

CITY AND REGIONAL DEALS

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About the New Zealand Initiative

The New Zealand Initiative is an independent public policy think tank supported by chief executives of major New Zealand businesses. We believe in evidence-based policy and are committed to developing policies that work for all New Zealanders.

Our mission is to help build a better, stronger New Zealand. We are taking the initiative to promote a prosperous, free and fair society with a competitive, open and dynamic economy. We develop and contribute bold ideas that will have a profound, positive, long-term impact.

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Executive Summary

In the lead-up to the 2023 election, National Party leader Christopher Luxon promised city and regional deals for infrastructure investments. They have since generated a lot of interest.

There is plenty of international experience to learn from, as well as advice from previous New Zealand Initiative reports on localism, both of which should inform policy development. However, there is still much uncertainty about what city and regional deals will look like in New Zealand.

This research note explains what city deals are, how they fit with the New Zealand Initiative's previous work on localism and explores international experience and lessons. It also surveys the interest in city deals, and options for implementation in New Zealand.

The New Zealand Initiative prefers bottom-up localism to top-down central control. Localism enables councils to adopt policy approaches that suit their needs and preferences. Central government should enable councils to do so and provide funding tools that allow them to share in the benefits of economic growth. That would incentivise councils to embrace more growth-promoting policies.

City and regional deals could be consistent with such a localist approach, but not if they are controlled by central government, narrowly focused, or lack funding to incentivise growth and development. Strong accountability is certainly needed – for all parties involved in any deal.

Localist deals, which could encompass current city and regional deals, would provide opportunities to improve what has, too often, been a dysfunctional system. They could deliver better outcomes for communities across the country.

What is a City Deal?

City and regional deals are formal agreements between central government and local or regional governments, often involving other partners, such as business groups, investors (including iwi and/or hapū) and educational institutions.

They are long-term agreements focusing on specific geographic areas that seek to address challenges and provide opportunities. City and regional deals have been used overseas to improve infrastructure and service delivery and to tackle complex cross-jurisdictional issues. They set out shared goals, strategies, investments, funding, and governance arrangements.

City and regional deals aim to align different tiers of government (local, regional, and central), to coordinate planning, funding, and delivery of initiatives. That typically achieves better outcomes than tiers of government acting in isolation. Common focus areas include transport, housing, skills, and science and innovation. However, priorities would depend on the needs of each city or region.

City and regional deals provide funding and cost-sharing commitments with measurable deliverables and targets.

There are various models for city and regional deals. Some are limited to specific kinds of investment, mainly in infrastructure. Others go much further, devolving powers and activities from central government to local or regional government.

City and regional deals can be considered a form of localism, but that depends on their form and function, and on the extent to which they are driven by central or local government.

The New Zealand Initiative and City Deals

The New Zealand Initiative promotes localism as an approach to local government policy.

Localism is the principle of decentralising power and decision-making authority from higher levels of government (national or state/provincial) to local municipal or community-level authorities. The main idea behind localism is that local governments and communities are better positioned to understand and address their specific needs, priorities, and circumstances, and should, therefore, have greater autonomy and control over policies and resources that directly affect them. It involves empowering local authorities to make decisions and implement initiatives tailored to their local contexts, rather than relying heavily on top-down, one-size-fits-all policies from higher levels of government.

In 2015-16, four reports were released by the New Zealand Initiative. Taken together, they highlight the potential benefits of localism and argue for a more decentralised approach that empowers local decision-making while ensuring proper incentives, accountability, and coordination between different levels of government. They can help inform the current discussion on local deals.

In the Zone: Creating a Toolbox for Regional Prosperity (October 2015):¹

This report promoted the adoption of regionalised policy reform zones (or special economic zones). Such zones enable a localised approach to policymaking, whereby policies can be developed only for regions that require it. Special economic zones can be used to pilot policy reforms, building in

¹ <https://www.nzinitiative.org.nz/reports-and-media/reports/in-the-zone-creating-a-toolbox-for-regional-prosperity/>

evaluation from the outset and enabling refinement as other places learn from each trial. These could be called 'local deals'.

The policy and regulatory barriers hindering economic growth differ across the country. Trying policies in limited areas and assessing whether they work would allow New Zealand to harness the advantages of federalism by encouraging policy innovation within a unitary state.

Current funding tools for councils do not reward them for economic growth. Increased tax revenue flows to central government, not local government. The report suggests that a successful local policy trial might also result in greater tax revenue flowing to central government. Unlike current arrangements, though, that would be because stronger local economies would generate more tax revenue. They might also reduce long-term costs to central government.

Councils participating in successful trials should have a share of the benefits. When local councils have a strong stake in economic growth, they are more likely to identify policy changes that will help them grow.

Trialling policy at the local level in response to local needs enables the country to find out which policies are effective, roll out successful policies more broadly for the regions that want them and abandon policies that do not work at lower cost.

Although there was enthusiasm after the report's release for policy reform zones/special economic zones, the concept did not gain traction. Councils did not develop enough understanding of how they should work and central government was ambivalent.

Eight years later, the approach is worth reconsidering. While we believe it should be available to any region, local deals incorporated policy reform zones or special economic zones would be most worth pursuing.

The Initiative's report discussed policy trial areas and devolution agreements between central government and local and regional councils. Additionally, iwi and hapū should be considered for these deals. The devolution they enable could recognise tino rangatiratanga and facilitate outcomes suited to local needs better than compulsory co-governance arrangements.

The Local Formula: Myths, Facts, and Challenges (December 2015):²

This report seeks to answer a key question: *Why does local government sometimes behave as though growth is something to be prevented or contained rather than welcomed?*

The report investigates the history and structure of local government and its roles, functions, and funding. It explores whether local government is doing a good job and whether the funding system is fit for purpose.

It finds that the fundamental problem is political economy. For example, when local government is potentially financially liable for any flaws in buildings they consent, but sees little upside from faster consenting processes, we should not be surprised that things move slowly. Local political pressures mean councillors supporting new development risk being voted out of office before new residents move in. Consenting processes empowering Not In My Back Yard (NIMBY) objections entrench the status quo and prevent growth.

² <https://www.nzinitiative.org.nz/reports-and-media/reports/the-local-formula/>

The report concludes that when local councils bear most of the costs of new development, but the benefits largely flow through to central government, it is little surprise that local government is seen as performing poorly.

This is an important finding for discussion on local deals. It emphasises the need for better funding to incentivise councils to be more embracing of growth and development.

*The Local Benchmark: When Smaller is Better (July 2016):*³

This report presented on-the-ground research conducted in Manchester, Montreal, the Netherlands, and Switzerland.

Overall, it found that bigger is not always better when it comes to local government reorganisations. The key findings were:

- Highly centralised governance arrangements are not necessary for local, regional, and national economic efficiency. Some of the world's most competitive economies use highly localised forms of government.
- Competition between local authorities will likely heighten yardstick comparisons between jurisdictions and increase pressure on municipalities to provide services more cost effectively. Effective local governance arrangements follow the principle of subsidiarity: Local-level tasks are best handled by local authorities and regional-level tasks by regional authorities.
- The track record of major metropolitan amalgamations suggests unitary authorities do not necessarily deliver cost or operating efficiencies. In fact, they often increase cities' running costs.
- Jurisdictions looking to persuade central government to devolve decision-making power need to do so from a sound economic evidence base and have a track record of sound local governance.

While the report's discussion of Manchester is most directly relevant to the discussion on local deals, the experiences of all four jurisdictions are helpful. Switzerland, for example, is an exemplary model of localism. The important lesson from Manchester is not from its specific model of devolving authorities and funding arrangements but from its framework for enabling local devolution in response to community priorities.

*The Local Manifesto: Restoring Local Government Accountability (November 2016):*⁴

This report recommends reforms to improve the accountability and transparency of local government. Currently:

- Central government can pass regulatory tasks to local government without any funding.
- Poor lines of accountability develop between policymakers and tax or ratepayers.
- Communities are seldom faced with the costs of their choices.
- The relationship between central government, local government, and communities is characterised by distrust and misunderstanding.

The report's recommendations aim to restore accountability, transparency, and community responsibility through changes to the Local Government Act. It proposes to set clear roles for each tier of government, with limits on the ability of either party to act beyond these limits, except with prior agreement or in extreme circumstances. This would require change on both sides: legislative

³ <https://www.nzinitiative.org.nz/reports-and-media/reports/the-local-benchmark/>

⁴ <https://www.nzinitiative.org.nz/reports-and-media/reports/the-local-manifesto-restoring-local-government-accountability/>

reform at a central level and operational reform at the local level. Both are required to repair the relationship between these two important tiers of government.

Again, this report provides useful background for discussion of local deals, especially the need for deals to be carefully crafted with clear outcomes and strong accountabilities imbedded in them. Obligations need to be on all parties to a deal – not just on councils.

International Experience

The specific form that city and regional deals take varies considerably across and within countries. Common elements include:

- A contract, agreement, or memorandum of understanding between the relevant levels of government (often national/federal and local/regional, but in some cases also involving state/provincial governments).
- Shared, measurable objectives and targets include economic growth, job creation, infrastructure delivery, emissions reduction, etc.
- Defined responsibilities, funding contributions and governance arrangements for each party.
- A medium to long-term focus is needed to provide certainty for planning and investment.

In most cases, city and regional deals focus on the largest cities and metropolitan regions, which are the engines of national economies. However, some countries, including the UK and Australia, have struck deals with smaller cities and rural or regional areas.

Deals may be broad in scope, encompassing a wide range of policy areas, or narrower, focusing on specific sectors or enablers such as transport infrastructure or innovation precincts. The agenda is usually shaped through negotiation and co-design to reflect local priorities.

Evolution of City Deals

In many countries, local governments have a long-established constitutional place. Switzerland is one example. It is a highly decentralised country, with the functions of federal government, cantons (regions), and communes (municipalities) set out constitutionally⁵.

In some countries, local governments have had a relatively constrained role as ‘creatures of statute’. That has enabled city and regional deals, recognising that local solutions can lead to better outcomes than those imposed by or undertaken from the centre.

The United Kingdom has led the way on city deals, starting with the 2014 Greater Manchester Devolution Deal. This was followed by a North East Devolution Deal, a West Midlands Devolution Deal, and various UK City Deals and Growth Deals (which are less broad in scope but might, in time, lead to devolution).

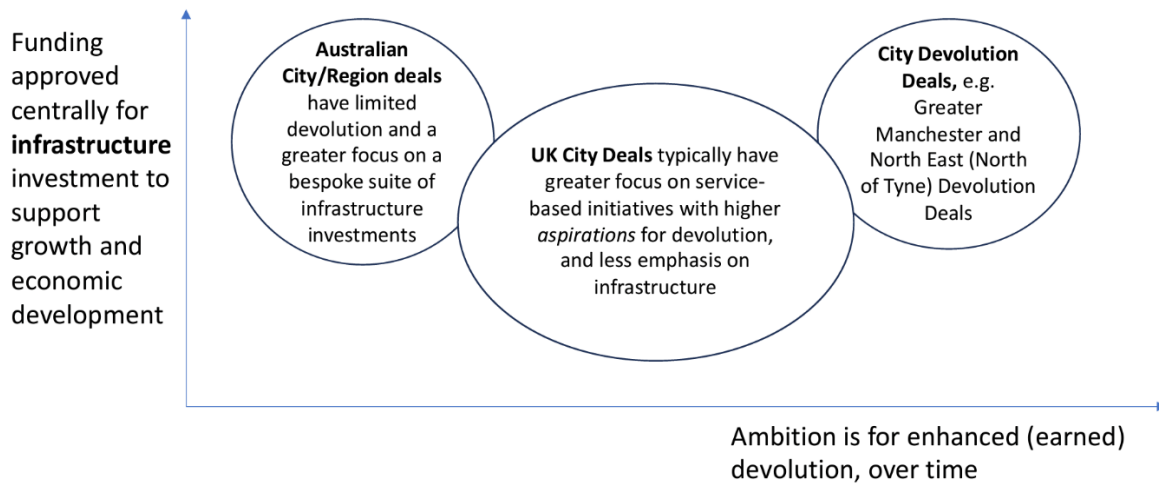
Australia has also implemented city and regional deals, starting with Townsville in 2016. These tend to have a narrower scope than the UK deals, focussing on infrastructure investment. They have also been driven more by the Federal government.

The following from a report by Kalimena Advisory to Local Government New Zealand, shows how Australian and UK deals fit on a devolution continuum⁶.

⁵ *The Local Benchmark: When Smaller is Better*, NZ Initiative, 2016

⁶ *City and Regional Deals – Options and key considerations*, Kalimena Advisory, February 2024

Figure 1: Spectrum of City Deals



Source: Kalimena Advisory for Local Government New Zealand, February 2024.

City and regional deals can also be found in Europe, for example, France’s ‘city contracts’ and the Netherlands’ ‘agenda city and region’.⁷⁸ They have also been struck in Canada, for example ‘integrated bilateral agreements’ between the federal government and provinces/territories and city deal-style arrangements with a small number of city-regions, like Greater Toronto and Metro Vancouver.⁹

Key Lessons and Considerations

International experience suggests several key lessons and considerations for designing and implementing city and regional deals.

1. Deals work best when they are genuine partnerships (mutually advantageous and as uncoerced as possible) between different levels of government, with shared ownership and accountability for outcomes. This requires moving beyond a narrow transactional approach, such as infrastructure funding, towards a more strategic approach. That means a focus on removing impediments to economic growth and development. Deals should not simply be a top-down imposition from the centre.
2. There is value in tailoring deals to the unique needs and opportunities of each city and region while also maintaining a degree of consistency in the overarching framework and core principles. This could involve a spectrum of deal types but with standardised features to streamline the negotiation process.
3. Deals should be structured around clear, measurable goals and outcomes, with robust evaluation frameworks to track progress, ensuring accountability and providing incentives to deliver. At the same time, they need to allow for flexibility and adaptation as circumstances change.
4. Strong local leadership and institutional capacity are critical to the success of deals. In many cases, that has required devolving real powers and resources to the local level and reforming local governance arrangements. Investment in building capability should be an explicit part of deal-making.

⁷ <https://www.oecd.org/regional/regionaldevelopment/national-urban-policy-France.pdf>

⁸ <https://amsterdamsmartcity.com/updates/news/city-deals-shaping-collaboration-between-cities>

⁹ Canadian Government, Investing in Canada Plan, 2022. [www.infrastructure.gc.ca/plan/about-invest-
apropos-eng.html](http://www.infrastructure.gc.ca/plan/about-invest-apropos-eng.html)

- Striking the right balance between short and long-term considerations is key. Deals must be of sufficient duration (e.g., 10-30 years) to enable strategic planning and catalyse lasting change. Yet they must also deliver tangible benefits soon enough to build and maintain public trust and political support. A deal should be able to lead to subsequent deals.

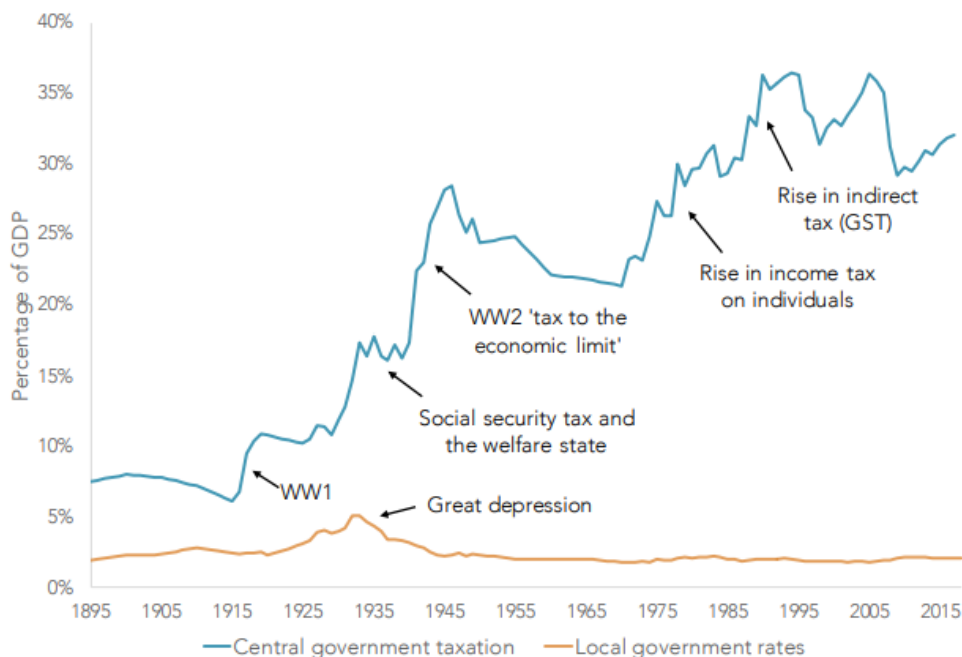
New Zealand City Deals

New Zealand interest

New Zealand has been slower in adopting city and regional deals compared to other countries.

It is one of the most centralised countries in the OECD. Local government rates are low as a percentage of total government taxation. The chart below was extracted from a Working Paper released with the Productivity Commission's Final Report for its Inquiry into Local Government Funding and Financing. It shows that local government taxation (principally property rates) peaked at around 4% of GDP in 1930 and settled at around 2% over the 75 years after World War II. This compares to central government taxation, which peaked at 35% in 1990¹⁰, in response to strong growth in its spending.

Figure 2: Taxation as a percentage of GDP in New Zealand, 1895-2018



Source: Chart adapted from Craven et al. (2019), historical data from Goldsmith (2008), recent data (1993 and onwards) are authors' calculations based on Stats NZ (2018, 2019) and OECD (2019b).

Source: *Inquiry into Local Government Funding and Financing*, NZ Productivity Commission, November 2019 (Working Paper 2019/2 - Scope and Funding of Local Government: an International Comparison).

For many years, there has been a pervasive mindset that bigger councils are better, despite research finding no relationship between council size and efficiency of spending on key activities¹¹. This assumption has been manifested in a long-running trend towards consolidating councils into larger

¹⁰ *Inquiry into Local Government Funding and Financing*, NZ Productivity Commission, November 2019

¹¹ *Does size matter? The impact of local government structure on cost efficiency*, Infrastructure Commission, July 2022.

units, culminating in the 1989 local government structural reforms and the 2010 creation of the Auckland ‘Super City’.

There is also an assumption that central government ‘knows best’. The previous Labour Government moved to centralise water services, resource management, education, and health, all of which moved or would have moved decision-making away from the local level. As well as these major reforms, there are ongoing complaints about legislation and regulations made by central government for local government to implement. There is often little consultation or engagement, let alone funding, resulting in an ‘unfunded mandate’ borne by councils and, ultimately, ratepayers.

Meanwhile, political parties in opposition often claim to be pro-local government, supporting the preservation of local ownership and control and opposing centralisation, only for their position to change once they are in government. In 2016, the Labour opposition strongly opposed the National-led Government’s Local Government Amendment Bill, which would have encouraged establishing council-owned organisations for infrastructure and services. Labour feared the Bill would undermine local decision-making. The Bill was not passed before the 2017 change in government. Yet, within a few years, the Labour government moved to implement its own three waters reforms, imposing mandatory consolidation of water services into four (later amended to 10) supra-regional entities.

It is little wonder that the relationship between central and local government has been characterised as one of mutual suspicion and low trust¹².

Despite its centralising approach, the Labour Government did see potential in arrangements akin to city and regional deals. For example, its 2018 Urban Growth Agenda identified place-based partnerships between central and local government as a key mechanism for managing growth and improving outcomes in our largest cities. This was built on earlier initiatives like the Auckland Transport Alignment Project, which brought together central and local government to coordinate transport investments in Auckland.

In 2020, the Government signed the Wellington Regional Growth Framework, a joint 30-year spatial plan developed with local councils in the Wellington-Horowhenua region. While not a fully-fledged city and regional deal, it was a step towards more integrated, long-term planning and investment. Another example was ‘Let’s Get Wellington Moving’, a joint initiative between Wellington City Council, Greater Wellington Regional Council, and the New Zealand Transport Agency Waka Kotahi. The agreement involved major investments over 20 years in mass rapid transit, walking and cycling, public transport and state highway improvements in Wellington city. After several years of little progress, it was dissolved in December 2023.

Also, in 2020, the Infrastructure Commission’s 30-year infrastructure strategy recommended that the Government pursue city and regional deals to drive productivity growth and tackle the challenges facing New Zealand’s cities, particularly in housing and transport. It pointed to the success of overseas experience with deals aligning planning, investment, and delivery across different levels of government and sectors. The 2022-23 Review into the Future for Local Government made a similar suggestion.

There have also been calls to adapt the model to better reflect New Zealand’s cultural and institutional landscape, particularly the role and rights of Māori as Treaty partners. Promoters of this approach to city and regional deals think they should be co-designed with iwi and hapū to ensure they support Māori aspirations and self-determination.

The Labour Government’s centralisation overshadowed developments towards city and regional deals, generating considerable public and political opposition. In the lead-up to the 2023 General Election, the National Party promised to repeal Labour’s changes. National Party leader Christopher

¹² Various reports, most recently that of the *Review into the Future for Local Government*, June 2023.

Luxon also promised to make use of city and regional deals for infrastructure investment¹³. In the case of water services, National promoted a policy, 'Local Water Done Well', which emphasised local ownership and control (albeit with stronger central government oversight)¹⁴. Mr Luxon has repeatedly spoken supportively of localism¹⁵.

Since the change in government in November 2023, there has been plenty of talk about city and regional deals. Work is quietly happening behind the scenes, led by the Department of Internal Affairs, and high-level decisions on how they might work are due later this year. The extent to which local government and other stakeholders will be involved in this policy development is unclear. A top-down imposition of a framework is a real possibility, as is an approach where the government 'invites' participation from favoured cities or regions.

On 21 May 2024 Local Government New Zealand released a useful framework for city and regional deals, informed by localism.¹⁶ Its framework wants city and regional deals to "deliver growth and transformative change ... to avoid current challenges to partnership and enable new cost-effective and efficient ways to deliver improved outcomes for communities." It wants a framework that delivers:

1. Alignment on outcomes and investment between local and central government;
2. Increased trust and partnership between local and central government;
3. Long-term commitments, with evolution over time;
4. Access to new funding and financing mechanisms;
5. Opportunities for all cities or regions to propose a city/regional deal; and
6. Deals that are efficient to administer and deliver.

Options for New Zealand

There are likely to be several options for city and regional deals in New Zealand¹⁷.

The most basic type of deal would be the evolution of existing initiatives to reinvigorate urban environments, stimulate growth, and build resilience. There would be a linkage between infrastructure investments and spatial planning. These sorts of deals could probably be advanced relatively quickly. Central government may view them as the most obvious way of structuring infrastructure projects funded under the Infrastructure Funding and Financing Act.

The most ambitious type of city and regional deal would involve devolution. Such a 'local deal' (to differentiate them from more narrowly focused city and regional deals) would be designed around a jointly developed economic growth strategy, involving a pathway to devolution of services (perhaps starting with transport), encouraging investment and workforce development, with new funding and financing tools made available. That is essentially the Manchester approach.

Local deals would be harder work and would take more time to develop, agree, and implement. However, they probably have the greatest potential for boosting economic growth and would be the most consistent with localism. A variant on this kind of deal formed the basis for the Initiative's proposal for city deals, set out in its 2015 report *In the Zone*.

¹³ <https://www.national.org.nz/speech-to-infrastructure-nz-building-nations-conference>

¹⁴ *Local Water Done Well*, NZ National Party, 2023.

¹⁵ <https://www.thepost.co.nz/politics/350085092/government-councils-punch-and-judy-show-tensions-luxon-says>

¹⁶ <https://www.lgnz.co.nz/news/media-releases/local-government-puts-city-and-regional-deal-on-the-table/>

¹⁷ *City and Regional Deals – Options and key considerations*, Kalimena Advisory, February 2024

Between these two extremes, there could be a deal focused on a key industry designed to grow jobs in a city or region by leveraging off that industry to promote key industries. Or there could be a deal centred on a major urban centre, in response to existing or projected significant population growth and pressure on infrastructure.

Ideally, local deals would be open to all comers, but in practice, resources and capacity for negotiations will be constrained. Central government must prioritise its engagement and councils have varying capacities and capabilities. Some might argue that current fiscal pressures would constrain devolved funding, but this should not be the case if the devolved funding would have been spent in the area anyway.

Resource constraints mean deals in New Zealand are likely (at least initially) to be confined to larger cities, especially those facing growth pressures, or to clusters of councils within a wider region that have come together to develop a robust plan to put to central government. However, if we consider local deals more broadly, devolved social service delivery is already being pioneered by iwi like Ngāti Awa, whose Social and Health Services Trust offers education, health and social services.¹⁸

A lack of trust and confidence on the part of both central government and local government is possibly the biggest impediment to the roll out of local deals. Constructive relationships need to be built between the two tiers of government. Councils that are seen by the government as being competent and constructive will have a head start.

Great care and skill will be needed on both sides to ensure high quality agreements, provide the right incentives, avoid perverse outcomes and unintended consequences, and make a positive difference.

Alongside local deals, the government should continue to remove barriers and streamline processes that slow down infrastructure delivery and urban development, such as RMA reform. Local deals and wider regulatory reform should be seen as complementary to a wider agenda to enable growth and improve living standards.

¹⁸ Ngāti Awa details some of these devolved services at <https://nash.org.nz/our-services/health-services>

Conclusion

The New Zealand Initiative's prefers bottom-up localism, whereby councils may adopt policy approaches that suit their needs and preferences. Central government should enable councils to do so and provide funding tools that allow them to share in the benefits of economic growth, incentivising councils to be more embracing of growth-promoting policies.

City and regional deals *could* be consistent with such a localist approach, but not if they are top-down, controlled by central government, and narrowly focused on the funding of infrastructure.

That we need city and regional deals shows that something is not working in our constitutional set-up between central and local government. Seen from this angle, they are like plastering over a wound.

But policy always begins from where we are. Broad-brush devolution, where councils vary considerably in capacity and where central government officials have had reason to worry about council capabilities, would fail. Devolution through locally initiated local deals, either between councils and central government or between iwi and central government, could provide a more promising alternative pathway.

Devolution in the form of local deals would build local capability and an accountability framework for assessing outcomes would help build trust in central government for devolved approaches.

In the long-term, rather than keeping a dysfunctional system working with *ad hoc* city and regional deals, a better institutional set-up would be preferable. That would be a system that works for the whole country, not just those few lucky places central government deems worthy of a deal. A broad local deals framework open to many could become the basis for a new system.

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