

UNCLASSIFIED

Hon Nanaia Mahuta, Minister of local government

Proactive release of Cabinet material related to the establishment of a Ministerial review into the future for local government

16 June 2021

These documents have been proactively released:

12 April 2021, CBC-21-MIN-0110 Minute: A Pathway for Considering the Future for Local Government

12 April 2021, Cabinet Paper: A pathway for considering the future for local government

12 April 2021, Government response to the Productivity Commission report on local government funding and financing

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to Redaction Codes:

- **Section 9(2)(f)(iv) - to protect the confidentiality of advice tendered by Ministers of the Crown and officials.**



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

A Pathway for Considering the Future for Local Government

Portfolio **Local Government**

On 12 April 2021, following reference from the Cabinet Economic Development Committee, Cabinet:

Background

- 1 **noted** that the work programmes the government is advancing to overhaul the three waters sector and the resource management system are foremost among a suite of reform programmes that will reshape the system of local government;
- 2 **noted** that the impact of COVID-19 has added to the historical fiscal challenges councils were facing, and that the reform that lies ahead for local government may further compromise the sustainability of some local authorities' current arrangements;
- 3 **noted** that the local government sector has raised its concerns about the impending cumulative impact of reform and is calling for a programme of work to reimagine the role of local government;
- 4 **noted** that the successful delivery of the three waters reform programme requires a robust process to consider the future for local government to commence by May 2021, to meet sector expectations and encourage councils to continue participating in the reform programme;
- 5 **noted** that the government's investment in the three waters reform programme to date includes a \$710 million funding package, of which councils were eligible to receive a share if they agreed to participate in the initial phase of the reform programme;
- 6 **noted** that commencing a robust process to consider the future for local government by May 2021 will support the objectives of resource management reform and the local government sector's participation in the reform process;

Establishing a Ministerial review into the future for local government

- 7 **noted** that the Minister of Local Government proposes to establish a Ministerial review into the future for local government (the Review);
- 8 **noted** that the objective of the Review is to identify how the system of local democracy and governance needs to evolve over the next 30 years, to improve the wellbeing of communities and the environment, and actively embody the Treaty partnership;

- 9 **noted** that the scope of the Review comprises what local government does, how it does it, and how it pays for it, and includes, but is not limited to, a future looking view of the following:
- 9.1 roles, functions and partnerships;
 - 9.2 representation and governance;
 - 9.3 funding and financing;
- 10 **noted** that the Review will provide the government with fresh insights on what is required to build:
- 10.1 a sustainable local government system that has the flexibility and incentives to adapt to the future needs of local communities;
 - 10.2 public trust/confidence in local authorities and the local regulatory system that leads to strong leadership;
 - 10.3 effective partnerships between mana whenua, and central and local government in order to better provide for the social, environmental, cultural, and economic wellbeing of communities;
 - 10.4 a local government system that actively embodies the Treaty partnership, through the role and representation of iwi/Māori in local government, and seeks to uphold the Treaty (Te Tiriti o Waitangi) and its principles through its functions and processes;
- 11 **noted** that the Review presents an opportunity for the government to clarify how the principles of Te Tiriti o Waitangi can be reflected in the partnership approach between local government and Māori;
- 12 **noted** that the Review's panel members will be expected to:
- 12.1 issue an interim report by September 2021, to give councils an indication of the possible direction of the Review and its key next steps;
 - 12.2 prepare a draft report, including recommendations, on the future for local government for public consultation by September 2022;
 - 12.3 provide the Minister of Local Government with a final report, along with a summary of submissions, for consideration by April 2023;
- 13 **noted** that an appointments process for five panel members for the Review is underway, and that the Minister of Local Government will report to Cabinet on the proposed appointments within a timeframe to ensure panel members can commence their role by early May 2021;

Financial implications

- 14 **noted** that the Review has a proposed budget of \$8.890 million for a period of 25 months;
- 15 **noted** that the Department of Internal Affairs has assessed reprioritisation options and is able to reprioritise \$0.200 million from the *Local Government Policy and Related Services* appropriation in 2020/21 towards the Review;

16 **noted** that in July 2020, as part of the COVID-19 Response and Recovery Fund July Package, Cabinet agreed to invest \$710 million in the three waters reform programme and to set aside the funding in the form of an operating contingency named *Three Waters Infrastructure Investment and Service Delivery Reform Programme* [CAB-20-MIN-0328.13];

17 9(2)(f)(iv) [Redacted]

18 **agreed** that the remaining \$8.690 million be funded from the *Three Waters Infrastructure Investment and Service Delivery Reform Programme* operating contingency to fund the Review;

19 **noted** that the scope of the *Three Waters Infrastructure Investment and Service Delivery Reform Programme* operating contingency includes:

19.1 supporting local government to maintain planned investment and asset quality, and large-scale asset replacement [CAB-20-MIN-0328.13]; and

19.2 departmental programme costs, the public information and education campaign, and support for the local government sector to engage with the reform programme [CAB-20-MIN-0521.01];

20 **agreed** to draw down \$8.690 million from the *Three Waters Infrastructure Investment and Service Delivery Reform Programme* operating contingency to fund the Review;

21 **approved** the following changes to appropriations to provide for the decision in paragraph 20 above, with a corresponding impact on the operating balance and net core Crown debt:

Vote Internal Affairs Minister of Local Government	\$million – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
Departmental Output Expense: Local Government Policy and Related Services (funded by revenue Crown)	0.130	4.295	4.265	-	-

22 **agreed** that the changes to appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

23 **agreed** that the expenses incurred under paragraph 21 above be charged against the *Three Waters Infrastructure Investment and Service Delivery Reform Programme* operating contingency;

24 **agreed in principle** to transfer from 2021/22 to 2022/23 any underspend in the above appropriation, with the final amount to be confirmed as part of the 2022 October Baseline Updates once the audited accounts for 2021/22 are available;

25 9(2)(f)(iv) [Redacted]

Productivity Commission report on local government funding and financing

- 26 **noted** that the Productivity Commission issued its report on local government funding and financing in November 2019;
- 27 **authorised** the Minister of Local Government to present to the House of Representatives the *Government Response to the New Zealand Productivity Commission Report on Local Government Funding and Financing*, attached as Appendix B to the paper under CAB-21-SUB-0110.

Michael Webster
Secretary of the Cabinet

Proactively released by the Minister of Local Government

In Confidence

Office of the Minister of Local Government

Chair, Cabinet Economic Development Committee

A pathway for considering the future for local government

Purpose

1. This paper advises of my intention to establish a Ministerial review into the future for local government (the Review). The Review is intended to identify how our system of local democracy and governance needs to evolve over the next 30 years, to improve the wellbeing of our communities and environment, and actively embody the Treaty partnership.
2. This paper seeks agreement to fund the Review from the *Three Waters Infrastructure Investment and Service Delivery Reform Programme* operating contingency, established in July 2020 as part of the COVID-19 Response and Recovery Fund (CRRF) July Package [CAB-20-MIN-0328.13 refers].

Relation to government priorities

3. This paper relates to the Government's overarching objective of laying a pathway for the future of local government, and strengthening the context for local government to recognise the principles of the Treaty of Waitangi (Te Tiriti o Waitangi) and work in partnership with Māori. The Review corresponds with the successful delivery of three waters reform, and will contribute to the objectives of resource management reform and the local government sector's participation in that reform process.

Executive summary

4. Local government is facing a wave of reform that will significantly affect its traditional roles and functions, and the sector is calling for a review into the future for local government. There are concerns the cumulative impact of reform will add to the historical and fiscal challenges that many councils face in performing their roles and responsibilities. Local government will also have a crucial role in reducing greenhouse gas emissions and adapting to climate change for decades to come with significant financial implications. There is therefore a need to comprehensively consider what local government does, how it does it, and how it pays for it, to ensure that our system of local democracy is fit for the future.
5. A strong and productive relationship with the local government sector will be critical as we progress major reform programmes, including those related to the three waters sector and the resource management system. Initiating the Review in the immediate term will support these objectives.

6. I have the Prime Minister's agreement to establish the Review, as provided for by the Cabinet Manual (4.113). The overarching intended outcome is to identify how our system of local democracy and governance needs to evolve over the next 30 years, to improve the wellbeing of our communities and environment, and actively embody the Treaty partnership.
7. The deliverables for the Review include a:
 - 7.1 draft report, including recommendations, on the future for local government for public consultation by September 2022; and
 - 7.2 final report, along with a summary of submissions, for my consideration by April 2023.
8. This paper seeks agreement to fund the Review from the *Three Waters Infrastructure Investment and Service Delivery Reform Programme* operating contingency.
9. The paper also presents a draft Government response to the Productivity Commission report on local government funding and financing.

Background: the drivers for a robust process to consider the future for local government

10. The local government sector, led by Local Government New Zealand (LGNZ) and Taituarā - Local Government Professionals Aotearoa,¹ is calling for a programme of work to 'reimagine the role and function of local government', in order to build a sustainable system that delivers enhanced wellbeing outcomes for our communities. The sector has advised that it is supportive of a review into the future for local government.
11. The traditional roles and functions of local government are in the process of changing. The work programmes the Government is advancing to overhaul the three waters sector and the resource management system are foremost among a suite of reform programmes that will reshape our system of local government.
12. These reform programmes also carry the potential to further compromise the sustainability of some local authorities' current arrangements. The Productivity Commission's report on local government funding and financing, issued in late 2019, highlighted the general fiscal challenges that councils were facing (see paragraphs 44-47). The impact of COVID-19 has added to these challenges for some councils, particularly those with high dependence on tourism or comparatively high levels of non-rate revenue.
13. The local government sector has raised concerns about the cumulative impact of the wave of reform that lies ahead. It claims that this will only add to the historical challenges many councils face in performing their roles and responsibilities, which, in part, are due to population pressures, both high and low, and greater expectations from their communities and central government.

¹ 'Taituarā - Local Government Professionals Aotearoa' was formerly known as the Society of Local Government Managers (SOLGM).

14. Local government will also play a key role through community programmes, regional and district planning and the significant infrastructure and other investments that are needed to achieve New Zealand's climate change emissions reduction targets and adapt to the impacts of climate change.
15. In addition to the local government's sector call for a review into the future for local government, central government officials advise that there is a need to comprehensively consider what local government does, how it does it, and how it pays for it, to ensure that our system of local democracy is fit for the future.
16. Furthermore, I refer to the longstanding calls from Māori and recommendations from the Waitangi Tribunal for reform to ensure the Treaty relationship is fully provided for through the local government system. I also note that issues with local government were regularly raised during the engagement process led by the Minister for Māori Crown Relations: Te Arawhiti in 2018, which sought the views of New Zealanders on how the Māori-Crown relationship should be strengthened.² As stated in the Speech from the Throne in November 2020, it is our priority as a Government to strengthen the Māori-Crown relationship to ensure that the Crown can grow to be a better Treaty partner and work in true partnership with Māori.
17. Not only will the Review provide an opportunity to strengthen the Māori-Crown relationship, it is also an opportunity to strengthen the important relationship we have with local government. A strong and productive relationship with the local government sector will be critical as we progress major reform programmes, including those related to the three waters sector and the resource management system.
18. The Government acknowledges local government's critical role in placemaking and achieving positive wellbeing outcomes for our communities. In line with our ambitions as a Government, we consider that there are opportunities to strengthen local democratic participation, active citizenship and inclusion, as well as local accountability and transparency, through the role and function of local government. Making improvements in these areas will support our efforts to enhance our system of local democracy and build stronger local communities.

The successful delivery of the three waters reform programme requires a robust process to consider the future for local government to begin in the immediate term

19. Initiating a process to consider the future for local government without delay will support the successful delivery of the three waters reform programme. A key consideration within this context is the local government sector's expectations for a 'parallel conversation' on the impact of reform.

20. 9(2)(f)(iv) [Redacted]

² See *Summary of Submissions, Crown/Māori Relations*, Ministry of Justice, 2018.

21. 9(2)(f)(iv) [Redacted]

22. 9(2)(f)(iv) [Redacted]

23. 9(2)(f)(iv) [Redacted]

24. 9(2)(f)(iv) [Redacted]

25. We also have a vital window of opportunity to begin the Review by May 2021, which will support the delivery of the three waters reform programme and complement the Government's significant financial investment to date.³ Commencing the Review by May 2021 will ensure councils receive an indication of its possible direction and its key next steps by September 2021. This timeframe will support councils as they begin consulting their communities on three waters reform, and importantly, precede council decisions on whether to continue participating in the reform programme.

³ In July 2020, the Government announced a \$710 million funding package to support economic recovery relating to COVID-19 and start addressing persistent issues facing the three waters sector. Councils that participated in the initial (non-binding) phase of the service delivery reform programme received a share of this package.

Resource management reform will also benefit from a robust process to consider the future for local government

26. Cabinet has agreed to proceed with reform of the resource management system in line with the Resource Management Review Panel's report, with further work and refinement to be undertaken this year [CAB-20-MIN-0522 refers]. A key objective of resource management reform is 'to improve system efficiency and effectiveness, and reduce complexity, while retaining appropriate local democratic input'. This is likely to shift resource management planning to a regional level with a greater role for central government through a national planning framework, resulting in significant implications for local government.
27. A modernised legislative framework will be required to enable regional planning functions to be undertaken jointly between councils, central government, and tangata whenua. To meet the key objective mentioned above, councils will need to retain a local democratic link with their communities under any new governance solutions to ensure local communities are represented appropriately in the new planning system. Further implications involving local government planning and budgeting, for example, are likely to result, which will require local government to evolve and adapt.
28. As agreed by Cabinet, work to reform the resource management system is proceeding at pace, with the aim to repeal and replace the Resource Management Act 1991 with three new pieces of legislation within the current parliamentary term.⁴ A key next step is for an exposure draft of the new Natural and Built Environments Act, along with supporting consultation material, to be referred to select committee, subject to Cabinet approval in May 2021.
29. As with the three waters reform programme, commencing the Review by May 2021 will support the objectives of resource management reform and the local government sector's participation in the reform process. As local government will be a key partner in the implementation of a new resource management system, the Review will provide the local government sector with an opportunity to articulate how it will be affected by reform. It will also help to identify how local government can continue to deliver functions that are critically important to the wellbeing of local communities, while playing a successful role in a new resource management system.

A Ministerial review is the most appropriate vehicle to consider the future for local government

30. The Cabinet Manual (4.111) states "it may be considered appropriate or desirable for a Minister to establish a non-statutory inquiry into an area for which they have portfolio responsibility." In accordance with the process set out in the Cabinet Manual (4.113), I sought the Prime Minister's agreement to establish a Ministerial review into the future for local government. Following the Prime Minister's agreement to do so, I am now advising Cabinet of my intention to establish the Review.

⁴ The three new pieces of legislation are: a Natural and Built Environments Act, a Strategic Planning Act, and a Climate Adaptation Act.

31. The Cabinet Manual (4.115) recommends that consideration should be given to whether an existing body can more appropriately conduct the inquiry. The Local Government Commission, which has the functions and powers to conduct an inquiry established in legislation,⁵ was considered as a potential vehicle for this work.
32. While the Local Government Commission has the independence and powers required for this Review, the nature of this matter is substantially larger and more complex than the Local Government Commission's usual work programme responsibilities. Additionally, the local government sector's expectations are high about what the Review will achieve and how it can be delivered. As the Local Government Commission can independently determine the way the Review is conducted, it may limit the opportunities for the sector to contribute. I am mindful that the sector will want to make sure that the final decisions enable a collaborative and transparent process that will support this important objective.
33. As noted in the draft terms of reference for the Review (attached as Appendix A), consideration of this matter should be characterised by a spirit of partnership between the Review, local government, and iwi/ Māori, while upholding the independence of the Review.
34. One of my aspirations for this work is that it leads to enduring action beyond the current parliamentary term. The sector's support and commitment to transforming our system of local democracy and governance following the Review will be crucial to ensuring the work is enduring. We increase our chances of achieving this by enabling the sector to collaborate and contribute throughout the process in a way that fully explores an enabling function for local government.
35. The draft terms of reference for the Review (attached as Appendix A) direct the Review's panel members to lead a robust engagement process that includes iwi/Māori, the public (including diverse communities), and local and central government representatives at a minimum. This process is to culminate in recommendations on how our system of local democracy and governance needs to evolve over the next 30 years, to improve the wellbeing of our communities and environment, and actively embody the Treaty partnership.
36. The scope of the Review is intentionally broad, and comprises what local government does, how it does it, and how it pays for it. The scope includes, but is not limited to, a future looking view of the following:
 - 36.1 roles, functions and partnerships;
 - 36.2 representation and governance; and
 - 36.3 funding and financing (see below for the Productivity Commission report on local government funding and financing).

⁵ The Local Government Commission is to be treated as a commission of inquiry for the purposes of certain sections of the Inquiries Act 2013 (sections 14, 19 to 27, 29, 30, and 34).

37. I also expect the role and representation of iwi/Māori in the local government system to be covered appropriately during the engagement process and in the final recommendations. The Review presents an opportunity for the Government to clarify how the principles of the Treaty of Waitangi (Te Tiriti o Waitangi) can enable effective partnerships between local government and Māori.
38. As set out in the draft terms of reference, the Review's panel members will be expected to:
- 38.1 issue an interim report by September 2021 that gives councils an indication of the possible direction of the Review and its key next steps;⁶
 - 38.2 prepare a draft report, including recommendations, on the future for local government for public consultation by September 2022; and
 - 38.3 provide me with a final report, along with a summary of submissions, for consideration by April 2023.
39. The final report will also be provided to LGNZ at the same time.
40. At the conclusion of the Review, I expect the Government to have fresh insights on what is required to build:
- 40.1 a resilient and sustainable local government system that is fit for purpose and has the flexibility and incentives to adapt to the future needs of local communities;
 - 40.2 public trust/confidence in local authorities and the local regulatory system that leads to strong leadership;
 - 40.3 effective partnerships between mana whenua, and central and local government in order to better provide for the social, environmental, cultural, and economic wellbeing of communities; and
 - 40.4 a local government system that actively embodies the Treaty partnership, through the role and representation of iwi/Māori in local government, and seeks to uphold the Treaty of Waitangi (Te Tiriti o Waitangi) and its principles through its functions and processes.
41. An appointments process for five panel members for the Review is underway. I will return to Cabinet to seek agreement to these appointments, within a timeframe to ensure they can commence their role by early May 2021. Once the appointments have been agreed by Cabinet, I will finalise the terms of reference to confirm the membership of the Review.
42. I intend to meet with the Review's panel members at least twice a year and the Chair of the Review on a more regular basis to discuss progress and share early insight on the direction of the findings of the Review.

⁶ As noted in paragraph 25 above, this timeframe will support councils as they begin consulting their communities on three waters reform, and importantly, precede council decisions on whether to continue participating in the reform programme.

43. The Review's panel members will be supported by a secretariat. The Department of Internal Affairs will provide administrative support in a way consistent to that of inquiries conducted under the Inquiries Act 2013. The Review will undertake regular financial, non-financial and resource planning and reporting consistent with public sector standards and timeframes.

The Productivity Commission report on local government funding and financing

44. In November 2019, the Productivity Commission issued its report on local government funding and financing. The report noted that the property rates-based system of local authority funding remains appropriate for New Zealand but that there are areas of funding pressure. It commented:

“in some situations, the current system is either failing to provide councils with adequate revenues or is unlikely to be sufficient in the near future. These situations are:

- adapting to climate change;
- passing of unfunded mandates from central government to local government;
- meeting the demand for infrastructure in high-growth areas; and
- coping with the growth in tourism.”

45. The Productivity Commission addressed the funding and financing of local government in its current structure and with its present responsibilities. While it provides a helpful analysis of the current situation, for many councils the economic operating environment has changed since the report was released due to the impact of COVID-19. Further, with the level of change confronting the sector, a future looking view that considers ‘what local government does, how it does it, and how it pays for it’ in an integrated way is needed. Excluding funding and financing from consideration of the future for local government would compromise the holistic view required to identify how our system of local democracy needs to evolve to be fit for future.
46. The Productivity Commission's report will provide valuable insights and assistance into the funding and financing element of the Review. I would expect the Review's panel members to engage with the Productivity Commission during its consideration of the future for local government, in order to draw on relevant expertise and consider relevant revenue levers to support local government's focus on improving wellbeing outcomes.
47. It is customary for the Government to provide a response to a Productivity Commission report. A proposed Government response that reflects the position described above is attached as Appendix B.

Financial implications

48. A robust process to consider the future for local government is needed if we are to lay the foundations for the future and improve intergenerational wellbeing outcomes through our system of local democracy. The wave of upcoming reform will significantly affect traditional roles and functions, and potentially compromise the sustainability of some local authorities' current arrangements. Further, the fiscal challenges that councils were already facing have been added to by the impact of COVID-19. There are concerns the cumulative impact of reform will add to the historical challenges many councils face in performing their roles and responsibilities.
49. It is also clear that there are benefits of the Review. It will contribute to the successful delivery of two of our key priorities for this parliamentary term, namely, three waters reform and resource management reform, as well as help to strengthen the Māori-Crown relationship, and enhance our connection with local government.
50. Given these benefits, and the need for the Review in and of itself, I consider the funding I am seeking for the Review to be an appropriate level of investment, particularly as it will contribute to several of our objectives as a Government.
51. The Review has a proposed budget of \$8.890 million for a period of 25 months, to cover panel members fees, secretariat, policy and legal support, travel, public hearings and consultation, and other support activities. A breakdown of the budget is provided in Table 1 below. 9(2)(f)(iv)

Table 1: Budget for the Ministerial review into the future for local government

Expense items	2020/21 \$ million	2021/22 \$ million	2022/23 \$ million	Total
Panel member and professional fees, and staff	0.321	2.979	2.548	5.848
Travel, accommodation and associated costs	0.006	0.037	0.031	0.074
Public engagement and hearings	-	0.718	0.773	1.491
Reports production and distribution, and other operating costs, including corporate support	0.003	0.661	0.813	1.477
Total	0.330	4.395	4.165	8.890

52. The Department of Internal Affairs has assessed reprioritisation options and is able to reprioritise \$0.200 million in 2020/21 from the *Local Government Policy and Related Services* appropriation towards the Review.

Agreement to draw down the Three Waters Infrastructure Investment and Service Delivery Reform Programme operating contingency

53. 9(2)(f)(iv) [Redacted text block]

54. I therefore seek agreement to draw down \$8.690 million from the *Three Waters Infrastructure Investment and Service Delivery Reform Programme* operating contingency to fund the Review.

55. The funding I am seeking for the Review represents a relatively small additional investment when considered in the context of the Government’s investment in the three waters reform programme, which includes a \$710 million funding package.

56. 9(2)(f)(iv) [Redacted text block]

9(2)(f)(iv) [Redacted text block]

9(2)(f)(iv) [Redacted]	[Redacted]
[Redacted]	[Redacted]
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[Redacted]	[Redacted]
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[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]

⁷ On 6 July 2020, Cabinet agreed that up to \$710 million be available for the three waters service delivery reform programme [CAB-20-MIN-0328.13 refers]. The funding was set aside in the *Three Waters Infrastructure Investment and Service Delivery Reform Programme* operating contingency.

57. In December 2020, Cabinet agreed to extend the scope of the *Three Waters Infrastructure Investment and Service Delivery Reform Programme* operating contingency, to include departmental programme costs, the public information and education campaign, and support for the local government sector to engage with the reform programme [CAB-20-MIN-0521.01 refers]. This amended Cabinet's decision on 6 July 2020, which allocated \$701.940 million of the operating contingency to support local government to maintain planned investment and asset quality, and to support large scale asset replacement [CAB-20-MIN-0328.13 refers].
58. In line with advice from officials, I consider that there is no need to further expand the scope of this contingency to include the Review, as this will be a one-off draw down.

Legislative implications

59. While the Review does not present any legislative implications at this time, it is possible that it could lead to a significant update of the Local Government Act 2002 (the Act), along with other pieces of local government legislation. Given the Act will be 20 years old next year, it may be timely for such an update, particularly if we are seeking to ensure that our system of local democracy is fit for the future. I do not expect any process to amend the legislative framework to commence before late-2023.

Population Implications

60. As noted above, the role and representation of iwi/Māori in the local government system shall be appropriately covered by the Review, and I expect the voice of iwi/Māori to be given due weight throughout the engagement process. The Review is an opportunity for the Government to clarify how the principles of the Treaty of Waitangi (Te Tiriti o Waitangi) can be reflected in the partnership approach between local government and Māori.
61. I also expect the Review's panel members to recognise Aotearoa's increasing diversity, and give consideration to the relationship between strengthening social inclusion and improving the wellbeing of our communities.

Human rights

62. The proposals in this paper do not have any human rights implications.

Consultation

63. The following agencies were consulted: Te Arawhiti; Ministry of Business, Innovation and Employment; Department of Conservation; Department of Corrections; New Zealand Defence Force; Ministry of Education; Ministry for the Environment; Ministry of Health; Ministry of Housing and Urban Development; Kāinga Ora; National Emergency Management Agency; Ministry for Primary Industries; Ministry of Social Development; Te Puni Kōkiri; Ministry of Transport; Waka Kotahi New Zealand Transport Agency; The Treasury; and Department of the Prime Minister and Cabinet.
64. LGNZ and Taituarā – Local Government Professionals Aotearoa were consulted on the Review's draft terms of reference attached as Appendix A.

Communications

65. I intend to issue a statement that I have established a Ministerial review into the future for local government, following the completion of the appointments process for the Review's panel members.

Proactive release

66. This paper will be published pursuant to Cabinet Office circular CO (18) 4.

Recommendations

67. The Minister of Local Government recommends that the Cabinet Economic Development Committee:

Background

1. **note** that the work programmes the Government is advancing to overhaul the three waters sector and the resource management system are foremost among a suite of reform programmes that will reshape our system of local government;
2. **note** that the impact of COVID-19 has added the historical fiscal challenges councils were facing, and that the reform that lies ahead for local government may further compromise the sustainability of some local authorities' current arrangements;
3. **note** that the local government sector has raised its concerns about the impending cumulative impact of reform and is calling for a programme of work to reimagine the role of local government;
4. **note** that the successful delivery of the three waters reform programme requires a robust process to consider the future for local government to commence by May 2021, to meet sector expectations and encourage councils to continue participating in the reform programme;
5. **note** that the Government's investment in the three waters reform programme to date includes a \$710 million funding package, of which councils were eligible to receive a share if they agreed to participate in the initial phase of the reform programme;
6. **note** that commencing a robust process to consider the future for local government by May 2021 will support the objectives of resource management reform and the local government sector's participation in the reform process;

Establishing a Ministerial review into the future for local government

7. **note** that the Prime Minister has agreed to my proposal to establish a Ministerial review into the future for local government (the Review);
8. **note** that the objective of the Review is identify how our system of local democracy and governance needs to evolve over the next 30 years, to improve the wellbeing of our communities and environment, and actively embody the Treaty partnership;
9. **note** that the scope of the Review comprises what local government does, how it does it, and how it pays for it, and includes, but is not limited to, a future looking view of the following:
 - 9.1 roles, functions and partnerships;

- 9.2 representation and governance; and
- 9.3 funding and financing;
- 10. **note** that the Review will provide Government with fresh insights on what is required to build:
 - 10.1 a sustainable local government system that has the flexibility and incentives to adapt to the future needs of local communities;
 - 10.2 public trust/confidence in local authorities and the local regulatory system that leads to strong leadership;
 - 10.3 effective partnerships between mana whenua, and central and local government in order to better provide for the social, environmental, cultural, and economic wellbeing of communities; and
 - 10.4 a local government system that actively embodies the Treaty partnership, through the role and representation of iwi/Māori in local government, and seeks to uphold the Treaty of Waitangi (Te Tiritio Waitangi) and its principles through its functions and processes.
- 11. **note** that the Review presents an opportunity for the Government to clarify how the principles of the Treaty of Waitangi (Te Tiritio Waitangi) can be reflected in the partnership approach between local government and Māori;
- 12. **note** that the Review's panel members will be expected to:
 - 12.1 issue an interim report by September 2021, to give councils an indication of the possible direction of the Review and its key next steps;
 - 12.2 prepare a draft report, including recommendations, on the future for local government for public consultation by September 2022; and
 - 12.3 provide the Minister of Local Government with a final report, along with a summary of submissions, for consideration by April 2023.
- 13. **note** that an appointments process for five panel members for the Review is underway, and I will seek Cabinet agreement to these appointments within a timeframe to ensure they can commence their role by early May 2021;

Financial implications

- 14. **note** that the Review has a proposed budget of \$8.890 million for a period of 25 months;
- 15. **note** that the Department of Internal Affairs has assessed reprioritisation options and is able to reprioritise \$0.200 million from the *Local Government Policy and Related Services* appropriation in 2020/21 towards the Review;
- 16. **note** that in July 2020, as part of the COVID-19 Response and Recovery Fund July Package, Cabinet agreed to invest \$710 million in the three waters reform programme and set aside the funding in the form of an operating contingency named *Three Waters Infrastructure Investment and Service Delivery Reform Programme* [CAB-20-MIN-0328.13 refers]
- 17. **9(2)(f)(iv)**

18. **agree** that the remaining \$8.690 million is funded from the *Three Waters Infrastructure Investment and Service Delivery Reform Programme* operating contingency to fund the Review;
19. **note** that the scope of the *Three Waters Infrastructure Investment and Service Delivery Reform Programme* operating contingency includes:
 - 19.1 supporting local government to maintain planned investment and asset quality, and large-scale asset replacement [CAB-20-MIN-0328.13 refers]; and
 - 19.2 departmental programme costs, the public information and education campaign, and support for the local government sector to engage with the reform programme [CAB-20-MIN-0521.01 refers];
20. **agree** to draw down \$8.690 million from the *Three Waters Infrastructure Investment and Service Delivery Reform Programme* operating contingency to fund the Review;
21. **approve** the following changes to appropriations to provide for the decision in recommendation 20 above, with a corresponding impact on the operating balance and net core Crown debt:

Vote Internal Affairs Minister of Local Government	\$million – increase/(decrease)				
	2020/21	2021/22	2022/23	2023/24	2024/25 & Outyears
Departmental Output Expense: Local Government Policy and Related Services (funded by revenue Crown)	0.130	4.295	4.265	-	-

22. **agree** that the proposed changes to appropriations for 2020/21 above be included in the 2020/21 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
23. **agree** that the expenses incurred under recommendation 21 above be charged against the *Three Waters Infrastructure Investment and Service Delivery Reform Programme* operating contingency;
24. **agree in-principle** to transfer from 2021/22 to 2022/23 any underspend in the above appropriation, with the final amount to be confirmed as part of the 2022 October Baseline Updates once the audited accounts for 2021/22 are available;
25. 9(2)(f)(iv)

Productivity Commission report on local government funding and financing

26. **note** that the Productivity Commission issued its report on local government funding and financing in November 2019;
27. **authorise** the Minister of Local Government to present the proposed *Government response to the New Zealand Productivity Commission report on local government funding and financing*, attached as Appendix B, in Parliament; and

Communications

28. **note** that I intend to issue a statement that I have established a Ministerial review into the future for local government, following the completion of the appointments process for the Review's panel members.

Authorised for lodgement

Hon Nanaia Mahuta

Minister of Local Government

Proactively released by the Minister of Local Government

Appendix A: Draft terms of reference – Ministerial review into the Future for Local Government

Proactively released by the Minister of Local Government

Appendix B: Draft Government response to the New Zealand Productivity Commission report on local government funding and financing

Proactively released by the Minister of Local Government

Government response to the New Zealand Productivity Commission report on local government funding and financing

Background

In July 2018 the Government commissioned the Productivity Commission's (the Commission) inquiry into local government funding and financing (the Inquiry). The Commission was asked to examine the adequacy and efficiency of the existing local government funding and financing framework, with specific reference to:

- factors driving local authority costs;
- the ability of current funding and financing models to deliver on community expectations and local authority obligations and options for new local authority funding and financing tools; and
- whether changes are needed to the regulatory arrangements overseeing local authority funding and financing.

During the Inquiry, the Government also asked the Commission to consider whether a tax on vacant land would be a useful mechanism to improve the supply of available housing for New Zealanders.

This response is presented under Standing Order 381.

There have been significant changes in the local government environment since the Commission reported

The Commission presented its report in November 2019. Since then the COVID-19 pandemic has dramatically changed Government priorities and New Zealand's economic landscape. The long-term effects of the pandemic on our society and the Government's fiscal position are yet to become fully clear.

The Government is also progressing several reform programmes that have a significant effect on local government. The single biggest driver of financial pressure on local authorities over the last three decades has been issues relating to the three waters sector (water supply, sewage treatment and disposal, and stormwater drainage). The Government is working through a reform programme that includes transferring three waters services to multi-region water entities. This will substantially change the financial circumstances of local authorities.

The Government has passed the Urban Development Act 2020 and the Infrastructure Funding and Financing Act 2020. These Acts provide new avenues for urban development, and in particular in this context, alternative funding and financing paths for urban growth infrastructure.

The Government has also received the report of the Independent Resource Management Review Panel (the Panel). The Panel has recommended the enactment of a Natural and Built Environments Act, a managed retreat and Climate Change Adaptation Act and a Strategic Planning Act. The Strategic Planning Act would set long-term strategic goals and facilitate the integration of legislative functions across the resource management system. These would include functions exercised under the new Natural and Built Environments Act, the Local Government Act, the Land Transport Management Act and the Climate Change

Response Act. This legislation is intended to integrate land use planning with the provision of infrastructure and associated funding and investment.

Regional spatial planning will play a critical part in delivering the intended outcomes for the resource management system. The new legislation would include:

- strategic planning for urban growth and responding to change;
- measures to reduce emissions and respond to the effects of climate change; and
- the identification of areas unsuitable for development due to their natural values or importance to Māori.

The Government is working to implement the Panel's recommendations.

The Commission's Findings

The Commission concluded that the property rates-based system of funding local government remains appropriate for New Zealand but there are areas of funding pressure. The Commission concluded that in some situations, the current system is either failing to provide councils with adequate revenues or is unlikely to be sufficient in the near future. These situations are:

- adapting to climate change;
- passing of unfunded mandates from central government to local government;
- meeting the demand for infrastructure in high-growth areas; and
- coping with the growth in tourism.

Next steps

The successful implementation of the reform programmes discussed above will reshape the role of local government in our society, as well as its financial needs and pressures. The Minister of Local Government is establishing a Ministerial review into the future for local government (the Review). The objective of the Review is to identify how New Zealand's system of local democracy and governance needs to evolve over the next 30 years. The scope of the Review will include a future looking view of the following:

- roles, functions and partnerships;
- representation and governance; and
- funding and financing.

The Productivity Commission's report will provide valuable insights and assistance into the funding and financing element of that work.