// SUBMISSION

Treasury's draft Long-term Insights Briefing

// Local Government New Zealand's submission

// May 2025

Our submission

Local government welcomes the Treasury's draft Long-term Insights Briefing on sustainable and resilient fiscal policy through economic shocks and cycles. We support the overall framing and direction of this briefing. We believe that clear-eyed forecasting and planning is crucial to address the intensifying costs of economic and environmental shocks and cycles facing New Zealand.

Local government is both impacted by and integral to how the country absorbs and recovers from shocks. Accordingly, we believe Treasury's analysis across all its work would be significantly strengthened by incorporating greater consideration of the fiscal role of local government. This includes local government's revenue, expenditure, debt, liabilities, investment, and its key role in responding to both short-term economic shocks and long-term challenges.

Due to the short window for feedback and organisational constraints, this submission is necessarily high-level. We welcome further engagement with Treasury to support deeper analysis of the local-central fiscal relationship and its implications for sustainable and resilient fiscal policy.

Local government is an important fiscal partner

Local government is a critical fiscal and infrastructure partner for central government. Councils contribute substantially to general government taxation, investment and economic activity. They also bear significant debts and risks that, if not managed carefully, could negatively impact central government's fiscal position. Councils:

- Account for 10% of total general government revenue.
- Rely on central grants and subsidies for about 16% of their operating revenue, mostly for transport.
- Own and operate over one-quarter of New Zealand's infrastructure assets, including local roads (87% of total road length), water networks and public amenities.
- Since 2002, have invested about $24 for every $100 invested in infrastructure, an average of $3.8 billion per year – slightly more than Budget 2025's capital allowance. This number has increased significantly in recent long-term plans.
- Hold gross debt of approximately $26 billion as of 2023, about 14% of central government's gross debt of $186.7 billion.
- Employ 39,400 staff, approximately 1.35% of the total number of employed people.
- Manage $217 billion of assets compared to total Crown assets of $594.7 billion.
- Hold billions of dollars of infrastructure and assets at risk from climate change impacts.

This enormous scale of responsibility means local government plays a critical role in national fiscal stability, infrastructure resilience and economic performance. We think this warrants greater consideration in fiscal advice to the Government.

Treasury leadership is needed to paint the full fiscal picture

Evidence, international and domestic, shows a positive fiscal relationship between central and local government. When central government increases funding to councils, this is unlikely to crowd out local investment — it typically amplifies it. This means central transfers often enable councils to expand or maintain investment and services. They may also put downward pressure on rates.

Conversely, when stimulus is withdrawn or funding is reduced, councils often respond by tightening their budgets. To maintain services and investment, they typically respond by raising local rates, delaying infrastructure projects, or cutting services. These effects reflect what fiscal federalism theory predicts in unitary systems like New Zealand: local government finances tend to move with central government fiscal policy, not independently from it. In the context of advice recommending fiscal consolidation, it is essential to examine fiscal transmission across levels of government.

For example, recent indications suggest that the Government may be exploring a reduction in post-event fiscal support for councils. In the absence of new funding, this would necessitate increased local rates, which would affect local economies and raise concerns of equity.

Furthermore, analysis should consider general government tax efficiency. Property rates, particularly those based on land value, are widely regarded as the most efficient form of taxation available to governments. Currently, the tax system is skewed toward income and consumption taxes, with the average household paying $600–$700 in income tax and GST per week compared to just $75 in property rates. Policies being investigated by the Government to cap property rates will result in pressure on central government funding generated by income tax and GST. From a tax efficiency perspective, this may result in greater economic distortions and a higher deadweight loss on the economy.

When assessing risks related to central government and considering the sustainability and resilience of government finances, credit agencies often adopt a less atomised perspective on general government than central government agencies do. This is evident in the fiscal frameworks used by agencies like Fitch and S&P, which place significant emphasis on the interconnectedness of the fiscal profiles of local and central governments.

For instance, Fitch Ratings' sovereign rating criteria examine general government measures rather than central government ones when evaluating risks associated with public finance. Their local government rating criteria assess councils based on their ability to independently raise revenues and manage expenditure amid external revenue shocks – settings determined by central government. We share the view that there is strong interconnectedness in strengths and risks between tiers of government and that this must be comprehended to fully appreciate the health of public finances.

We believe that Treasury should provide more fiscal analysis at the general government level to ensure that Ministers receive a comprehensive and accurate picture of the state of public finances that doesn't leave out local government. By taking the lead in this area, Treasury could facilitate a deeper understanding of these issues across government.

Local government's role in sustainable and resilient fiscal policy through economic shocks and cycles

The draft Long-term Insights Briefing identifies investment in infrastructure maintenance, repairs and renewals as one of the most effective fiscal stimulus tools in a downturn. With ownership of over a quarter of New Zealand's infrastructure assets and the bulk of the national roading network (nearly 87% of total road length), local government sits at the centre of any fiscal response.

We support the New Zealand Infrastructure Commission in its efforts to develop a 30-year infrastructure strategy aimed at providing greater certainty regarding the long-term pipeline of infrastructure projects. We agree with Treasury's advice that having clearly defined responsibilities and established fiscal strategies will be instrumental in managing economic shocks. We welcome opportunities to collaborate with Treasury to clarify these roles and strategies.

Importantly, we also support Treasury's advice that plans should build the resilience of firms, households and communities to manage their own risk. We are concerned that government moves to cap council rates may significantly reduce the resilience of communities. Rates-capping policies in New South Wales and Victoria have had significant negative impacts on communities' resilience to disasters by reducing their ability to independently raise revenues to manage exogenous shocks. Rather than constraining councils' primary revenue tool, we recommend that the government focus on strengthening fiscal decentralisation as a means to build long-term community resilience.

Our recommendations

1. **Recognise local government as a fiscal actor**: The Long-term Insights Briefing and other reports should integrate local government into its fiscal analysis. This includes acknowledging that local debt and investment are part of national economic resilience.
2. **Analyse fiscal transmission across levels of government**: Treasury should explore how central decisions (e.g. stimulus, grants, regulation) affect local finances, service delivery, and rates. Sensitivity testing and fiscal scenario analysis should include local variables.
3. **Assess fiscal risks from central policy settings affecting local government**: Treasury advice should identify and quantify potential fiscal risks to both tiers of government arising from policies, such as rate caps, unfunded mandates or changes in cost-sharing arrangements. These risks include increased demand for grants or reduced local resilience.
4. **Collaborate to strengthen local government fiscal data and analysis**: Treasury should work with the Auditor-General, the Local Government Commission, Stats NZ, LGNZ, and the Department of Internal Affairs to improve the consistency, timeliness and integration of local government financial information and forecasting into national fiscal management.
5. **Embed local government impact assessments into fiscal policy advice**: All fiscal advice, including recommendations related to consolidation or expansion, should assess the impact on the general government fiscal profile – including local government – and the distributional and regional effects of policy decisions.