

## NEW ZEALAND

UNITARY COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: NEW ZEALAND DOLLAR (NZD)

## POPULATION AND GEOGRAPHY

**Area:** 267 710 km<sup>2</sup>  
**Population:** 4.820 million inhabitants (2017), an increase of 1.1% per year (2010-2015)  
**Density:** 18 inhabitants / km<sup>2</sup>  
**Urban population:** 86.5% of national population  
**Urban population growth:** 2.2% (2017 vs 2016)  
**Capital city:** Wellington (8.6% of national population)

## ECONOMIC DATA

**GDP:** 197.1 billion (current PPP international dollars), i.e. 41 109 dollars per inhabitant (2017)  
**Real GDP growth:** 3.0% (2017 vs 2016)  
**Unemployment rate:** 4.7% (2017)  
**Foreign direct investment, net inflows (FDI):** 2 144.5 (BoP, current USD millions, 2017)  
**Gross Fixed Capital Formation (GFCF):** 24.0% of GDP (2017)  
**HDI:** 0.917 (very high), rank 16 (2017)

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

New Zealand is a constitutional monarchy, with a unitary system of government and two tiers of subnational government. The country has a unicameral parliament, with approximately 120 members elected every three years by universal suffrage through proportional vote. The head of the government is the Prime Minister. The country has no written constitution, and the functions and dual purpose of local governments are defined in the Section 10 of the Local Government Act 2002 as enabling “democratic decision-making and action by, and on behalf of, communities” and meeting “the current and future needs of communities”. Whereas local governments are independent from the central government on political, financial and administrative levels, specific statutes may establish responsibility or accountability relationships between local authorities and central government agencies or ministers, in particular the minister of local government, supported by the Department of Internal Affairs. The Local Government Forum, an event held each spring, also facilitates intergovernmental communication.

The subnational level of government consists in 67 territorial authorities and 11 regional councils. Regional and local councils have the same structures, with members elected to represent their communities for three-year terms. Local councils are headed by mayors councils, directly elected also for three-year terms. The leader of the regional council is the Chair, who is elected by regional councillors from among their own ranks, and who can be removed from office by them. In total, the number of councillors amounts to approximately 1 600 elected members.

Many councils have second tier or sub-municipal bodies, which are also elected, and are known as community boards or local boards. Auckland has a particular situation with a governing body of 21 members that are responsible for the overall direction of the council. It shares responsibility with an additional 21 local boards that represent the interests of smaller local areas within the greater Auckland region.

New Zealand presents a singular form of multi-level governance systems, reflecting its British origins, with local government arrangements still close in nature to those in the United Kingdom or Ireland. In these countries, the central government plays a key role in driving local government reforms. Local government reforms in New Zealand were also influenced by the New Public Management movement.

Many measures were introduced in the late 1980s / early 1990s to reform local governments in New Zealand. They often aimed in particular at restructuring local authorities, increasing governance flexibility and efficiency, increasing the transparency and accountability as well as improving access and quality to local public services, rather than decentralising new functions. This led to the passing by the Parliament of a series of Acts that provided councils with more flexible powers and tools to work with and for their communities, such as the Local Electoral Act 2001, the Local Government (Rating) Act 2002 and the Local Government Act 2002 (LGA 2002). The latter was a large reform of local governments' functions. It broadened and redefined local governments' powers, roles and responsibilities, by separating policy making from policy implementation and providing SNGs with a general power of competence. A major objective of this reform was also to increase SNG accountability and the reform introduced collaborative and citizen-centred processes. The LGA 2002 has been amended a number of times since 2002, in line with the Better Local Government New Zealand reform.

## TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	67 territorial authorities		11 regional councils	
	Average municipal size: 70 450 inhabitants			
	67		11	78

**OVERALL DESCRIPTION.** New Zealand has a two-tier system of SNG. In 2017-2018, there were 11 regional councils and 67 territorial authorities. New Zealand's local territorial arrangements were significantly reformed in 1989, through a strong consolidation process. Before the 1989 reform, the local government sector was characterised by high fragmentation and enormous disparities in size and activities, both at regional and local levels. At local level, there were around 800 structures that had been established for a long time, including around 200 local authorities with different statuses (counties, municipalities, independent town districts, district communities) and numerous elected “special purpose bodies” (harbour boards, catchment boards and drainage boards, etc.). As part of the 1989 reform, the number of local authorities was slashed to 74 “territorial authorities” (and subsequently to 67). The municipal reform was also a regional reform as 12 “regional councils” were created (subsequently 11). The authority over the reform process was delegated to an independent commission, the Local Government Commission, which is now the subject of a government review.

**MUNICIPAL LEVEL.** There are two types of territorial authorities: city councils and district councils. City councils have a population of more than 50 000 inhabitants, predominantly urban-based, while district councils have a smaller and more widely dispersed population. As of 2019, there was 12 city councils, and 55 district councils. In 2010, the regional council and seven territorial authorities, which had made up the Auckland metropolitan area, were amalgamated further to form the Auckland Council unitary authority. Following the last territorial reform, the average population size of municipalities was, as of 2017, around 70 450 inhabitants. Some 95% of councils have populations that exceed 5 000 inhabitants, and 64% more than 20 000.

Six unitary councils are territorial authorities with regional council responsibilities: Auckland Council, Gisborne District Council, Chatham Islands Council, Nelson City Council, Marlborough District Council and Tasman District Council.

The 1989 reform also created a sub-municipal level comprised of both “community boards” and “local boards”. They are also elected and operate in both urban and rural areas. Both forms advocate for and represent the interests of designated communities, such as a rural community. Community boards may also undertake functions delegated to them by their councils. Currently, there are 110 community boards across the country.

As part of the consolidation of the Auckland councils in 2010 a co-governance model was created and 21 local boards established. Local boards are similar to community boards but have responsibility for a wider range of responsibilities. Government Act 2002 Amendment Bill encourages further inter-municipal co-operation and shared services between local authorities.

**REGIONAL LEVEL.** New Zealand has 16 regions including 11 administered by regional councils and five others that are administered by territorial authorities (city or district councils) and also perform the functions of regional councils (e.g. Auckland city, Tasman district council, Nelson City council, etc.). Population size for regions ranges from 33 000 inhabitants in West Coast to 1 696 000 inhabitants in Auckland, the average size being 212 000 inhabitants. Regional disparities in terms of GDP per capita have slightly decreased in New Zealand in recent years, after a period of widening disparities between 2007 and 2014. During this period, Taranaki – the region with highest GDP per capita – benefitted from growth in forestry, fishing, and mining activities. In 2016t, the GDP per capita of Taranaki is 1.7 higher than that of Northland, the poorest region. New Zealand has the lowest regional disparities among 30 OECD countries with comparable data, when the richest and poorest regions representing at least 20% of the population are taken into account.

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The 2002 Local Government Act (LGA) redefined SNG responsibilities and greatly increased their autonomy and the scope of activities they undertake. It provided them with a general clause of competence. Previously they could only undertake activities permitted by law.

The LGA was amended in 2014, in line with the Better Local Government New Zealand reform, in order to clarify further the division of responsibilities between regional councils and territorial authorities. It aimed to encourage municipal co-operation and shared services, and to increase the efficiency of long-term and annual plans. As SNG activities must be approved through public consultation within their communities, the list of their responsibilities varies widely from one council to another.

Traditionally, the division of regional and territorial competences follows the principle of separation between responsibilities related to planning and those which are related to service provision. There is a high degree of co-operation between regional and territorial councils, which have complementary roles. Regional councils have generally no direct responsibilities for service delivery (except for Auckland and Wellington) and are primarily responsible in sectors related to environmental protection and natural environment, transport, green areas and water management (the boundaries of most regions were based on drainage basins). The responsibilities of regional councils in resource management are further detailed in the Resource Management Act of 1991, amended in 2017, which promotes the sustainable management of natural and physical resources. It does so through the control of coastal marine areas, the establishment of rules on water allocation at the regional level, soil conservation, etc. Territorial authorities generally have responsibilities related to local development and service delivery, local infrastructure and community development and amenities.

Another major component of reforms in New Zealand was a move towards greater ‘corporatisation’ of government-owned commercial activities, either through privatisation or the creation of public (or semi-public) corporations to carry out SNG local services.

### MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	TERRITORIAL AUTHORITIES
1. General public services		Local regulations
2. Public order and safety	Civil defence in case of emergency	
3. Economic affairs /transports	Regional transport (including public transport); Harbours; Regional land management	Local land-use management; Local roads; Community development; Tourism
4. Environmental protection	Water quality; Contaminant discharge and coastal management; River and lake management; Flood and drainage control; Environmental protection; Resource management; Air quality; Pest control, Regional parks and public spaces	Sewerage; Storm water; Solid waste management
5. Housing and community amenities	Water networks management	Town Planning; Water supply; Parks and reserves; Social housing
6. Health		
7. Recreation, culture & religion		Libraries; Theatres; Concerts; Museums; Sports and leisure
8. Education		
9. Social protection		Pensioner housing

## SUBNATIONAL GOVERNMENT FINANCE

**Scope of fiscal data:** regional councils at the regional level; city districts, Auckland Council and Chatham Islands territory, all referred to as “territorial authorities” at the municipal level; a structured sub-municipal level made of community and local boards.

SNA 2008

Availability of fiscal data:  
**High**

Quality/reliability of fiscal data :  
**High**

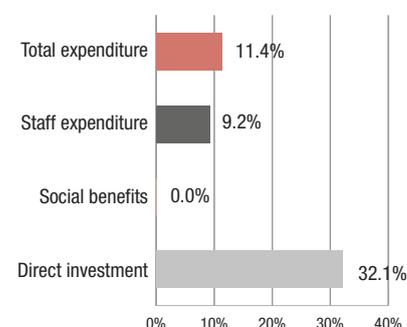
**GENERAL INTRODUCTION.** New Zealand is among the most centralised countries in the OECD with regard to spending responsibilities, with SNG share of expenditure on par with levels found in countries such as Chile or Turkey. However, SNGs have a certain level of autonomy in terms of spending in their specific fields, as they rely less on transfers from the central government (compared with the average in OECD countries), and more largely on land property-related taxation, user charges and property income. The heavy reliance of councils on user fees and charges, however, poses challenges for the financing of long-term infrastructure and specific responsibilities (transport, culture and recreation). The Local Government Official Information and Meetings Act (1987) ensures that the population can access information about local authorities’ activities, and local authorities are primarily accountable to their communities rather than to central government.

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## SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
<b>Total expenditure</b>	<b>1 726</b>	<b>4.4%</b>	<b>100%</b>	
<b>Inc. current expenditure</b>	<b>1 153</b>	<b>2.9%</b>	<b>66.8%</b>	
Staff expenditure	318	0.8%	18.4%	
Intermediate consumption	556	1.4%	32.2%	
Social expenditure	0	0.0%	0.0%	
Subsidies and current transfers	174	0.4%	10.1%	
Financial charges	102	0.3%	5.9%	
Others	3	0.0%	0.2%	
<b>Incl. capital expenditure</b>	<b>573</b>	<b>1.5%</b>	<b>33.2%</b>	
Capital transfers	68	0.2%	3.9%	
Direct investment (or GFCF)	506	1.3%	29.3%	

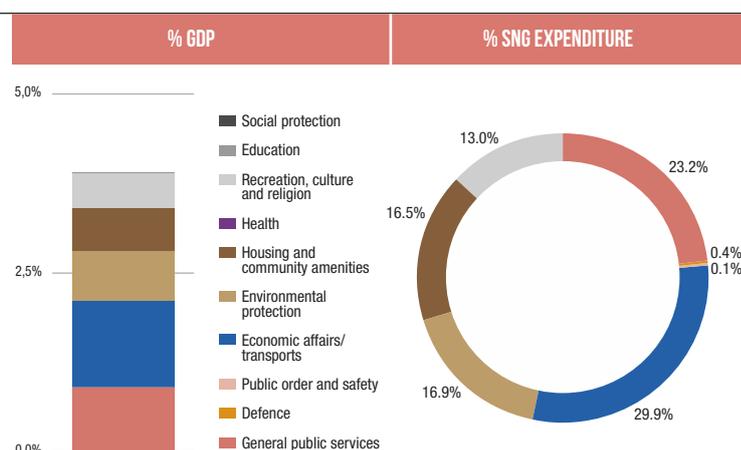


**EXPENDITURE.** In New Zealand, SNG spending ratios are below the OECD average both as a share of public expenditure and GDP (respectively 40.4% and 16.2% in 2016). The level of SNG staff spending is particularly low and SNGs do not play a role in broad areas such as education, social protection and health. Instead, their responsibilities cover essentially network infrastructures.

**DIRECT INVESTMENT.** SNGs play a significant role in public investment, especially compared to their low level of spending decentralisation. In 2016, one-third of their expenditure was dedicated to investment (roads, transport, and utilities), which represented 1.3% of GDP (vs 1.7% in the OECD unitary countries on average). Most investments, in particular in the transport sector, that have been identified as a priority investment sector by New Zealand's Government Policy Statement were co-financed through the Land Transport Fund (LTF). Historically, they have been shared equally between central and local governments. The Council of Auckland is managing the Auckland Transport Alignment Project together with the central government. Broadly speaking, infrastructure investments have lagged behind the needs stemming from rapid population growth. SNGs have little incentive to fund local infrastructure, in particular land transport and water infrastructure, as they have do not share in the windfall from local economic activity: most if not all fiscal benefits flow mainly to the central government level. To ensure the smooth running and success of the investment programmes and projects, the Government of New Zealand has called for peer reviews (gateway reviews) since 2008. In addition, the amendment of the LGA in 2014 forces SNGs to design an infrastructure strategy that has a horizon of at least 30 years.

## SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Economic affairs and particularly transport is the main category of SNG spending (29.9%). In this sector, SNGs contribute up to 34% of total public spending. Other major categories of SNG spending include general public services, environmental protection (including waste and water), housing and community amenities (including water distribution) and recreation and culture. Transport and water infrastructure are, by and large, the responsibility of local governments in New Zealand, which weighs heavily on their budgets. Since 2013, the share of SNG spending dedicated to general public services has decreased, while their contribution to housing and community amenities has increased. On the other hand, New Zealand SNGs exercise no responsibilities in defence and public order, healthcare, education or social protection.



## SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
<b>Total revenue</b>	<b>1 695</b>	<b>4.3%</b>	<b>10.8%</b>	
Tax revenue	876	2.2%	7.1%	51.7%
Grants and subsidies	451	1.1%		26.6%
Tariffs and fees	281	0.7%		16.6%
Property income	88	0.2%		5.2%
Other revenues	0	0.0%		0.0%

**OVERALL DESCRIPTION.** While being a centralised country regarding the share of SNG in public spending and revenue, SNGs have a certain level of autonomy in terms of revenue-raising capacity. Local and regional council revenue is composed - for more than half - by own-source tax revenues, essentially land and real estate property taxes, over which they have great autonomy. Subsidies and grants represent 26.6% of subnational revenues (11.6% for territorial authorities only), and are primarily dedicated to the transport sector. Councils also rely on tariffs and fees, over which they have some discretion to set the rates and fees.

**TAX REVENUE.** Unlike subnational governments in many other countries within the OECD, the funding of New Zealand councils relies on a single form of tax, the property tax (85.8% of SNG tax revenue), as outlined in the 2002 Local Government Act. Although rates on property are the primary source of income for both regional councils and territorial authorities, the percentage of income from rates can vary substantially between councils. The council determines total rates in advance annually, and this amount is allocated among ratepayers according to property values. SNGs have a large degree of discretion over this tax. Indeed, property taxes can resemble general rates (based on the land, capital or rental value of a property), targeted rates (calculated based on a particular feature of a property and used to fund a specific service) or uniform annual general charges (UAGC i.e. a standard cost per property, unrelated to property value). Local councils may also adopt revenue strategies, which set out planned increases in council taxes for a decade. In 2016, the property tax amounted to 1.9% of GDP, a ratio which is significantly above the OECD average (1.1%).

Other minor tax revenues include a small share of the fuel tax collected by oil companies and redistributed to city and district councils. Local councils do not share revenues generated by local economic activity (such as VAT income).

**GRANTS AND SUBSIDIES.** More than half of grants and subsidies received by SNGs are for capital expenditure (56.5%), in line with their responsibilities, which focus on network infrastructures. The main transfer mechanism from national to SNGs corresponds to a share of the road taxes and charges raised on petrol, diesel and vehicle registration, which are earmarked for the construction and maintenance of local roads, through the intermediary of the New Zealand Transport Agency. The National Land Transport Fund covers an average of 53% of the cost of all local transport programmes. SNGs may receive co-funding of up to 75% of the costs of a given project, through a formula based on the capital value of a district's property and on its road and public transport investment programmes.

**OTHER REVENUES.** Councils receive income from a diverse range of additional sources. Other revenues include a great variety of service charges and fees (swimming pool charges, parking fines and infringements, fees for issuing permits and licenses or conducting inspections, and water charges, i.e. 16.6% of local revenue).

Local councils, and more particularly regional councils, also receive property income (interest earned from investments and dividends, i.e. 5.2% of local revenue), as they often own big highly-profitable assets, such as ports. Increasingly, the Auckland Council is performing many of its activities through Council-Controlled Organisations (CCOs). To be able to meet the financing needs for transport infrastructure, some councils are currently looking at additional options for congestion pricing and road network pricing, and Auckland Council is currently proposing a motorway charge. Similarly, regional councils have been requesting to be allowed to institute a regional fuel tax, but this was repealed in 2013. Since 2017, only Auckland council is allowed to apply a regional fuel tax.

Finally, "development contributions" are widespread in New Zealand (approximately 2% of SNG revenue), which councils impose on property developers in exchange for building permits. This forces developers to contribute to the cost of new infrastructure (roads, water and wastewater infrastructure, and community facilities). LGA 2014 increased transparency for development contributions.

## ■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
<b>Total outstanding debt</b>	<b>2 322</b>	<b>5.8%</b>	<b>11.5%</b>	<b>100%</b>
Financial debt*	1 936	4.8%	13.1%	83.4%

\* Currency and deposits, loans and bonds

**FISCAL RULES.** The Office of the Auditor General is in charge of the financial oversight of local government forecasting and use of resources. According to the LGA, SNGs must set financial strategies based on quantified limits on rates, rate increases and borrowing. Budgets must be balanced. In 2011 and 2014, new prudential requirements were introduced by Local Government Regulations (Financial Reporting and Prudence), which also introduced new benchmarks and indicators for financial management. The Local Government Act of 2002 first required councils to set, in consultation with citizens, financial strategies that include a statement describing the local authority's quantified limits on rates, rate increases and borrowing. Since 2010, councils have been required to determine, through public participation, their own fiscal limits. Those limits can be exceeded, but then councils are accountable to their residents.

**DEBT.** New Zealand SNGs traditionally borrow to fund capital expenditure programmes, to spread the cost of infrastructure across generations. Therefore, they must adopt "revenue and financing" policies stipulating the funding of capital expenditure as well as "liability management" policies outlining their interest rate exposure, liquidity, credit exposure and debt repayment schedule. SNGs can only borrow on the domestic financial markets, except for the Auckland Council, which can borrow in foreign currencies. The Local Government Funding Agency (LGFA) was created in 2011 by local governments and the central government. This is a debt vehicle that groups 47 member councils to issue bonds on financial markets and lend to their members at competitive interest rates. By November 2018, it had lent nearly NZD 9 billion to 59 councils, through refinancing previous loans borrowed from banks or funding new infrastructure projects.