat ona outcomes. Terr tor a
oca author t es operat e road and water infras tructure
wh ch form part of much ar ge reg ona networks.
Cha enges wth perform c e or de ve y effc t
res dent a d commer c de ve opment acr ose the
who e reg on, spread ng costs outs de boundar es.

Reg ona coun c s are not a hgh ter or oca
government, s tt ng above terr tor a coun c s. They
are an equ va ent power prov d ng a sma range of
d s serv ces (predom nant y pub c transport,
reg ona parks and env ronmental serv ces). They are
under cap a t ed, dependent on rates, over n profi
andnc a b e of ove re ng majo r investments and
res o v ng majo r isu es.

Reg ona econom c and soci a de ve opment has been
eft beh nd. Emp oyers draw ab out from acr os the r
reg on s. Job seek ers respond. De ve opers market
homes across coun c boundar es. Reg ona coun c s do
not have the resources to support reg ona movement
or the mandate to concentrate reg ona resources
to areas of greatest opportun ty. Reg ona stat ums,
convent on centres and other fac t es are of mixed
standard.

Underpowered reg ona author te s p ace the onus of
respons b y for major econom c and soci a
de ve opment n t at ves on terr tor a author te s, wth a
sub-reg ona const truc y and wor d evw. Agreemen t
to support reg ona n t at ves n the face of unque chab e
oca demand s cha eng ng. Terr tor a author te s
have t t e ncent v to work toget h er on act v es
wh ch grow the reg ona econom y. Under invest ment
act v es ke wastewater treatment reduce oca
rates but reg ona se env ronnement costs. D str ct
p an zon ng n c te s ke the Hutt and Por rua s not
opt m sed for pub c transport to the W ng t on CBD.

Centra government rema ns the on y ent ty cap a e of
support ng reg ona econom c de ve opment. But t s
conf c t when reg ona grow faster than the r peers.
Po t ca pressure emerges to trans fer resources to
successf ul reg on s, not max m se opportun te s. Poor
oca dec is on mak ng can be rewarded and grow ng
ecomonom e starved of invest ment. New Zea nd’s
growth gets dragged down to the owest perform ng
reg on. Everyone s worse off.

Governmen t s respond ng wth a reg ona approach
to de ver ng cen tra serv ces. 37 Recog n t on that
b anke t nat ona approaches are under de ver ng
s we come. However, t s so ra es the quest on
of whether appo nted reg ona dev s ons of centra
agenc es are more appro p r th an e cted reg ona
eaders. If mpac ts and responses are reg ona, what s
the bene t in manag ng the serv ce cen tra y?
Toolkit misincentives

If a you have a hammer, everything looks like a nail.

Land too soon the toolkit to manage responses better has encouraged the tutors to manage sensibly across areas. Poor revenue and fund ng opt ons for oca government comb ned with near exc us ve use of p ann ng powers has ncen t ted to under-allocate de ve opment capacity to cut costs. Metrop an boundar es and other p ann ng restr ct ons across greenfield areas prevent de ve opment n areas wh ch requ re new transport, water and other serv ces.

Prevent ng growth in n new areas n an effort to force ti nto ex st ng serv ced areas s push ng aga st market demand, s ow ng suppy. A ternat ve rede ve opment of brownfield s and s comp ex, requ ri ng mu t e re ferences w th ex st ng res dents, bus nesses and uses, s ow ng progress. Ex st ng and s more expens ve to purchase and de ve op, ncreas ng hous ng costs to new homeowners. Pr vate hous ng costs are a weak nput nto counc dec s on mak ng and subord nated to concerns of rate ncreases.

Pr vate hous ng costs have ncreased by orders of magn tude more than the infrastr cture costs. Work by the Product v ty Comm ss on has found the infrastr ctura costs of new de ve opment to be n the v c n ty of $50,000 per dwe ng. In growth centres like Queenstown and Auck and, average house pr ces have doub ed from around $400,000 to around $800,000 n the last decade. The m nor infrastr ctura costs of growth re at ve to and pr ce nflat on from undersupp y of de ve opab e and nd cates sma sav ngs for counc s have ed to pr oport onate y much arger costs for new homeowners.

Centra government has a so overaged ts powers to transfer respons responses better. Leg s at on n recent years has requ red counc s to p an ong term, engage commun tes, deprec ate assets and transparent y demonstrate how oca resources are be ng spent, none of wh ch app y to centra government departments.

Major re form of water serv c es are now underway, pr nc pa y due to a severe pub c heath fa ng. Have ock North wh ch contr buted to the death of four peop e. S nce the Have ock North dr nk ng water cr s s, annua road deaths have ncreased by 50 per annum, yet there s no urgency to reform transport fund ng or dec s on mak ng.

Centra government, through the aw-mak ng process, ncreas ng requ rements on oca government. That rates have been ncreas ng we above the eve of nflat on wh e centra government has reduced income taxes and expanded serv c es eve s, suggests w der issues are present.
Not all infrastructure is underperforming

Electricity infrastructure is good. The World Economic Forum’s most recent annual Global Competitiveness Survey ranks the quality of New Zealand’s electricity supply 17th of the 195 nations compared. In contrast to the rest of the world, New Zealand’s electricity infrastructure is a heavy renewable energy above 80 per cent in any given year and rising.

Electricity services are delivered at a competitive price. Ministry of Business, Innovation and Employment research finds New Zealand’s residents are electricity prices to be in the lower half of the OECD and industries’ prices one of the lowest.

Figure 5
Residential electricity prices across the OECD

[Diagram showing electricity prices across the OECD]
Building Regions
A vision for local government, planning law and funding reform.

**Figure 6**
**Industrial electricity prices across the OECD**

New Zealand's ports and airports compare acceptably with the rest of the world. The Global Competitiveness Report ranks New Zealand's ports infrastructure 17th in the world and airport infrastructure 22nd.\(^\text{17}\) Last available Ministry of Transport analysis on ports productivity found New Zealand and ports compare favourably with larger Australian ports, despite economies of scale and disadvantages (Figure 7).

**Figure 7**
**New Zealand vs Australian port performance**\(^\text{18}\)

Containers per hour

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2. Institutions lack capability

In some situations where oca and central government are weak, solutions are not always effective in promoting outcomes, they are often met with a second barrier: capability. The powers, scope, and scale of central government across New Zealand and at a local level need to be re-emphasized to good outcomes. Responsibilities of agencies find they are unprepared to address issues and are forced to rely on partner organizations or wait for other solutions. This can either be a capability gap or a lack of coordination to collaborate.

**Capability limited by scope**

Central and oca central government does not have the full scope of authority to mandate and oversee outcomes. Legislation and expectations of core business necessitate the resources they can act on and the breadth of services they can deliver, which is often not the case.

Most notably, central government does not have a mandate to act on urban planning, which oca central government has. The development of transport and transport networks is undertaken by government. One of oca central government's strengths is the resources other sector's financial resources.

In order for central government agency to act, they need to have the infrastructure and services, to seek solutions and host these services, but not mops be the central agency to be involved in planning.

The bigger issue is demand management. Urban planning is the number of vehicles and the management of crowd control. Changes to transport management and other parts of transport and other effects which increase central government costs.

In order for oca central government to fund oca services, meanwhile central government resources are required. Not only is fund ng essent a for oca central government transport is very New res d a res ng requ res schoo s to make community services viable. Major projects are often need central support.

What should be an opportunity for central government to assess under New Zealand and's services, or vested mode, become a barrier. Instutuons account for discrete services provided and fund services. S为此 has are seen. Different views of government and other for problems and poor performance.

Very few central government provide a full end-to-end public service. The Ministry of Transport's advisory panel, wth NZTA, shares transport data, very responsibly. These are the two most powerful public and private entities that central government undertakes to act on them.

One of oca central government's strengths is the resources other sector's financial resources.

Defence argues the three key sectors to oversee integration and a tool for managing and measuring data, as well as other services. Central government provides: for transport, the Ministry of Education, who oversees primary school and secondary education. However, actual school operators are a team of people who design and develop school boards and other entities that are independent.

To deliver good outcomes across any portfolio, a team of central government and Cabinet who respond to decisions. Yet, central government’s Crown frequently have to make or not make decisions in the portfolio, such as the system (discussed above) and is allowed by central government to take the lead on local boards.

Outcomes determined by these factors take many years to evolve across complex public and private entities. Most New Zealanders do not expect specific outcomes for public services. Furthermore, careful consideration is needed with the one-off short-term costs rather than ongoing service deterioration, and the commission on medium-term management over outcomes needs to be evaluated.

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Spotlight on a Minister: Hon Nick Smith

Nationally, MP Hon Nick Smith is one of New Zealand’s most experienced Members of Parliament and Ministers. Yet, even his story under the mantle of power in New Zealand and political system with a true who-e-of-service outcomes perspective by political events and movements.

Elected to Parliament in 1990, Nick Smith earned his first ministerial position in 1996 as a Minister of Conservation, representing Don’s Marshard’s party at the wake of the Cave Creek disaster. In 1997, he gained the Correct on portfolio, on to drop that in 1999 when he became Minister of Education. He then ost a h s M s t ar a ro es a tor that year when the Cark Government took power.

He took on Minister for the Environment, Minister of Climate Change Issues and Minister of ACC in 2008 under the new Key-ed Government. However, he resigned these portfolios in 2012 after he wrote a letter to the CEO of ACC, on behalf of a Nation Party associate.

He was reappointed in 2013 to Minister of Housing and the Offices of Minister of Conservation, before becoming Minister for the Environment, as well as Minister of Building and Housing in 2014. He held these roles until Nation Party power three years later.

Individual as a commentator have an unclear mandate to deliver outcomes. Athough generally speaking has been re-introduced to the Local Government Act, the why he did public perception remains that councils should focus on “core business” – services, land use, water, roads and regulated, performed on a cost recovery basis. Rates must be specific, evaluated to promote outcomes. Councils seek to expand into economic, social and cultural, we can expect significant opposition to these.

Many acts with the greatest bearing on outcomes include the management of social issues around justice, empowerment, and we provide support for the development of core social governance response. Act with councils are not prohibited, and there are transparent levels of benefit, but they run counter to common. We why it is that central government response can be for these outcomes. Levyng add to rates to do the job of central government not on property costs on, but seeks further push back from central government agencies.
Otorohanga’s Employment Achievement

For years Otorohanga District had had problems with youth unemployment. Children were leaving school prepared for jobs but were unable to get trained in nearby Hamilton or were unable to find stable employment in the area. At the same time, Oca busnesses struggled to find qualified employees and were planning to leave the area.

During the previous Mayor’s term, the Oca strctct saw the potential for a solution to both issues. Working with Oca busnesses and the Hamilton-based Waikato Institute of Technology, the Oca strctct established Oca Training that would teach the exact skills that Oca busnesses were looking for. At the same time, Oca apprentice schemes supported by mentors and staff in Otorohanga ensured that apprentice schemes were established successfully.

The initiative was hugely successful, virtually eliminating youth unemployment in the district and significantly reducing youth crime in the process. It was too successful, however. With youth unemployment reduced, the program struggled to raise funds from central government who could not just fund the expense needed to address the excellent statistics.

Capability limited by scale

Some net bots have a mandate to deliver, but not the size or scale.

Scale is part curial and important in the delivery of infrastructure services. It enables an organisa on to build facilities and serve clients efficiently, for example, by centralising wastewater treatment instead of operating multiple facilities. By spreading fixed costs over a wider number of users, average costs can be reduced.

Scale enables better capacity management. A broader scope of operations allows renewals and other upgrades to be deferred if they are not needed, and brought forward if they are. A narrower asset base provides scope to prioritise the greatest need.

Super or asset management and specia on are factored. Larger organisa ons can employ dozens of experts to develop more sophisticated plans for project procurement, financial management and environment matters.

A district area to benefit from greater expertise is strategic planning. Larger organisa ons are able to plan and invest for the longer term. Super or understand ng of assets, the full lifecycle costs, and the costs of deprecia on and op enment costs are factored into the strategic planning process.
Scales not an advantage. Services which do not require the optimum use of debt, have lower fixed costs or which do not exhibit economies of scale may be inefficiently designed and delivered by larger organisations.

That New Zealand’s 78 local authorities are charged with major infrastructure responsibilities by central government agencies is frequently cited as one reason for the high cost of services delivered at the local level. Of New Zealand’s 67 territorial authorities, a most have service contracts with one of New Zealand’s 30,000 registered organisations. Of these, over 100,000 are above 50,000.

Total operating expenditure of a local government is just over $10 billion, which is a significant figure. But spread around the country, it is equivalent to about $2000 per resident and $5000 per dwelling. The equivalent central government figures are eight times these amounts.

It is no wonder then that infrastructure is a concern. The Auditor General has identified underfunding of road and water renewals as $6.7 billion over the next decade. It has also found that councils consistently underspend on capital budgets through the long term plans. Councils are challenged to perform best practice asset management and have an inherent capability to procure major projects, even if they do not have the money.

Often, however, councils do not have the money. Investment in water treatment facilities can be very costly of thousands of dollars per resident. Rates may have to rise by double figures. Projects get deferred, carry over effects on the environment and public health.

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**Greymouth Wastewater Treatment Plant**

Greymouth is the largest town on the west coast of New Zealand’s South Island. Its population is over 10,000 people, and the town has had its untreated sewage discharged into the river for over 100 years. With the advent of the Resource Management Act in 1991, it was apparent that things had to change. A two-phased approach for improvements to the Greymouth Wastewater Scheme was developed by the Grey District Council, but for 20 years was deferred due to affordability concerns.

The centralised wastewater treatment plant commenced in August 2014 providing domestic and industrial wastewater treatment for a designed domestic and industrial population of 14,000 people at an equivalent rate of 61,000 people. The wastewater treatment plant has created greater efficiency, effectiveness, control, and consistency. It has improved the quality of wastewater discharged into the river.
A number of central government agencies, conversely, operate dozens of oca centres across New Zealand. The commitment to get on with government services is an agreed issue.\[59\] Opportunities for economic benefits are not obvious. Reorganising services around “p ace” seems obvious, but centralised very specific configurations by portfolio.

The most serious deficiency of oca affects the reg on econom c and soc a outcomes. The movement of people and goods to and from places of employment and industry takes p ace across oca boundary nes, but s a so not “nat one” n any real sense. Cr me, heathcare, educatic on and recreati on a ignore oca boundar es, wh e eac h have oca character stics.

However, the on y organ sat ons w th a mandate to th nk and act at a sca e between oca and nat ona are reg on counci s and the n respons b tes are heavily focused on env ronmenta management and planning. Soc a and econom c deve opment are poor y represented.

Reg on counci s are undercap ta sed and comparative y poor. One of New Zealand’s larger reg on a authori es, Wa kato Reg on Council, earned just $85 m on n rates revenue and spent $130 m on n tota n 2018.\[60\] Th s s around ha f Ham on C ty’s $160 m on on rates and $235 m on on expenditure.\[61\] It was, furthermore, spread over many psychotic acti ves n small chunks under $25 m on, reduc ng any rea bility for the Wa kato Reg on to focus on concentrat ions and invest n econom c or soc a deve opment.

Ham on C ty’s assets are va ued at over $4 b on, wh e the reg on counci s are va ued at just $600 m on, most of which ch s flood protect on. Wa kato Reg on cannot even borrow at a sca e wh ch cou d de ver assets provid ng reg ona econom c or soc a mpact.

Under-resourcing and eaves reg on counci s dependent on terr toria l authori es wh ch have a oca, not reg ona perspect ve. Loca n t ves take precedence over reg ona. W thou any revenue ed to econom c performance, ther e m ted ncent ve to commit oca property rates to reg ona n t ves.

Reg ons and oca bus ness e have recog ned the prob em, estab lishing t tes ke Te Waka, the Wa kato reg ona econom c deve opment agency. These are co a borat ve enterpr s across counci s, but have very m ted resource. New Zealand’s largest such reg ona ent ty, the Auck and Counci s reg ona econom c deve opment agency, ATEED, had revenues and expend ture n 2018 of around $70 m on.\[62\] Th s s less than 0.1 per cent of Auck and’s GDP and s ut mate y ed to prop er charges.

Reg ona econom c deve opment s therefore, counter ntu te y, a centra acti ve ty. Success ve Governments have sought to ft reg ona econom c performance, but w th d demonstrat e success. Major centra investments r sk the appearance of back ng w nners. Unequa reg ona performance s a r sk as we e as benefi for centra agenci es. Ther e s nat one pressure on centra government to d a back investment n successfu reg ons and repurposes spend ng to ess successful econom es. Growth and income are forgone.

Wh e centra government rema ns deep y no ved in reg ona and oca societ y and econom c s, has h stor ca y been d segagated from nat ona env ronmenta outcomes. Env ronmenta management has been deve ved to reg ona counci s on the bas s that env ronmenta s s are inerent y reg ona. However, current probems are c ear y nat ona.

Freshwater qua t y and carbon em ess ons, the two ead ng env ronmenta ss ess of today, affect reg ons up and down the country. Reg ona counci s have been unab e to respond.

Desp te centra resourc ng, Government nstut ons can a so be affected by napprop rate s and a though the M n stry of Educat on oversees the w der school ng sector, ndu dua schoo s contract the r own asset ma ntenance, reduc ng opportun t tes for shared serv ess, greater expert se and econom ess of sca e. Opportun t tes to co a borat ve y p an, fund and de ver serv ess can be as d f cut as n the oca government sector.

There are 20 DHBs serv ng popu at ons from 33,000 to 600,000. Th s s a w de ver at on. Ther e s a h gh ke hoot that e ther the sma er or the ar ger of these DHBs are chaleng ed to de ver eet ve and eff c ent serv ess.
Capability limited by powers

Ind vs dual nst tut ons w th a mandate do not necessar y have suff c ent powers to promote outcomes.

Loca government cannot fund a c t v tes wh ch prov de oca benefits. As a comparat ve y sma “after tax” charge on property va ue, rates do not enab e coun c s to fund major investments wh ch ft product v ty and fac t va ue creat on. Un ke ncome, corporate and sa es taxes wh ch r se w th econom c output, rates are set each year based on coun c costs.

W thout a revenue stream linked to va ue creat on, coun c s are not on y d sncent v sed from nvest ng n product ve act v tes, they are imp eded from borrow ng aga nst future add t ona tax revenue resu ng from a grow ng economy. Tax ncrement financ ng (TIF), mun c pa ut ty d str cts and other nnovat ons cannot be eas y app ed n New Zea and.

Tax Increment Financing

Tax ncrement financ ng (TIF) s a too to finance urban and econom c de v ment. A TIF s a spec a d str ct that r ng-fences add t ona property taxes to repay revenue bonds. “Incrementa ” taxes are generated when the pub c act v ty financed by nvestors improves the va ue of property w th n the d str ct. TIF s pred cated on the tax be ng add t ona to what wou d otherw se have been poss b e.

Figure 8
Tax Increment Financing
The shared cost-based character sets of rates mean that any, oca sed property value improvement from even a clearly defined mat ve does not result in any add on revenue. Add on rates must specically be ev ed on a constituent. Improv set ons ke targeted rates transfer risk to dent field ratepayers, regard ess of whether the act v ty is successful.

Other potent a fund ng and financ ng too s are a so of- m ts. Coun c s cannot ra se ncome, corporate or sa e taxes. They cannot convert rates charges nto a broader property or and tax, enab ng revenue to fo ow property pr ces. They cannot evy to s on oca roads or ra se fue taxes w thout agreement by centra government. Coun c s w fund around ha of a infrastructure invest ment over the next decade w th just seven per cent of New Zea and’s total tax take.59

Coun c s are not the on y nst bu on s w th fund ng and financ ng m ts wh ch m pede capab ty. The New Zea and Transport Agency (NZTA) manages the Nat ona Land Transport Fund (NLT). It does not, however, set the ev of tax ev ed on fue or road use. Th s dec s on s made by the Government. Nor, barr ng a re at ve y m nor $175 m on debt fac ty to manage annua cashflow, can NZTA ra se debt.

NZTA s requ red to de ver Government policy w th a revenue stream ed to road use. Investments n a ternat ves wh ch reduce road use a so reduce revenue. Coun c dec s ons wh ch change and use, transferr ng transport costs to NZTA, are not reflected n fund ng. B on do ar investments have to be paid out of cash. There s no revenue to ed to improve property va us. Nor s there add on fund ng for expens ve and purchases resu ng from poor oca government and use management.

Nor can NZTA zone and to take advantage of ts transport investments or consent ts infrastruct ure. P ann ng powers are concentrat ed n coun c s, w th independent report ng and accountab ty structures. Coun c s can both under and over-zone deve opment around NZTA assets, ead ng to excess ve demand and congest on on one hand, or s ow ut sat on of assets and wasted investment on the other. NZTA fund ng does not compensate for poor and use-transport a gnment. The same amount of money goes ess far. The consequence s a and transport system under mmense pressure, de ver ng poor outcomes.
New Zealand’s poor land transport performance

Roads are dangerous. New Zealand has one of the highest death and serious injury rates in the developed world (Figure 9). Around 1/5th of accidents are the result of infrastructure. Furthermore, performance is deteriorating (Figure 10).

Figure 9
OECD Road Deaths per 100,000 population

Figure 10
New Zealand’s Annual Road Deaths
The proportion increase is a result of more vehicles on the proportion of less road. Between 2008 and 2017, the amount of sea ed road in New Zealand increased by 5.3 per cent. VKTs increased by 11.7 per cent. Road congestion has not kept pace with recent increases in road demand, leading to increased congestion on, frustration on, and skidding on roads and errors.

Safety is a proportionately greater concern of a severe injury occurring in the form of Auck and.

Inadequate road infrastructure is not contributing to poor safety, but the undernourishing of product development and competing businesses. The Automobile Association's latest research has found that peak hour speeds on Auck and's motorway network are lower than those (42 km/h) free flow conditions one. The average peak hour motorway user spends 65 hours in congestion per annum, up from 79 hours in 2017. In Wellington, TomTom data shows a driver spends an extra 19 minutes per hour travelling at peak per ods.

Congestion is currently the cost of $133 million per annum. In Auck and, the cost is up to $1.9 billion.

The view of performance is poor. TomTom finds that Auck and Wellington are the second and fourth most congested cities in Australia as a result of very.

Driven by the much larger Brisbane and Perth metropolitan areas experience, they are more than driven by new Auck and Wellington.

Congestion is not on the result of inadequate road conditions, the product of inadequate transport services. Fast, affordable and convenient transport solutions reduce the waiting time to travel. In transport, Auck and Wellington – our two best-served cities. These 12 cities have the highest percentage of journeys in the worst congested on the developed world for cities of the same size.

Public transport is expensive. A recent Deutsche Bank study found that a month's city public transport pass in Auck and was the third most expensive in the world, behind the much more expensive cities of London and Dublin. Wellington came 12th.

Public transport is not accessible on the. Just 15 per cent of new dwellings in Auck and are being consented with one k 0metre of rapid transport. Rapid transport routes are, furthermore, focused on the CBD where the vast majority of employment is located. On 8 per cent of jobs are current, with 45 minutes of public transport (versus 35 per cent of jobs within 30 minutes by car). Up to 90 per cent of homes and jobs in Auck and therefore not within a 10 minute distance of quality public transport.

Figure 11
Cost of a monthly public transport pass ($US)
Despite councillors’ comprehensive powers under the RMA-based planning system, there are some elements that remain beyond the remit. Councillors do not have, for example, responsibility for education. Thus, when they are planning urban growth and development, they are dependent upon the Ministry of Education for services essential to effective growth management.

The Ministry of Education, however, is generally funded on an annual basis, with the 2019 Budget being a landmark for earmarking $1.5 billion over ten years for capital investment. Until 2019, the Ministry of Education was constrained in engaging local councils in long-term planning because its own planning was compromised by short-term horizons.

New communities without schools are unfeasible. Schools add value to and, catalyse development and generate significant transport demand. They are essential town planning inputs, yet have been largely left out of town planning processes. As a direct result, education infrastructure has failed to keep up with demand. In Auckland, a majority of new classrooms added over the past four years have been temporary prefabricated units. In light of evidence showing a link between good education outcomes and infrastructure and earning outcomes, it’s reasonable to conclude student performance is negatively affected by poor pannings on schools.

Weak parts of not just the education sector, but health and other central services, are still subject and use pannings that are constrained by central planning powers. The government has only recently begun to impose national priorities through the planning system. A number of national policy statements and establishment of Kāinga Ora – Homes and Community are now under development.

In no sector has central government’s ability to influence nation-wide been so constrained as housing. Local government’s delegated authority to plan and deliver growth infrastructure has rendered central government efforts to manage the housing crisis ineffective. In attempts to facilitate infrastructure finance (Housing Infrastructure Fund) and streamline pannings (specific housing areas) have had modest success. House prices have risen sharply on the back of poor supply, seeing many families pushed into substandard accommodation. New Zealand has among the most unaffordable and inadequate housing in the OECD.

No government department has had the ability to cut through local government rules. Infrastructure funding and financing so far are for one council area only. There is an argument for a single sewerage network that could give central government more control over the assets with the new government. Success in some areas has been pushed to standard accommodation costs. Aucklanders have been told that the statutory setting costs which they have made council’s act the way they have.

Auckland, with the highest housing costs carried by the government, has been controlled. Housing New Zealand and the Government’s monopoly provider of state housing has faced the twin challenge of deteriorating assets as homes reached the end of their lives and growing demand. Fears that disinflation was averted in 2017 have led to more housing. With a weak public backstop and dysfunctional market, Aucklanders and others have been forced to pay more and more for housing, taking money away from other activities. PwC have estimated that Aucklanders are a cost of $100 a week worse off than they were a decade ago, despite year-on-year economic growth.
**Figure 12**

Homelessness rates in OECD countries

![Bar chart showing homelessness rates in OECD countries](image)

**Figure 13**

OECD housing costs

![Bar chart showing OECD housing costs](image)
3. Weak oversight and accountability

The twin nst tut ons issues of poor capability and m ncent v sat on exp a n why New Zea and’s nst tut ons are not de ver ng outcomes cons stent w th other we -governed states. However, a th rd factor has a owed poor performance to emerge and prev a over an extended per od: weak system overs ght and accountab ty.

New Zealand has no independent “system manager”

New Zea and has strong nst tut ons, such as the Auditor Genera , to ensue money s spent we , but no ent ty ensures outcomes are de ver ed. The on y one that can, the Government, s comprom sed by ts major ro e n pub c serv ce de very, eav ng the Government as the pr nc pa judge and jury for ts own act v t es.

The Government does separate ts f from some centra y perform ed funct ons. The Reserve Bank of New Zea and, Par amentary Comm ss on are centra nst tut ons one step removed from the Government of the day. But n transport, housing, educat on, heathcare, we fare serv ces, env ronmenta perform ance and other cr t ca areas there s no overs ght to know whether serv ces are de ver ng outcomes at reasonab e cost.

The genera pub c s presumed to be the ut mate judge, exer c s ng ts appro va or otherw se on every three years. However, not all ssues and performance are eas y v s b e. Infrastructure n part cu ar, can be poor y ma nta ned w th t t e pub c awareness unt a cr s s s has emerg ed. Recent ev dence on the qua ty of healt nfrastructure and water nfrastructure both under ne th s ssue.

Accountability is poor

The ack of an overa system manager has c ouded accountab ty for performance aga nst outcomes. Centra government s genera v he d accountab e for major nat ona ssues, even those re ant upon oca government act v t es, nc ud ng hous ng and congest on. However, the a ocat on of serv ces across centra and oca nst tut ons has opened the door for finger-po nt ng.

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Respons b ty for de ver ng oca outcomes, as d st nct from nat ona outcomes, s not c ear. Loca author t es can po nt to centra government’s ro e n fund ng transport, mon to ng water qua ty, fue ng mm grat on, increas ng regu at on at on and otherw se transferr ng costs to ratepayers.

Short election cycles

Cha eng ng performance across a we be ngs s the nat ona e ect on cyc e and the mpact th s has on project pr or t es. Po t ca eaders must a ways manage the effects of dec s ons made by prev ous adm n strat ons. Three year cyc es prov de w de scope for eaders to avo d accountab ty n the r first term so one term governments are extreme y rare.

Three years s nadequate to deve op po cy responses to comp ex ssues and de ver nfrastructure. The unproduct ve y short t meframe not on y ncent v ses po t ca eaders to focus on the short term, t fac ttes dramat c po cy sw ngs. North and, for examp e, comp eted a andmark econom c de ve opment strategy n 2015 w th centra government, on y for a refresh to be needed two years a ter w th the change of Government.
Conclusion

New Zealand’s network of central and local government is not well managed across the world. There are two key reasons why a functional organisation is essential to achieve effective outcomes. Effective governance is not merely about voting or having the capacity to trade off other factors, but rather it requires the ability to respond to challenges.

Institutions are charged with overseeing the New Zealand and its economic, social and environmental progress are both weak and sedentary to achieve effective outcomes and acknowledge the necessary capability. This is the result of an institutional system arrangement which must go beyond and respond to issues across the public sector.

Central government entities perform functional outcomes with significant impacts. Local government entities are providing services with regional and national impacts. No one sector is responsible for outcomes.

Collaboration across institutional entities and different levels of government could alleviate pressures. But New Zealand’s service-oriented institutional arrangements mean public sector entities can be developed within the input or assistance from other agencies. So are reinforced, service outputs preserved and no one sector is responsible for outcomes. There is no process to integrate public sector entities in pursuit of common objectives.

Strong divisions of duties are partly harmful to collaborative and integrated outcomes. The lack of national and local investment terms. Local organisation cannot be an and investment term. Local organisation can be an and investment term. Neither are able to see the world, or even local areas, through the same lens.

No one sector oversees the system to ensure functional outcomes. Central government’s extensive service provision on responses is conflict with the one and only economy, local and environmental system manager. As both “judge and jury”, central government has been challenged to deliver fiscal and resource issues across decentralised services.

As ongoing institutional structures, powers, and responsibilities are maintained, public services
Shifting to an outcomes-oriented system

How does a country prioritise outcomes?

Could public “service” entitlements be repositioned as public “outcome” entitlements? Perhaps, instead of delivering transport or unemployment services as public agencies might deliver mobility and employment. This would facilitate a whole-of-agency focus on key desired outcomes, rather than a focus on roads, rail or back-to-work schemes.

However, apart from being unprecedented, that approach would not resolve the core issue of agencies needing to collaborate. The “mobility agency” would need to coordinate cases with the “housing agency” to ensure plans to deliver mobility support, not contradict plans to ensure residents have access to warm, dry, affordable homes. Failure to deliver outcomes would still be attributed to previous policy decisions or temporary setbacks and transparency would arguably be worse. A new risk would emerge to serve performance if sector capability was diluted.

Relevant experts believe that providers of public services, like health, transport and income support, need to be coalition-dated under dedicated, professional bodies. Remaining fiscal responsibilities should be a peak priority. But there are so needs to be expected to integrate public services to pursue of shared object values rather than planning.

If outcomes are not set up to pursue public outcomes, they will not. The existing system of independent public departments, agencies and councils has been arranged to manage public service costs down, and has to improve outcomes for New Zealanders, the Government needs to reassign roles, responsibility and resourcing across the wider public service system to influence outcomes and incentivise capability. Ongoing effort to ensure the system delivers for the short, medium and long term is required.

But what does an arrangement look like which has not been one that are incented to optimise public outcomes, that have the capability to deliver and are held accountable?
Institutionalising outcomes through spatial planning

Spatial planning provides the means to engage and collaborate with each other, the private sector and communities. It converts services into outcomes by using "pay as you go" as a common and shared variable to integrate and generate value. By integrating a spatial planning framework onto an otherwise service-oriented system, both outcomes and efficient and effective services can be delivered.

Spatial planning differs from conventional approaches and planning in New Zealand. Land use planning under the RMA is not strategic. It is effects-based and reactive. It is designed to manage the impacts of physical development on other resources, act on the environment. It is not designed or set up to proactively promote outcomes.

Spatial planning is about the key public service areas, physical and non-physical areas, across a defined area to collaborate and develop ongoing services. It can occur at a national or local scale, but is most common at provincial or regional scales. Zone of and for resource and commercial uses, sequencing the development of and transport and utilities, support growth within new settlements and new facilities and make provisions for parks and recreation are a core spatial planning act.

Although implementation is a straightforward process and the physical environment, the value of planning questions to interrogate and understand the wider economic, social and environmental impacts of different uses and investments. Addressing unemployment, poverty, housing affordability, and rural and urban need are critical to spatial planning as the delivery of roads and water.

Spatial planning does this through the strategy of capturing investment and using planning powers. Issues and opportunities can be targeted by infrastructure and development, rather than managed reactively as effects from market activity. Public authorisation is used to invest and opportunistic mechanisms to shape positive market behaviour and promote public outcomes, rather than use rules to mitigate negative effects.

New Zealand should move to a spatial planning model where wellbeing is proactively targeted by authorities.
Doesn’t New Zealand already have spatial planning?

New Zealand has already produced a number of “spatial plans”, and the Waikato and Auckland.

However, these plans are subordinated to those of larger regions under the Ministry and Long Term Plans (LTPs) under the Ministry of Business, Innovation, and Employment (MBIE). There is a consensus that these plans are not adequately supported by the Government. Another interesting point is the need for more robust planning frameworks.

Investments are not committed until funders are guaranteed through LTPs or from central government. Territorial authorities contribute but not to the same extent. There is a lack of consistency, not the reg on. When funders have to be located, there is no certainty that they will be signed off.

Central government resources are even harder to predict. In Auckland, the top investment priorities for the first spatial plan was not supported by the Government. Another example is the need for more robust planning frameworks.

With strong statutory and fundng, negotiations across the whole system, spatial plans are as important as economic plans, rather than merely as a tool for weak certainty over the very complex engagement with the community and the private sector. A joined-up approach is not possible.

New Zealand’s best example is the spatial plan for the Waikato region, co-developed on a strong foundation. A new spatial plan in the Waikato is the result of a spatial planning process.

Figure 15
Waikato Plan

- Significant growth areas:
  - Hamilton: Emerging high-level urban services in a context
  - Auckland: Emerging high-level urban services in a context

- Future connections:
  - More rapid, safe, and efficient roads, rail, and public transport

- Cycle paths and walkways:
  - Developing a network for cycling and walking

- Core natural areas:
  - Linking areas with natural and cultural areas to create a network of opportunities

- Rivers and lakes:
  - Valuing, protecting, managing, and conserving

- Destination places:
  - Enhancing our des ir places
Who does spatial planning?

Spatial planning is often not undertaken at a national scale. It is usually required to balance trade-offs. An economic context must be considered, and trade-offs often occur. Spacing powers are significant, and new locations on the national scale, and are water resources. These decisions can only be made at the national scale.

The standard approach in spatial planning is to spatially scale up and down considering the future spectrum of "national" and "local" actors. In larger countries, like Singapore and Hong Kong, one spatial plan may be feasible, integrating the future spectrum of "national" and "local" actors. In smaller countries, like China, spatial planning can occur at multiple scales.
Spatial planning’s impact on wider institutional arrangements

Spat a p ann ng s more than just an act v ty to a gn and sequence nvestment. It s a fundamenta y d fferent way of approach ng governance.

In contrast to New Zea and’s ex st ng serv ce-based system, wh ch sees nst tut ons focus on the r core pub c serv ce as eff c ent y as poss b e and respond to issuess as they ar se, spat a p ann ng s forward ook ng and proact ve. It everages govern ng act v t es n p ann ng and nfrastructure to avoid issuess n the first p ace. Phys ca nvestment becomes a key veh c e to ach eve ong term econom c, soc a , env romenta and cu tura we be ng.

The consequences for pub c nst tut ons are s gn ficant. Key pub c serv ces prov ders, particu arly those w th a phys ca component – transport, water, hea th, educat on, pub c hous ng, parks and fac t es – must a gn and coord nate the r act v t es over the short, med um and ong term. Broader pub c act v t es n fisca managem ent, soc a we fare and other core areas are a so affected. A eve s of governance must cooperate and comprom se, not just w th themse ves, but w th commun t es and the private sector.

Changes to nst tut on arrangements are necessary. The use of “pace” as a too to ntegrate major pub c serv ces reor ents nst tut ons around the geograph c prov s on of services, reduc ng the ro e of s ngu ar, vert ca ntegrated and centra y funded organ sat ons. The ro e of coord nated area-spec fic nst tut ons becomes more imp ortant. Respons b t es across govern ng author t es themse ves s affected.

Conclusion

For New Zea and to move to an outcomes-or ented governance mode wh ch pr ort a ss we be ng above more narrow pub c object ves, much better a gnment and ntegrat on across nst tut ons s requ red. The common and proven method to do th s internat onal y is through spat a p ann ng.

Spat a p ann ng comb nes the range of pub c serv ces prov d by author t es n an dent fied ocat on. It everages govern ng respons b t es n phys ca deve opment to promote w der ntang b e econom c, soc a , env romenta and cu tura we be ng. Th s type of approach to pub c serv ce de very s fundamenta y d fferent to that emp oyed n New Zea and today.
Hong Kong’s HK2030+

Rather than the three building blocks serving as a gh estate strategy for each of economy, society and environment, we engage, as international convention, the building blocks instead provide a bridge for tangible strategies to tangible development. Building Block 1 has common urban goals – a compact, dense, integrated, vibrant, healthy city.

Building Block 2 turns the focus to facilitating economic development and, specifically, the planning system’s contribution to economic development. It deals with pressures on land and requirements for different industries as we are the innovators, economy and product development opportunities for security and growth into the future.

Building Block 3 takes the final planning step towards implementation and deals with the long-term (beyond 2040) and requirements for housing, economy, recreation and infrastructure. Its analysis finds new and supplementary areas for equilibrium, with the total required area of 4800 hectares. Building Block 3 supports the infrastructure, environment and other projects planned to support the being.

For example, HK2030+ translates the building blocks into a conceptual spatial framework. The framework delineates three major strategies for the city:

1. Metropolitan Business Core – focused economic development around the traditional centre of Hong Kong

2. Two new strategic growth areas – a new 1000 hectares and recreation area to add East Lantau Metropole for up to 700,000 residents and 200,000 new jobs and a new town north of the territory for up to 3,000,000 residents and 215,000 jobs.

3. Three axes – a Western Economic Corridor focused on access to the port and airport, an Eastern Kowloon and Techno Industry Corridor focused on ex-sting technology, and an Northern Economic Belt focused on the airport and logistics sector.
Figure 14
Hong Kong 2030+ Spatial Concept
Applying an outcomes-oriented institutional framework to New Zealand

What would an outcomes-oriented institutional arrangement look like in New Zealand?

For New Zealand to move to an outcomes-oriented institutional framework, changes to the existing system are required. New powers to spatial planning need to be established to integrate public services and objects. Institutional arrangements shared outcomes need to be capable of delivering on those outcomes.

This section describes an institutional framework for New Zealand and where spatial planning is adopted and public service providers are reorganised around outcomes. Conceptually, this starts from a “blank sheet,” assuming new systems of government, new roles and responsibilities are under review.

However, this focuses on the major public services which impact key economic, social, environmental outcomes: transport, water, energy, telecommunications, health, education, major facilities, parks, economic and social development, and environmental management. Remaking central government responses to matters, for example, in defence and law and order, would be peripheral affected and are assumed to remain in their current form.
Institutionalising outcomes through spatial planning

The spatial planning cycle must be key to promote outcomes in New Zealand's "regional" spatial planning. National spatial planning vests too much power in central government and sub-metropolitan areas, making spatial planning power not capture the common range of socio-economic interactions.

Regional authorities, governing areas of shared economic and social interactions, would be established and vested with spatial planning powers and responsibilities.

Central government institutions would participate in spatial planning and the Government would provide guidance to the planning process through a national development plan.

To simplify processes, enableoca (sub-municipal areas) to participate in national spatial planning and facilitate decentralisation of governance with strong links to local economic interests. Local use of resources would be performed by over-regional governance with strong links to local economic interests. Local and use of resources would need to "green" sites to spatial planning.

Local authorities representing local communities would perform land use planning to implement spatial plans.

Institutionalising capability to provide services and implement plans

Institutions need to be capable of delivering spatial planning services.

Institutions would need the scope to engage in spatial planning processes and to implement the response to outcomes in accordance with the plan. Effective services must be sufficient to deliver outcomes.

Direct action would be needed to ensure effective institutions are part of the spatial planning processes and adhere to the plan.

New legislation would be necessary to require spatial planning and require all relevant parties to participate.

Institutions would need the necessary powers to deliver spatial planning. Spatial planning would carry statutory weight, enabling it to be zoned and act on stakeholders to engage. Local use of resources would "green" sites to spatial planning and be focused around the look, feel, and identity of the oca area.

Supporting legislation would require public services to be delivered in accordance with the agreed spatial plan.

Infrastructure and other major investments needed to support spatial planning cannot be backed by resource deficits. Powers would extend to resource for critical services. Private infrastructure providers (energy, telecommunications, and some transport and ports) can raise debt to fund capital works and maintain networks. Regulators would incorporate spatial planning requirements into estimates of investment needs.
Ports and airports would be privatised, sold down or corporatised and structurally separated from governing bodies to enable debt to be raised to deliver the plan.

Transport, health and education would remain publicly provided and sit on balance sheets, creating a significant risk to plan implementation. Binding statutory requirements would seek to prevent infrastructure and service resourcing failure.

Water services would be structurally separate from wider governance responsibilities, corporatised and majority funded by user charges.

Financing tools linked to targeted property taxes would be developed to enable flexible solutions to infrastructure and service investment challenges.

Transport’s role as the key enabler for economic and social interaction on and off the road network needs new models to separate transport from general property development, together with an increase in the value of transport and associated property to 50% of property value. This is necessary to ensure the long-term self-sustainability of transport services, infrastructure and associated assets, supported by taxes. Revenue streams through charges and fees for transport authorisation and enforcement can improve efficiency, increase generating capacity and reduce the cost of providing transport services.

Infrastructure financing is critical to achieving the outcomes of the plan. The Government’s new Infrastructure Financing and Financing (IFF) workstream enables property charges to repay infrastructure debt over the long term and would be expanded. In addition, tax increment financing, infrastructure bonds and public-private partnerships are financing tools which would be assessed against value for money and effectiveness considerations for major projects.

Institutional needs appropriate scale to execute their responsibilities. Activities with large capital investment and asset management needs where economies of scale and technical specification can improve efficiency would be scaled up. Activities with lower capital requirements, more community engagement and mixed economies from scale would be devolved down. The benefits of scale need to be balanced against other factors, including whether service impacts are mostly local, regional or national and to what extent cross-subsidies are relied on to support services.

Building Regions
A vision for local government, planning law and funding reform.
Retaining success

Moving to an outcomes-oriented system provides an opportunity to do some things better, but equally important is building on performance in areas of strength.

Services still need to be provided in a financially disciplined and efficient manner. The benefit of achieving outcomes needs to be balanced against affordability and willingness to pay. Transparency and efficient use of public resources is paramount.

The balance between reallocation of resources from those who are thrifty to those who are not needs to be optimised. Some services which could be devolved to lower levels of government could help achieve outcomes. However, the process may also impede wider national red tape but on, ensuring outcomes are achieved with health, education and economic opportunities.

Local demands for representation and dent are real and cannot be a function of local democracy. Spatial planning and services need detailed community buy-in and public support to be successful. Local communities require too many costs to meet with demands which are outsourced to regional plans, spatial priorities and not in conflict with regional or national plans.
Incentivising institutions to implement spatial plans

Roles, responsibilities and revenue across capable public institutions – central, regional and local – need to be linked to the outcomes of the spatial plan.

Annual budget allocations at each level of government would reflect the coming year’s spatial plan programme in order to gain fiscal incentives. If institutions are not provided with the necessary resources, they cannot make the contributions to the programme. Failure by one party to perform its functions undermines the work programmes of others, carrying under costs. When interdependency carries risks, it also exerts pressure on contributing parties to not “get the team down”. Shared commitments across community, institutions and levels of government increase the costs of policy reversals by any one party, strengthening enforcement.

A share of economic taxes – income, corporate and sales taxes – redressed to lower levels of government would reflect the central government decision making. A tax “swap”, with central government receiving a part of higher property taxes and local government a part of economic taxes, could improve policy alignment between different levels of decision makers. Regions would more aggressively target productivity, private investment and development. Effective incentives need to be balanced against transparency and simplicity in the tax system.

Transport policy emphasis would shift to achieving wider outcomes distinct from, and augment to, standard travel flows. Transport investment and services are needed to economise at higher levels (Figure 17) and property values. Overdependency on inadequate user charges constrains economic activity and exacerbates property prices, with severe equity impacts on accessibility and housing affordability.

Transport policy emphasis would shift to achieving wider outcomes distinct from, and augment to, standard travel flows. Transport investment and services are needed to economise at higher levels (Figure 17) and property values. Overdependency on inadequate user charges constrains economic activity and exacerbates property prices, with severe equity impacts on accessibility and housing affordability.

Central government would continue to have sole powers to levy sales, income and corporate taxes.

Regions would receive a proportion of regional GDP sufficient to incentivise regions to go for growth and fund greater responsibilities, without compromising fiscal sustainability.

Local authorities would retain property taxes, with strengthened access to targeted funding and financing tools.

Transport policy emphasis would shift to achieving wider outcomes distinct from, and augment to, standard travel flows. Transport investment and services are needed to economise at higher levels (Figure 17) and property values. Overdependency on inadequate user charges constrains economic activity and exacerbates property prices, with severe equity impacts on accessibility and housing affordability.
Transport funding would be derived from road use charges and adjusted with a beneficial pay mode. Public transport fares would balance affordability against other factors. Transport funding would be sourced from a combination of user charges, reflecting user benefits, property taxes, reflecting value benefits, and economic transport’s economic competitiveness, productivity and equivalent access to employment opportunities.

Active transport operational funding would be sourced from property charges.

Transport capital improvements would be funded through a combination of economic taxes (proportionate to agglomerative benefits) and property taxes (proportionate to property value improvement).

Road operational funding and renewals would be sourced from road use charges, until direct pricing is implemented.

Public transport operational funding would be sourced from both user charges and property taxes.

Funding for health, education, housing and social welfare is required but ve. Funding would continue to be sourced largely from sales, income and corporate taxes, as well as new property tax revenues. Economic development impacts generate and would be supported by general taxes.
Structures of authority and decision making need to be aligned with outcomes. National outcomes are prioritized in regional outcomes, and potential conflicts are necessary to a national structure. Lower levels can undermine the feasibility of major projects, whereas regional outcomes can support national outcomes. Arrangements which balance services and impacts at different scales and integrate decisions are necessary to align structures centrally.

Some key public services are inherently national and there are mixed features between them being performed at a subnational scale. Electric transmission and rail delivery are two such examples. Opting for governance options could include corporatization (the present state) and privatization, but do not include regional or local outcomes. Higher levels can lead the development of spatial plans. To avoid disaggregating the closely related activities of spatial planning and transport, and transport (excluding rail) should also be devolved to regions. Transport provision on two new extensive use of capacity, provision room for economies of scale and travel patterns are regional.

State highway management, as well as local roads and public transport, should be managed by regional authorities as a network connecting regional centers. Central government could decide whether to devolve decision-making and bottom-up measures for safety, congestion, and other objectives.

Public housing would be devolved to regions. Public housing is needed to address market failure, as well as targeted funding and financing of new local services, where they are not consistent with spatial planning. Independent oversight of health and education infrastructure would be established.

Health, education, and welfare service delivery would remain under the management of state-owned enterprises.

Electricity transmission and rail delivery would remain under the management of national government.

Health, education, and welfare service delivery would remain under the management of national government.

Devolution of health and education infrastructure responsibilities would be considered if performance could not be improved.

Regional government would conduct spatial planning, deliver transport and public housing and lead regional economic development.

Independent oversight of health and education infrastructure would be established.
The smaller, more community-oriented role of local councils would enable smaller, more representative councils to emerge. Restrictions on council creation and dissolution would be removed to maximise local representation. Local government would engage in sector development activities, in partnership with central government institutions.

Local government would conduct land use planning, would fund and finance one-off community initiatives with targeted rates and represent local communities on social and economic issues.

A broad and diverse range of development mechanisms are necessary to avoid toolkit mismatches. Eachayer of governance needs a range of funding, financing and planning options to promote outcomes at each scale. The first option to overcome a funding deficit should be to grow productivity. The preferred planning response should be to open more development opportunities for development, rather than precariously desperate opportunites.
Ensuring services and outcomes are delivered

To ensure New Zealand’s outcomes are delivered on time and to high standards, a new system is needed to perform the role of overall system manager. Under the current system, the role of overseeing the Government of the day and ensuring the public outcomes are delivered every three years. But a conflict of interest exists. Central outcomes directed by the Government deliver the majority of public services, leaving the Government to monitor its own performance. This approach has failed to prevent severe deficits from emerging in key areas like housing and transport.

The only entity capable of overseeing the wider system of governance, central outcomes and delivery of public services is the Government. Under the current system, where central outcomes deliver the majority of public services, the Government is both “judge and jury” and expected to monitor its own performance. Issues are not being addressed.

Under an outcomes-oriented system, the Government would step back from service delivery and focus on overseeing the system as a whole. Lower levels of government or the private sector would deliver services “on the ground”, ensuring they meet national expectations. Central resources would be devoted to performance against these expectations.

The Government’s primary role would be to ensure lower levels of government are delivering the outcomes the Government expects. Transparent monitoring and benchmarking of subnational outcomes would be a key function to inform service providers and the public. Support on major issues, dentification of economic, social, environmental and cultural bottom lines and development of agreed data inputs (such as population growth, etc) would be so critical.

The voting public’s role would remain to determine whether outcomes are being delivered nationally and locally. The election cycle would be expanded to provide additional time for policy outcomes to be reviewed. A four-year cycle, with national and subnational elections alternating every two years, would provide a balance of democratic and policy outcomes needs at different levels of government.

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Devolution of health and education infrastructure responsibilities would be considered if performance could not be improved.

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Environmental management would be performed by national agency.
A model for an outcomes-oriented institutional framework

An outcomes-based institutional framework would look very different to the service-oriented mode currently in place. A new funding and delivery of key public services would be allocated across all levels of government.

Funding would be linked to outcomes. Investment in crucial public services would be strategic, integrated, and designed to promote economic, social, environmental, and cultural wellbeing at the central, regional, and local levels.

New funding sources to facilitate investment would be added. Land taxes would improve systemic and private sector governance. A 1 per cent rent dividend and tax would generate around $10 billion per annum, enabling a more than 10 per cent reduction in corporate and income tax revenue.

<table>
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<tr>
<th>National Government</th>
<th>Economic taxes (sales, income, corporate taxes)</th>
<th>National Development Plan</th>
<th>National wellbeing</th>
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Options for regional New Zealand

There are many options for regional reform. Larger regions would provide added scale and capability. Smaller regions would emphasize diversity. Demonstrated capability and competence would be greater devolution. Smaller regions would have less control. Affected communities could choose.

Figure 17

Five regions

Canterbury
Populated at 805,600

Southern
Populated at 330,000

Auckland
Populated at 1,874,900

Waikato
Populated at 787,180

Central
Populated at 1,086,830
Figure 18

Ten regions

Auckland
Popu at on 1,695,900

Bay of Plenty
Popu at on 350,140

Waikato
Popu at on 428,040

Western
Popu at on 350,560

Northland
Popu at on 173,000

Eastern
Popu at on 214,880

Wellington
Popu at on 521,390

Tasman
Popu at on 187,020

Canterbury
Popu at on 618,660

Southern
Popu at on 330,000

01 Whangarei District
02 Whangarei District
03 Kaipara District
04 Auckland
05 Thames-Coromandel District
06 Hauraki District
07 Waikato District
08 Taranaki District
09 Tauranga City
10 Hamilton City
11 Western BOP District
12 Waipa District
13 Waikato District
14 Oropuki District
15 Otorohanga District
16 South Waikato District
17 Rotorua District
18 Whakatane District
19 Waitomo District
20 Taupō District
21 Rangitaiki District
22 Whanganui District
23 Wanganui District
24 New Plymouth District
25 Stratford District
26 South Taranaki District
27 Hastings District
28 Napier District
29 Rangitikei District
30 Wanganui District
31 Central Hawke's Bay District
32 Manawatu District
33 Palmerston North City
34 Tararua District
35 Horowhenua District
36 Kapiti Coast District
37 Manawatu District
38 Porirua District
39 Upper Hutt District
40 Carterton District
41 Wellington City
42 Hutt City
43 South Waipara District
44 Nelson City
45 Tasman District
46 Marlborough District
47 Buller District
48 Kahurangi District
49 Grey District
50 Hurunui District
51 Selwyn District
52 Waimakariri District
53 Westland District
54 Ashburton District
55 Ch-ch District
56 Mackenzie District
57 Timaru District
58 Waipara District
59 Waimate District
60 Queenstown Lakes District
61 Wairarapa District
62 Central Otago District
63 Southland District
64 Dunedin City
65 Otago District
66 Clutha District
67 Invercargill City
68 Southland District
Figure 20

Nineteen regions

- Auckland
  Popu at on 1,695,900

- Waikato
  Popu at on 378,090

- Central
  Popu at on 129,530

- Taranaki
  Popu at on 119,710

- Manawatu-Wanganui
  Popu at on 230,850

- Wellington
  Popu at on 475,900

- Westland
  Popu at on 32,590

- Tasman
  Popu at on 154,430

- Aoraki
  Popu at on 82,210

- Otago
  Popu at on 208,600

- Southern
  Popu at on 99,100

- Far North
  Popu at on 64,400

- Northland
  Popu at on 114,600

- Hauraki
  Popu at on 49,850

- Bay of Plenty
  Popu at on 220,800

- East Cape
  Popu at on 66,440

- Eastern
  Popu at on 157,550

- Wairarapa
  Popu at on 45,480

- Far North District
- Whanganui District
- Kaipara District
- Auckland
- Thames-Coromandel District
- Hauraki District
- Waikato District
- Manawatu-Palmerston North
- Taranaki
- Wellington City
- Hamilton City
- Thames-Coromandel
- Taupo District
- Rotorua District
- Auckland
- Waitomo District
- Northland
- Whanganui District
- Whanganui District
- Rangitikei District
- Manawatu-Wanganui
- Taranaki
- Wellington
- Wairarapa
- South Wairarapa
- Wairarapa
- Wellington
- Aotearoa
- Canterbury
- Otago
- Southern
- Central
- Far North
- Whanganui
- Auckland
- Thames-Coromandel
- Hauraki
- Waikato
- Manawatu-Palmerston North
- Taranaki
- Wellington
- Hamilton
- Taupō
- Rotorua
- Thames-Coromandel
- Whanganui
- Manawatu-Wanganui
- Taranaki
- Wellington
- South Wairarapa
- Wairarapa
- Wellington
- Aotearoa
- Canterbury
- Otago
- Southern
- Central
- Far North
- Whanganui
- Auckland
- Thames-Coromandel
- Hauraki
- Waikato
- Manawatu-Palmerston North
- Taranaki
- Wellington
- Hamilton
- Taupō
- Rotorua
- Thames-Coromandel
- Whanganui
- Manawatu-Wanganui
- Taranaki
- Wellington
- South Wairarapa
- Wairarapa
- Wellington
- Aotearoa
- Canterbury
- Otago
- Southern
Moving towards an outcomes-oriented system

An outcomes-oriented framework looks very different to the servce-based mode currently employed in New Zealand. If established, however, it would refocus centre, oca and regional government on economic, social, environment and cultural well-being. Steps can be taken today to accelerate the process of reform and redress New Zealand’s high performance but missed opportunities.

Many reforms are already underway

The Government is ready to launch a major programme of reform underway. Here are a few:

- Establishment of a new agency, the New Zealand Infrastructure Commission, to improve the Te Waanga whi ch w ill improve central oversight of New Zealand’s central infrastructure and enhance project development capability.
- Repealment of the State Sector Act, to improve the fiscal incentives which have placed so much focus on short-term efficiency that departments have become self-sufficient and inward-looking.
- An overhaul of the Resource Management Act to improve environmental outcomes and enable urban development.
- A series of National Policy Statements to better oca government planning and decision-making.
- Establishment of a new central authority, the Homes and Communities Agency, to provide government with the tools to step into urban planning and improve urban outcomes.
- Local Government Act reforms, which have a ready redefined the purpose of oca government to promote broader economic, social, environment and cultural well-being.

Infrastructure funding and financing too is to overcome funding capacity barriers within oca government and improve access to the financing that development needs.

Strategic transport planning reform to enable longer-term thinking and better use of transport infrastructure.

Three waters reform, to establish an expert centre for water quality regulator and further west gate onto sustainable development.

Creation of the $1b per annum Crown Growth Fund to facilitate investment in the main centres and drive regional economic development.

This is the most significant national reform in a generation. It is too soon to know how successful it will be, but even if they w ill be implemented, if effective, they will enable the Government to improve performance across key economic, social, environment and cultural outcomes.
The risk of centralised planning, funding and delivery

However, the reforms are not without risk. Proposals have to date received heavy on central government strengthening its management of aspects of governance. Central policy direct on has been considered strengthened through nature and transport policy statements. Centres sed de very's been enhanced through the new urban development author ty. Central funding capability has been reta ned and financial capability expanded to empower the kes of Housing New Zealand and Crown Infrastructure Partners.

We consider reforms to the underpinnings of central government's role have not been applied to local government. More prescriptive on and less room for local decision making may reduce the scope for poor local decision making, but undervalue the benefits of regional integration and local knowledge. With the right incentives, strong and capable subnets on central government's ability to achieve both local and national outcomes.

Changes are needed in each area of respons subsidy, but the consensus on the author's view of central government creates risks. What would a different Government do with the added powers and enhanced central capability? Who makes sure central government gets it right - what if a Government gets it wrong?

The period of economic and social reform from 1984 was precipitated by an economic crisis born in part, out of Government policy. Many of the changes were designed to meet the potential of central government, as the principal planner, funder and provider of public services, to ever again overextend the nation's resources. They achieved this by constraining the ability of central government's role to devalue and diminish public sector powers.

By expanding the mandate of Government central role, strengthening very centralised and centralised public sector powers back to the centre, current reforms risk repeat ng the m scales of the past. Recent policy swings which have damaged the economy are key to become worse, not better. New Zealand needs a way of achieving both the benefits of outcomes-oriented centralisation and integration, on one hand, and financial and policy stability on the other.
Building regions as a means to strengthen governance

The means to achieve this is by devolving greater responsibilities to the Government and the Government’s overall management of the system. Devolution of power to greater regions and competencies in subnational government at the same time as strengthening central government can better represent regional and local outcomes as well as strengthen regional planning and management. Enhanced governance at the subnational level can also better represent regional and local outcomes, as well as strengthening local decision-making and democracy. National outcomes will not suffer from New Zealand’s high-performance system, but local government needs to be more capable and competent.

The challenge can be overcome with an approach that strengthens both regional and local outcomes. Stronger, more capable regional government focused on delivering services opens the door for more local representation on issues of broader importance to local communities. Without responsibility for network infrastructure, new local councils could be more flexible. Consequences for growth and development of communities. Without responsibility for network infrastructure, new local councils could be more flexible.

Make it optional, make it work

Local constituents have clearly demonstrated through successive constitutional referendums that local democracy and representation is a top priority. Truly local representation on the basis of future prospects and long-term impacts for social and economic well-being.

This cannot happen overnight. Councils do not have the scope to manage and deliver many current services, so one addition of responsibilities. Local government needs to have the scope to deliver “regional” services as well as regional and national outcomes.

Democratise local decision-making at the same time as regional capability and subnational outcomes. Local councils compete for new residents and rates, changing the incentives of local councils to promote growth. Regional government would compete for private investment and economic development, while central government would manage the system as a whole. National outcomes would be promoted, regional outcomes would be promoted and local outcomes would be promoted.
An outcomes pathway

Infrastructure New Zealand and its partners that the current policy environment provides an opportunity to think about the future system of government in New Zealand.

The following pathway will build on current reforms and continue momentum towards a national, regional, and sectoral framework which connects sectors and enables public service organisations to promote well-being.

1. 2019: Establish the National Infrastructure Commission (NIC)

Compete establishment of the arms-length National Infrastructure Commission (NIC). NIC provides strategic advice to government and project support to central and subnational government. NIC advises the Government and sectoral organisations as to the adequacy of public and private infrastructure in New Zealand. NIC monitors performance of central government and sectoral governments through a performance management system.

NIC develops a national infrastructure project pipeline and, by 2023, leads Government delivery of the first National Development Plan. NIC provides strategic advice for national development. NIC appends enhanced Investor Confidence Rating Scheme to new regional governments to establish national performance for greater responsibility.

2. 2020-2023: Establish a Regional Development Fund

From 2020, expand the $1 billion per annum Provincial Growth Fund into a $2 billion Regional Development Fund (RDF) covering a national area of New Zealand. RDF is open to existing to sectoral authorities who collaborate across a wider economic area to develop projects and deliver an evidence-based regional spatial plan. Payments follow key milestones, enabling collaborative on the plan, delivery of agreed projects, and transfer of water responsibilities and changes to zoning and other planning rules.

3. 2020-2023: Reform the planning system


The Environment Act would put the environment first, a national environmental regulator replaces existing regional councils and functions. National bottom-up decision-making and regional governance would strengthen bottom-up dependencies on national and regional governance.

The Development Act consolidates the planning and functions of the Resource Management Act with the Local Government Act and the Land Transport Management Act. It provides opportunities for and processes to establish regional government, subject to a referendum.
4. 2023 onwards: Subnational government reform

From 2023, a referendum in each oca area is held seeking support for strengthened reg ona governance. Loca commun t es choose wh ch reg on they dent fy w th. Any changes take effect from the fo ow ng e ect on.

From 2026, fo ow ng a vote of popu ar support, new reg ona government estab shed across support ng terr tor a oca author ty areas. Ex st ng reg ona counc d sestab shed and env ronmenta management respons b t es transferred to centra env ronmenta regu ator.

Some rat ng powers, and transport and strateg c p ann ng powers vested n new author ty. Terr tor a oca author ty es rema n, w th reduced respons b t es, but more flex b e forms of fund ng and financ ng to meet oca needs. Further oca commun ty d scuss on over rght form of representat on at the owest eve .

Reg ona government, once estab shed, beg ns negot at ons w th centra government for added respons b t es and revenue. Investor Conﬁdence Rat ng Scheme used to eva uate nvestment capab ty. Land transport (exc ud ng ra ) fund ng and de very, hous ng, reg ona econom c deve opment and spat a p ann ng to u t mate y become reg ona act v t es, subject to demonstrated capab ty and capac ty.

5. 2023: Water reform

Three waters serv ces structura y separated from terr tor a oca author t es and Corporat sed nto 3-5 reg ona water prov ders nat ona y. Vo umetr c charg ng ntroduced for water supp y and wastewater. Operat on subs dy from oca ratepay ers for stormwater.
6. 2026 onwards: increased devolution

New and expanded powers devolved to new regional governments which demonstrate capability to strategise plans, collaborate and deliver. Regional authorities receive a proportion of economic activity to incentivise positive growth management.

7. 2026 onwards: further reform

Electorates shifts to four years to improve consistency of decision making. Devolved powers across central and regional government balances enhanced decision making capability from strengthened cycle.

Land/property taxes introduced and income and corporate tax reduced in tax neutrality "swap". Tax swap incentives about and productivity, decentralisation of decision making, and use. Development and financing charges removed, supporting the tax system and incentives for development.

National road pricing introduced and used to supplement transport investment. Fuel levies and road user charges removed. Development Act 2023 improves efficiency of the road network.
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