



Economic contribution of local government

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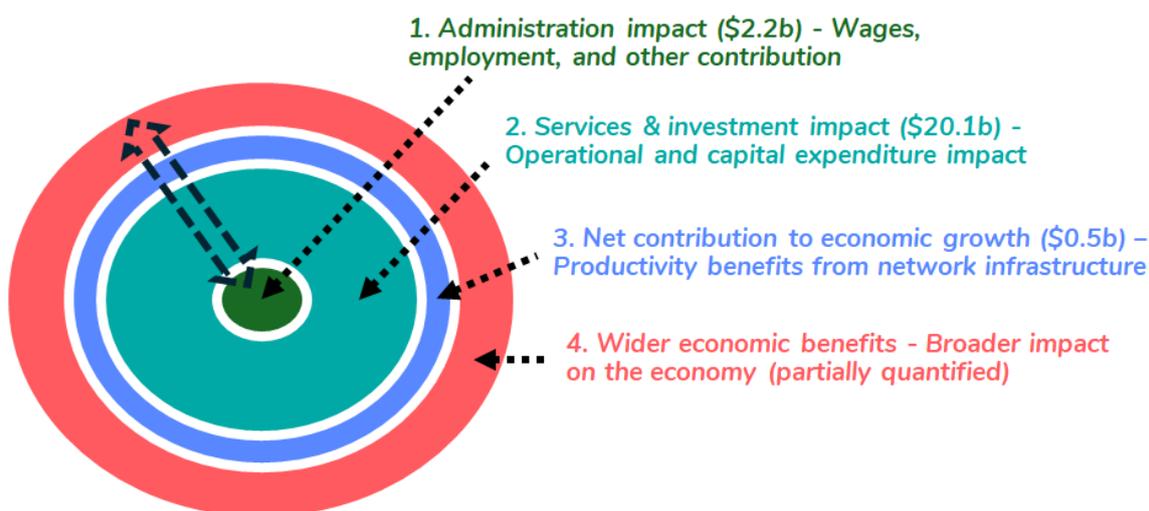
Executive summary

The economic contribution of local government is broad and substantial ...

Local government's contribution to the economy in 2024 comprised \$2.2 billion (0.5 percent of GDP) from local public administration, \$20.1 billion (4.8 percent of GDP) in operational and capital spending and expenditures, and up to \$0.5 billion (0.1 percent of GDP) in long-term productivity benefits to the wider economy. This estimated contribution of local government is conservative.

Local government's economic contribution is through different impacts on the economy, which flow from one to the other, as summarised in Figure 1 and 4. For instance, productivity benefits result from network infrastructure investments. These impacts are therefore related, but cannot be added.

Figure 1: Overview of the economic contribution of local government, by impact



Source: BERL

... particularly from its unique remit and role in delivering network infrastructure.

Productivity benefits from capital investments result from local government's monopoly role and remit in providing and delivering network infrastructure to local economies. Productivity benefits are therefore a measure of local government's unique net contribution to economic growth, which arises from the catalysing effect that network infrastructure has on private investment.

These estimated productivity benefits, given New Zealand's struggling productivity growth, suggest that local government's contribution to productivity is a substantial contribution to economic growth. Further, public investment research suggests that economic returns from local infrastructure investments are higher than from central government, nearly double at the local and regional level.

Table 1: Summary of the economic contribution of local government (using 2024 as a representative year)

Impact		Contribution to	Proportion of
1. Administration impact (supply impact)	Wages & Other	<u>Gross Domestic Product (GDP) – \$2.2b</u> Wages – \$1,718m; Other – \$459m	<u>GDP – 0.5%</u>
	Employment	Employee count – 26,713 Full-time equivalents (FTEs) – 28,713	Total employment – 1.1%
2. Services & investment impact (demand impact)	Operational expenditure (OPEX)	<u>OPEX contribution to GDP – \$10,572m</u> Network infrastructure OPEX – \$8,326m Community & Development OPEX – \$5,772m	<u>GDP – 2.5%</u> Total economy – 1%
	Capital expenditure (CAPEX)	<u>CAPEX contribution to GDP – \$9,550m</u> Network infrastructure CAPEX – \$5,630m Community & Development CAPEX – \$2,992m	<u>GDP – 2.3%</u> Public investment – 36% Total investment – 9%
	<u>Total OPEX & CAPEX contribution to GDP – \$20.1b</u>		<u>GDP – 4.8%</u>
3. Net contribution to economic growth (productivity impact)	Productivity impact (from network infrastructure)	Short-run impact – \$410m Long-run impact – \$545m (undiscounted)	GDP (short-run) – 0.1% GDP (long-run) – 0.1%
	<u>Net additional economic contribution – \$0.4b (short-run) & \$0.5b (long-run)</u> <i>[substantial productivity benefits, given NZ's slow productivity growth]</i>		<u>GDP – 0.1%</u>
4. Wider economic benefits (quantified)	<u>[Example] Flood protection benefits (avoided consequences) – \$343 million (for 2023)</u> Total cost avoided from floods attributed to local government <i>[from the review of 80 flood risk reduction projects]</i>		

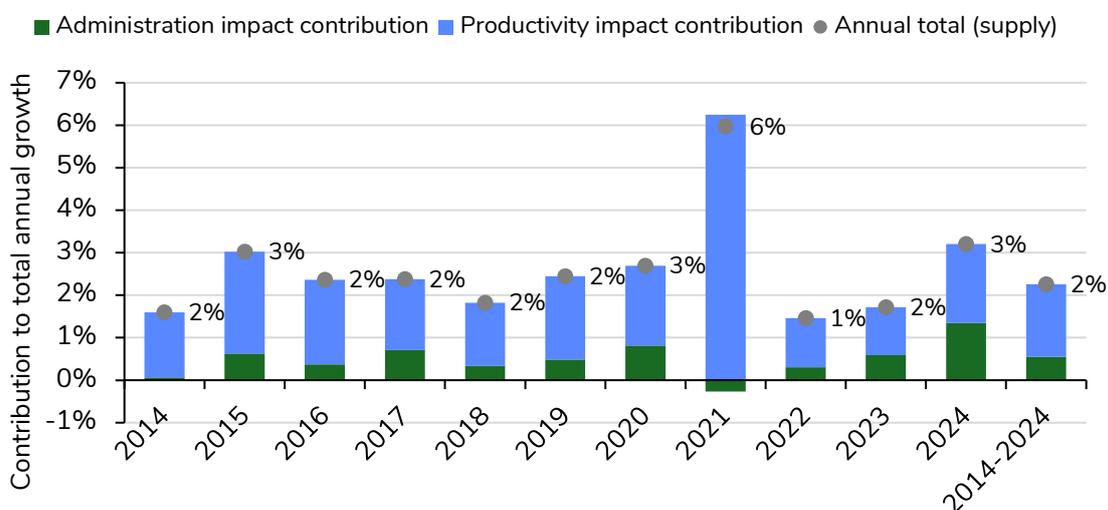
Source: BERL analysis



Local government’s annual contribution to economic growth since 2014

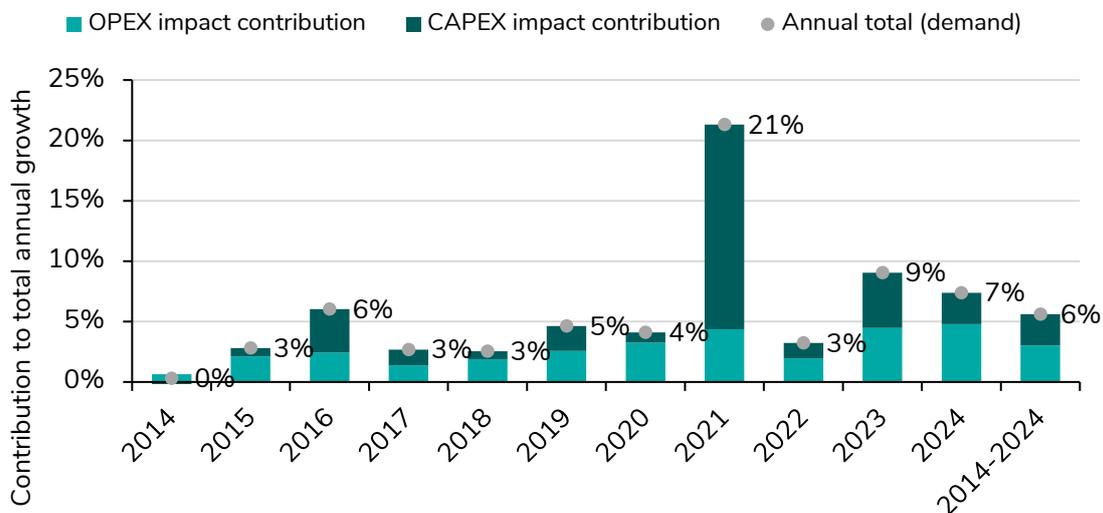
Since 2014, local government has contributed on average two percent of total economic growth annually from administration and short-run productivity benefits (supply impact, assuming short-run productivity benefits occur year-on-year), and six percent of total economic growth from OPEX and CAPEX (demand impact). Note the contribution of the ‘shovel-ready’ policy in 2021.

Figure 2: Local government annual percentage contribution to GDP from 2014 (supply and productivity impact), nominal



Source: BERL analysis

Figure 3: Local government annual percentage contribution to GDP from 2014 (demand impact), nominal



Source: BERL analysis



This estimated economic contribution is conservative. Local government generates wider economic benefits over and above the impacts quantified.

Figure 4 summarises the economic flows arising from local government's contribution to economic growth, including both quantified impacts, and wider economic benefits that were not quantified.

The estimated contribution of local government does not include the flow-on and multiplier effects from operational expenditure onto the rest of the economy. These effects are the indirect economic impact from subsequent supply chain and industry activity, nor the subsequent induced economic impact on consumption spending from local government wages.

Local government contributes wider economic and other benefits which were not quantified, through community and development services and place-making, over and above the economic benefits from providing local roads, public transport, water, waste and flood protection. For example, our estimated contribution to economic growth does not include the impact from managing natural hazards and floods, because those benefits are avoided consequences to the economy.

Contextual factors also suggest that the estimated contribution of local government is conservative. The New Zealand economy is currently recovering from a period of economic stagnation and public infrastructure investment returns are larger during periods of slower economic growth.

Finally, higher planned infrastructure investment by local government over the coming decades (compared to historic levels), will lift local government's contribution to the economy further.

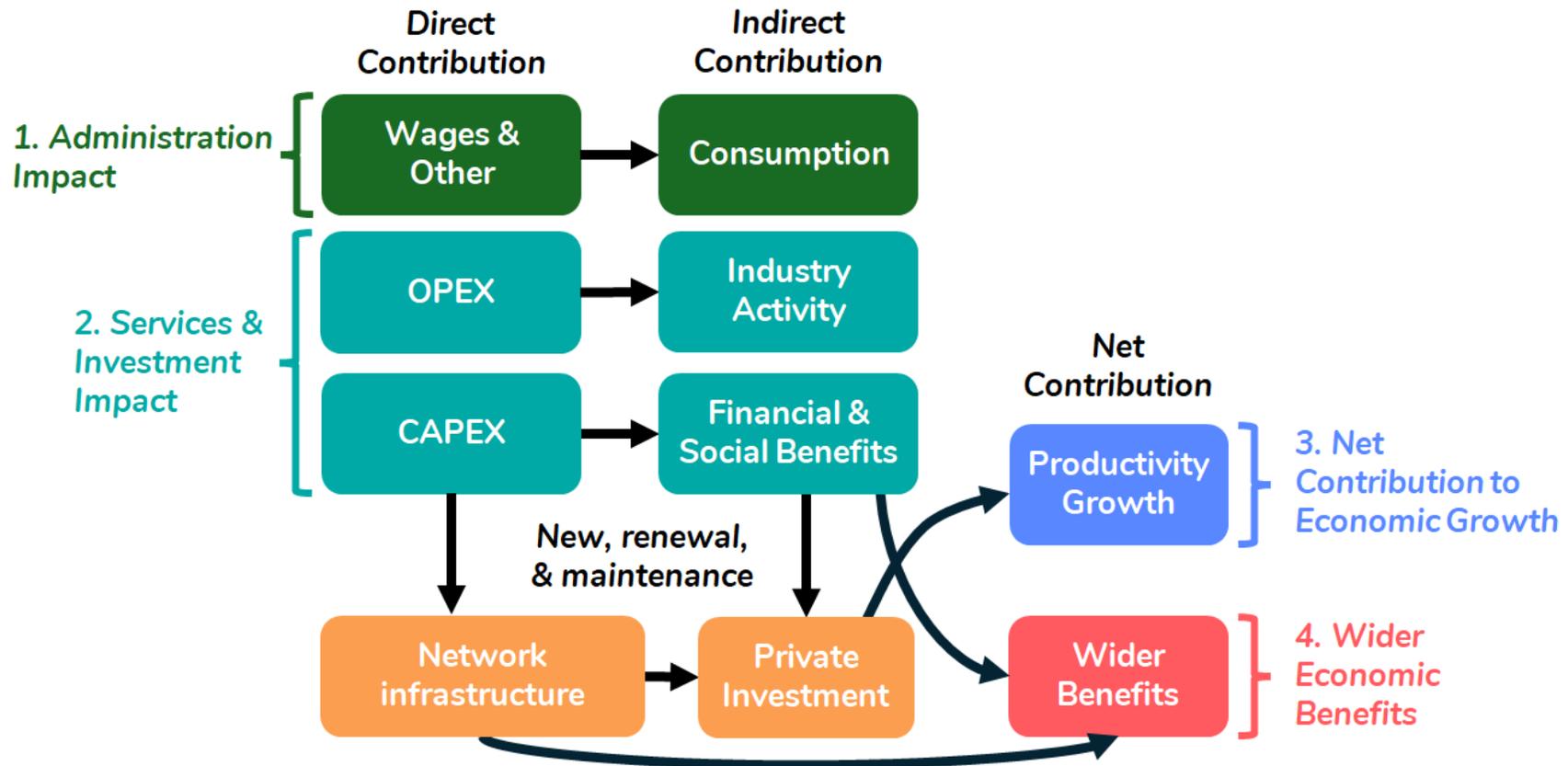
Using an alternative method to valuing the economic contribution of local government, we conclude that the estimated productivity benefits are in line with the financial benefits local communities' expect from capital investments.

As an alternative method to valuing the contribution from network infrastructure investments, we compare the net economic contribution (productivity benefits) from capital investments by local authorities, against the local ratepayers expected financial benefits from those investments.

The logic of this alternative methodology, is that the funding by local authorities towards network infrastructure, ought to be broadly in line with the value that ratepayers place on, and hence the expected financial benefits from, network infrastructure capital investments by local councils.

Using this alternative methodology, we conclude that the productivity benefits from network infrastructure investments, are broadly consistent with the financial benefits that local ratepayers expect from capital investments by local government.

Figure 4: Summary of the economic flows and contribution of local government, by impact¹



Source: BERL analysis

¹ Including broader and structural impacts on the economy, both quantified and not quantified impacts.

Local government delivers a range wider economic benefits

These wider benefits cannot always be quantified. They include broader impacts by each of the services delivered by local government within community and development. These impacts include place-making, local road network, public transport, water, waste, and flood protection.

Local government is particularly engaged in **place-making** through their services and activity in community and development, namely recreation and sport, culture, community development, as well as economic development and cluster or industrial support. Outcomes of this include improving property values, attracting talent, encouraging private investment, and boosting business activity.

Investment in the **local road network** improves system reliability and enhances safety – leading to lower vehicle operating and maintenance costs, and fewer accidents. Such investment can realise productivity gains, greater labour market efficiency, and increased output.

Productivity gains are also found through agglomeration effects from effective **public transport**. Reduced congestion will also contribute to greater labour mobility and commercial transport productivity.

Investment in, and management of, the **water network** provides extensive health benefits from reduced disease burden and greater labour productivity (i.e., less sick days). Importantly, it also supports water-dependent industries (e.g., manufacturing, retail, and accommodation) by ensuring a reliable supply and limiting costly disruptions that can impact output (both GDP and exports).

We similarly see extensive health benefits as a result of **waste network** maintenance from reduced disease burden and greater labour productivity (i.e., less sick days), as well as reducing waste treatment costs for water-dependent businesses. Effective management of both water and waste networks can lead to greater levels of tourism (i.e., through increased appeal) and ultimately greater levels of exports.

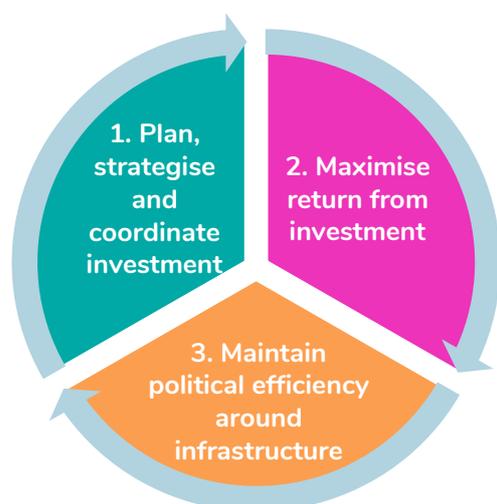
By way of cost avoidance, investment in **flood protection infrastructure** reduces potential business disruption and can ultimately improve surrounding land value and improve investor confidence. It is identified that approximately \$343 million of total impact can be attributed to local government through 80 flood risk reduction projects (assuming the midpoint of the BCR range and an equal level of funding contribution to the share of benefits received).

Opportunities to maximise local government impact on economic growth

The Office of the Auditor-General (AOG) (2022) forecast that councils will spend \$77.2 billion on capital expenditure programmes for the duration of their long-term plans, significantly higher than what councils have forecast in the past. Our overall recommendation is to leverage this strategic opportunity and maximise the economic impact of projected capital expenditure through a set of three virtuous cycle elements.

Our strategic recommendation is to mutually reinforce 1) planning and coordination of growth to 2) maximise return from capital investment, while 3) better managing the political economy and local political efficiency for infrastructure investment funding and delivery.

Figure 5: Local government opportunity for supporting economic growth



Source: BERL analysis

To give effect to this overall strategic opportunity and recommendation, we advise the following:

- **Central and local government measures** – Better alignment, planning, and coordination between central and local government would improve the consistency, predictability, and delivery of infrastructure with more efficiency and higher overall returns to the economy. Further, we support expanding funding and financing tools available to local councils.
- **Local government measures** – There are opportunities for local government itself to more effectively and efficiently support growth of their local districts. Recommendations include more efficient investment delivery, maximising private investment returns by matching asset and population growth, and more systematically assessing the costs and benefits of investments.

Contents

1	Introduction.....	1
1.1	Logic.....	2
2	Local government administration.....	3
3	Local government services and investments.....	5
3.1	Overall expenditure	5
3.2	Network infrastructure	6
3.3	Community and development.....	7
3.4	Flow-on industry activity impact from OPEX.....	8
4	Net contribution to economic growth	10
4.1	Local government's net economic contribution.....	10
4.2	Short-run impact on economic and productivity growth.....	11
4.3	Long-run impact on economic and productivity growth	11
4.4	Estimation methodology summary.....	12
4.5	Our net economic contribution estimate is conservative.....	16
5	Alternative economic contribution methodology.....	17
5.1	Productivity benefits estimate	19
5.2	Local government political efficiency.....	20
5.3	Key assumption: Maturity of the network	22
6	Wider economic benefits.....	23

7	Opportunities for local government to contribute to economic growth.....	31
7.1	Projected local government capital expenditure	31
7.2	Opportunities to contribute to economic growth.....	32
7.3	Plan, strategise, and coordinate investment for growth.....	33
7.4	Maximise return from investment.....	34
7.5	Maintain political efficiency and manage the political economy of funding and delivering infrastructure.....	36
Appendix A	Regulation and institutional functions	38
Appendix B	Productivity benefits, detailed estimation methodology	39
Appendix C	Broader impact assessment of network infrastructure...	40
Appendix D	References	47

Tables

Table 1: Summary of the economic contribution of local government (using 2024 as a representative year).....	i
Table 2: Local government economic impact summary, 2024 (excluding wages).....	5
Table 3: Local government flow-on impact on economic growth	10
Table 4: Benchmarking implied productivity benefit estimate rates of return	20
Table 5: Forecast capital expenditure by subsector and type of capital expenditure	22
Table 6: Short-run GDP impact methodology, 2024	39
Table 7: Long-run GDP impact methodology, 2024	39

Figures

Figure 1: Summary of the contribution of local government to economic growth, by impact.....	i
Figure 2: Local government annual contribution to GDP from 2014 (supply and productivity impact), nominal	i
Figure 3: Local government annual contribution to GDP from 2014 (demand impact), nominal	i
Figure 4: Summary of the contribution of local government to economic growth	i
Figure 5: Local government opportunity for supporting economic growth	ii
Figure 6: Local government assets – network infrastructure, and community and development.....	2
Figure 7: Tracing the contribution of local government to economic development	2
Figure 8: Local government administration economic size – key measures	3
Figure 9: Local government administration – direct economic contribution	3
Figure 10: Local government administration employment.....	4
Figure 11: Local government OPEX and CAPEX contribution to GDP.....	5
Figure 12: Local government operational expenditure (including wages), 2024	6
Figure 13: Network infrastructure, OPEX (includes wages)	6
Figure 14: Network infrastructure, CAPEX	7
Figure 15: Community and development OPEX (includes wages) and CAPEX.....	7
Figure 16: Community and development, OPEX (includes wages)	8
Figure 17: Local government OPEX flow-on industry activity impact, top 20 industries, 2024 (\$m)...	8
Figure 18: Short-run economic impact estimates (\$m)	11
Figure 19: Long-run economic impact estimates (\$m).....	12
Figure 20: Local government capital and investment measures, annual growth rates since 2014.....	14
Figure 21: Local government network infrastructure – real capital stock (LHS, in \$m)	14
Figure 22: Local government investment (gross fixed capital formation)	15
Figure 23: Local government net capital stock by share.....	15
Figure 24: Valuing the contribution of network infrastructure to economic growth	18
Figure 25: Productivity benefits estimate, relative to alternative valuation method.....	19
Figure 26: The public is resistant to increases in charges or taxes to fund infrastructure.....	20
Figure 27: Local government CAPEX forecast by activity (long-term plans)	31
Figure 28: Local government opportunity for supporting economic growth	32
Figure 29: Sectors where cost-benefit analysis is usually performed, OECD countries.....	36

1 Introduction

Business and Economic Research Limited (BERL) was commissioned by Local Government New Zealand (LGNZ) to assess the economic contribution of local government and to estimate the impact of local and regional councils on economic development and growth.

LGNZ's overarching question is – *How do local government's services and activities contribute to economic growth, and how could they be enhanced and leveraged?* This study is in two parts:

1. Current contribution – What is local government's current direct and indirect economic contribution?
2. Potential contribution and/or opportunities – What is local government's potential economic contribution? Where are the key opportunities for local government to contribute to economic development and growth?

Local government remit (report groupings)

For the purposes of this report, local government activities, services, and investment are grouped into *Network Infrastructure* and *Community and Development*, as set out below.

Network infrastructure

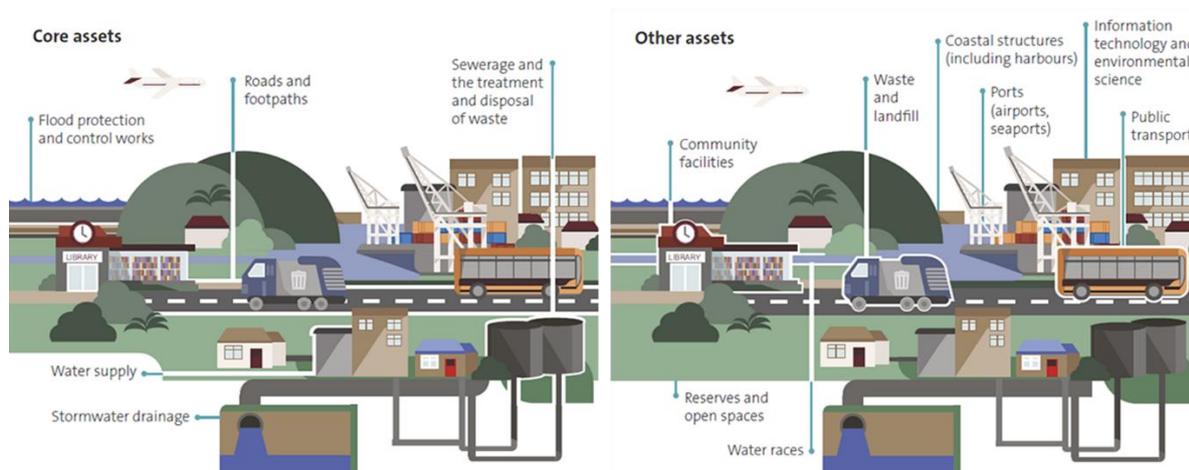
Network infrastructure assets include flood protection and control works, roads and footpaths, sewerage and the treatment and disposal of waste, stormwater drainage, and water supply.

To assess the economic contribution of network infrastructure, we drew on international literature and developed a bespoke methodology accounting for the dynamics and relationship between infrastructure delivery and economic growth.

Community and development

Community and development services are more social or diffuse impacts (*recreation and sport, culture, community development*), or less attributable (*economic development, cluster or industrial support*). These services are assessed as complementary to network infrastructure investments and services, largely qualitatively but quantitatively if available.

Figure 6: Local government assets – network infrastructure, and community and development

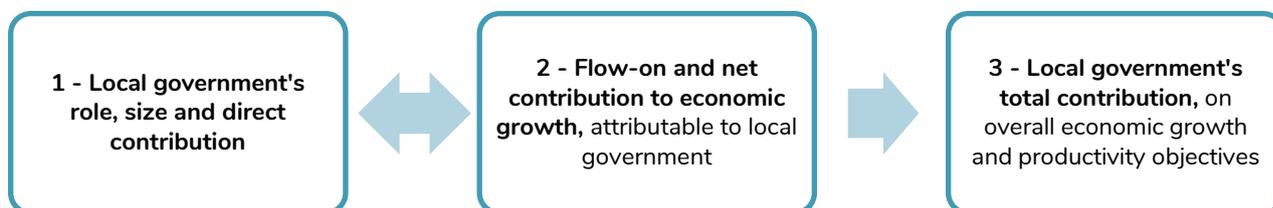


Source: OAG (2022)

1.1 Logic

The logic for assessing local government’s economic contribution involves tracing its impact on local, regional, and national economic development.

Figure 7: Tracing the contribution of local government to economic development



Source: BERL

The aim of this study is to trace the contribution of local government through key economic areas or ‘channels’. This will allow us to provide robust estimates and a compelling narrative for the channels by which local government contributes to economic development and growth.

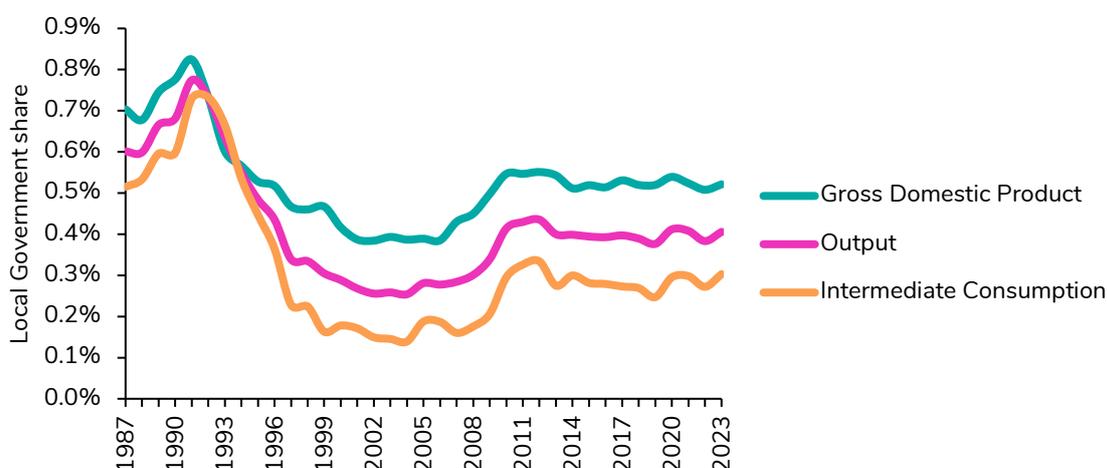
We first assess the size and direct contribution of local government across its remits. We then quantify or attribute the flow-on impact of local government services, investments, and assets across key economic areas or channels (i.e., transport, infrastructure, and industry coordination/clusters). Lastly, we connect the impact of local government through these economic channels to macroeconomic objectives such as productivity.

2 Local government administration

Local government administration economic size

Local government administration represented 0.5 percent of GDP in 2024, largely consisting of wages to local government staff. Local government administration made up a larger share of the economy in the late 1980s, halved by the late 1990s-early 2000s and has recovered somewhat since then (the contribution of central government administration following a similar path).

Figure 8: Local government administration economic size – key measures

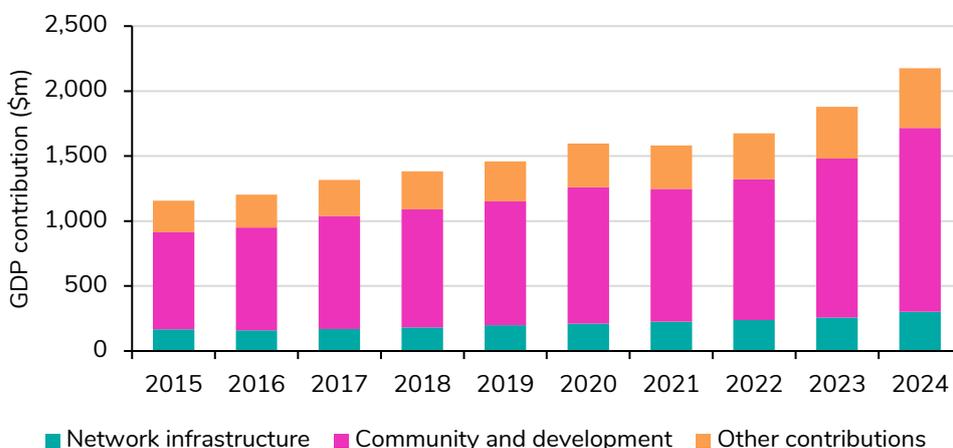


Source: Stats NZ

Direct economic contribution, wages, and other

The estimated direct contribution of local government administration to GDP in 2024 is \$2.2 billion.

Figure 9: Local government administration – direct economic contribution



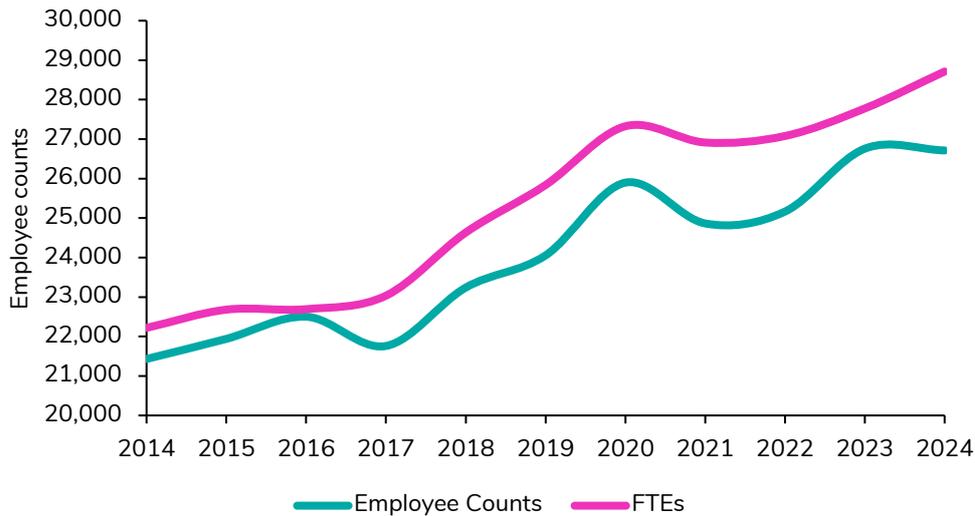
Source: Stats NZ



Employment

Total local government administration employment in 2024 was 26,713 employees (excluding contractors) and 28,713 full time equivalent (FTE) workers (accounting for both full and part-time employees and contractors).

Figure 10: Local government administration employment



Source: BERL analysis

Flow-on consumption impact

Local government administration wages represent about one percent of all annual wages (and central government represents about three percent). The flow-on impact on consumption from wages, called the induced impact effect, is generally accounted for in impact studies and forms part of the economic multipliers from an activity (in this case local government administration). We have not accounted for this flow-on impact in this assessment.

3 Local government services and investments

3.1 Overall expenditure

Table 2 summarises the direct impact of local government OPEX and CAPEX on the economy.

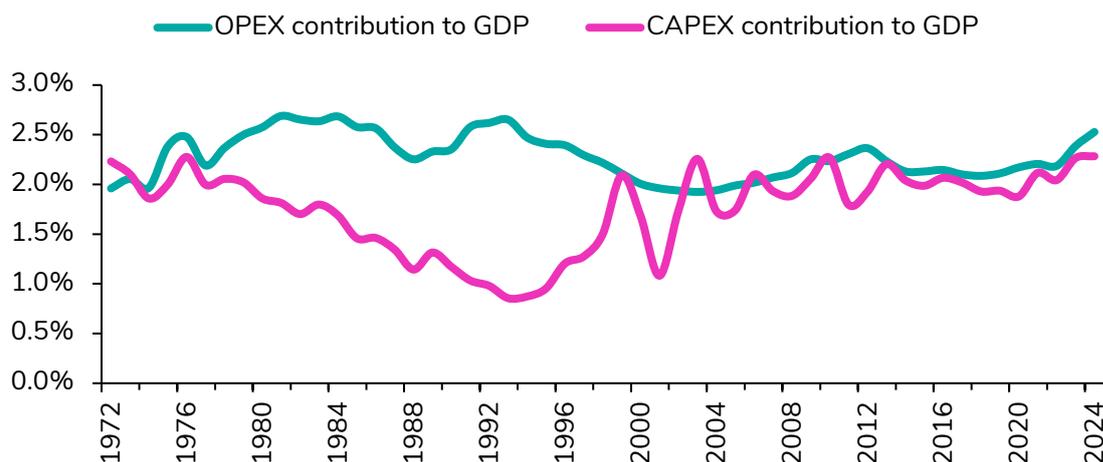
Table 2: Local government economic impact summary, 2024 (excluding wages)

Impact		Contribution to	Proportion of
Local government services & investment (demand impact)	Operational expenditure (OPEX)	OPEX contribution to GDP – \$10,572m Network infrastructure – \$8,326m Community & Development – \$5,772m	GDP – 2.5% Total economy – 1%
	Capital expenditure (CAPEX)	CAPEX contribution to GDP – \$9,550m Network infrastructure – \$5,630m Community & Development – \$2,992m	GDP – 2.3% Public investment – 36% Total investment – 9%
	Total local government OPEX & CAPEX – \$20.1b		GDP – 4.8%

Source: BERL analysis

Local government OPEX and CAPEX contribution to the economy (i.e. to GDP) increased recently, totalling \$10.6 billion and \$9.5 billion respectively in 2024.² An infrastructure deficit arose out of under-investment and lower capital expenditure in the 1980s and 1990s (Sense partners, 2021).

Figure 11: Local government OPEX and CAPEX contribution to GDP

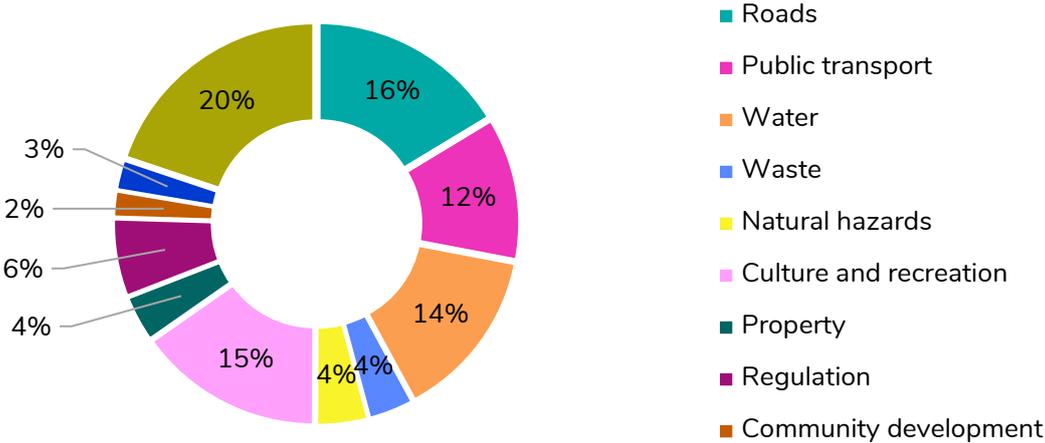


Source: Stats NZ

² Resulting from the total individual OPEX and CAPEX by local government from network infrastructure and community and development. Total CAPEX and contribution do not match because of statistical discrepancies.

Local government operating expenditure on network infrastructure (i.e., road and public transport, water, waste, and natural hazards) represents 50 percent of total in 2024, with community and development services (sport, culture, economic development, and other services) making up the other half. Local expenditures on network infrastructure are mostly through capital investments.

Figure 12: Local government operational expenditure (including wages), 2024

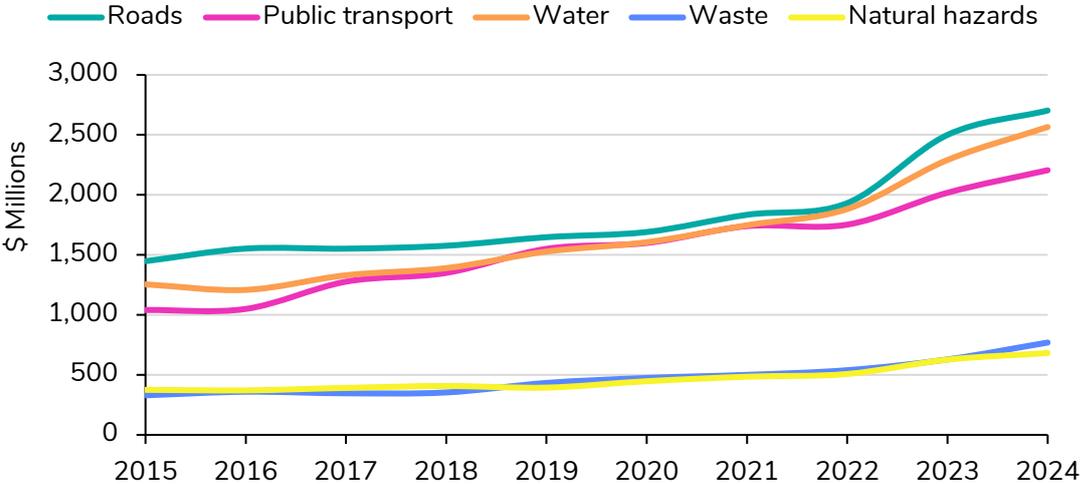


Source: Stats NZ

3.2 Network infrastructure

Operational expenditure in network infrastructure increased gradually until 2022, when it began rising faster. Road transport, public transport, and water are the top core OPEX items.

Figure 13: Network infrastructure, OPEX (includes wages)

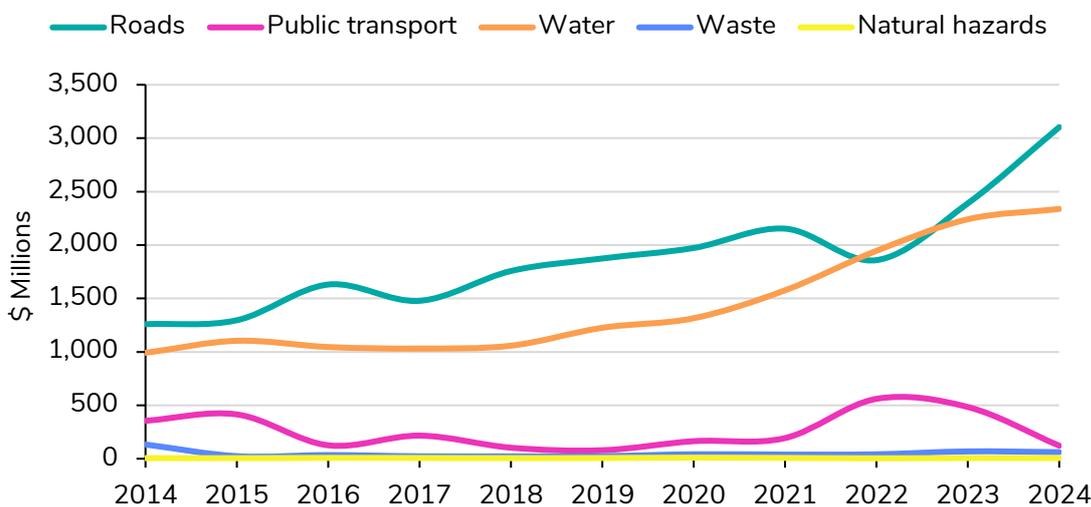


Source: Stats NZ



More than a third of all government infrastructure investment each year is from local government. Figure 12 shows CAPEX for network infrastructure, with roads and water investments at the top.

Figure 14: Network infrastructure, CAPEX

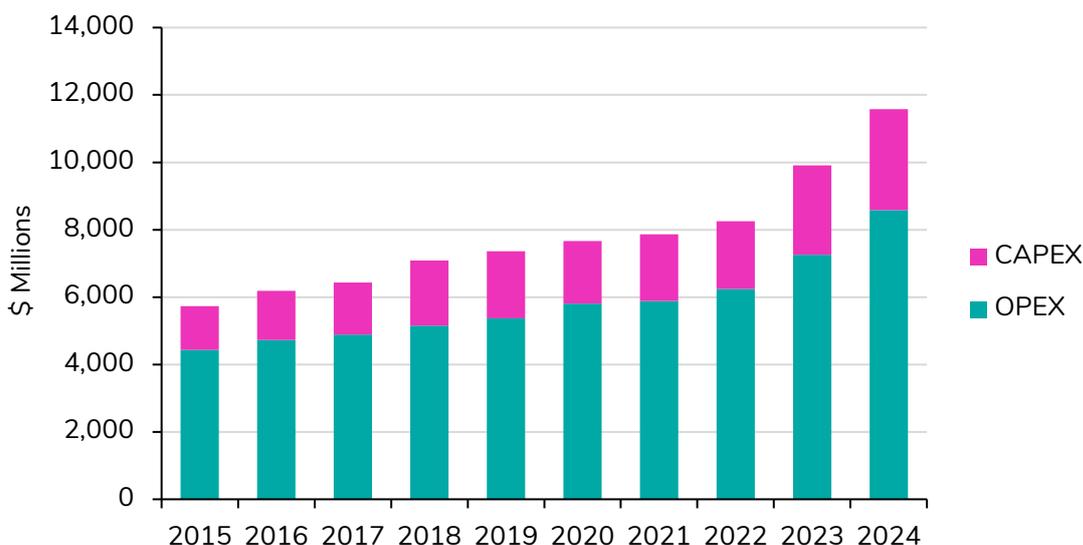


Source: Stats NZ

3.3 Community and development

Total local government community and development spending was \$11.6 billion in 2024. Both OPEX and CAPEX have been rising faster since 2022. CAPEX, in particular, was fairly consistent year-on-year before then.

Figure 15: Community and development OPEX (includes wages) and CAPEX

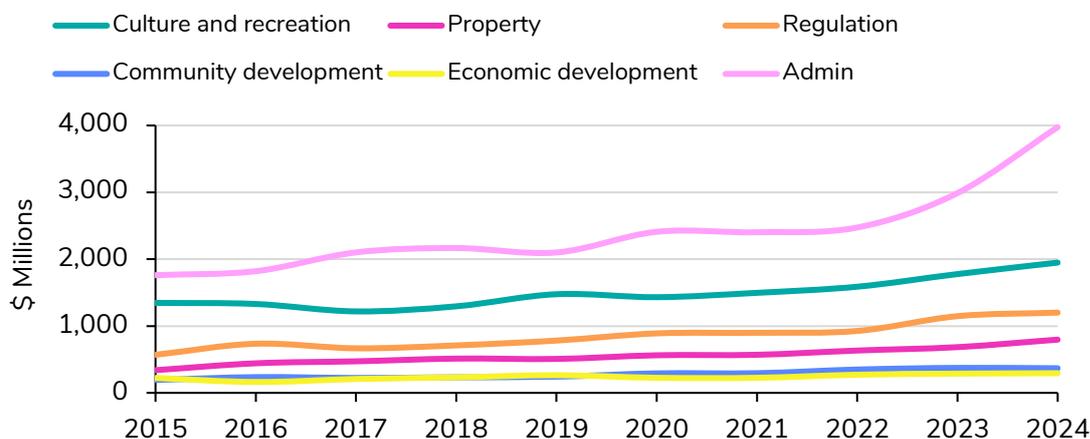


Source: Stats NZ



Community and development OPEX totalled \$8.6 billion in 2024, with administration, culture and recreation, regulation, and property the largest items (Figure 16).

Figure 16: Community and development, OPEX (includes wages)

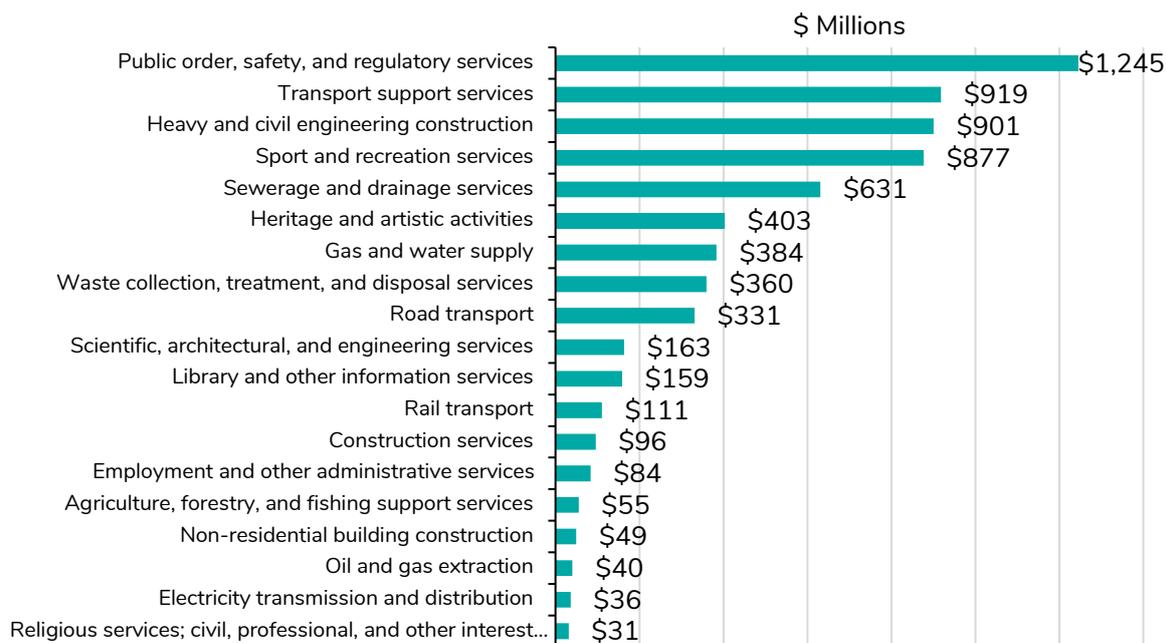


Source: Stats NZ

3.4 Flow-on industry activity impact from OPEX

Local government OPEX generates flow-on economic activity across industries, totalling \$10.6 billion for 2024. The industries most impacted are presented in Figure 17.

Figure 17: Local government OPEX flow-on industry activity impact, top 20 industries, 2024 (\$m)



Source: Stats NZ



We have not quantified the economic multiplier from local government OPEX flowing from additional industry activity. While accounting for the economic multiplier would lift the estimated contribution from local government spending to the economy, the net contribution would need to be compared to a counterfactual scenario of no local government, and whether economic multipliers would be higher or lower in the counterfactual or not.

A discussion of how our assessment considers the counterfactual scenario of no local government, and the net economic contribution from local government, is provided in the following section.

Example of quantified flow-on from OPEX: Waste

Studies have estimated the flow-on economic multiplier from local government service in isolation. NZIER (2025) estimated the economic contribution of the waste, resource recovery, and contaminated land management sectors, partly enabling the activity of local government to be isolated.

NZIER (2025) assessed that a total of \$2,368 million, comprising waste disposal, recycling, and environmental protection services, was used in the economy in 2020, with local government accounting for \$266 million, or approximately 11 percent, of this. There is, however, not an isolated estimate of local government's contribution to the overall output of the waste collection, treatment, and disposal services sectors.

At an overall level, NZIER (2025) found that core waste collection, treatment, and disposal services produced around \$2.4 billion in direct output in 2020, with an estimated \$998 million gross value added and 7,200 jobs supported. This expands significantly when considering the flow-on indirect and induced effects from multiplier analysis to other industries and households. In particular, gross value-added increases to \$2.7 billion with 20,150 jobs supported.

4 Net contribution to economic growth

4.1 Local government's net economic contribution

Our estimate of the net contribution from local government is based on public investment literature, research, and studies.

The net economic contribution of local government to the economy comprises the productivity benefits resulting from private investment catalysed by local government network infrastructure investment. Administrative, services and investment impact from local government contribute to economic growth, but are funded through property rates and other revenues in the first place.

The relationship between infrastructure investment and economic growth is an enduring topic of economic research focused on the extent to which infrastructure is beneficial to the economy, and the conditions that enable infrastructure investment to provide a net contribution to the economy (NZIC, 2025). On the impact capital and infrastructure investment has on economic growth, the NZIC (2025) summarised its findings and analysis as follows:

Overall, the extensive research on the relationship between economic growth and infrastructure investments can be positive across entire networks but project, location, and maturity of network will affect the returns of any single project or portfolio of projects. In other words, there is more positive evidence of economic benefit at a macro level than a micro level.

Productivity benefits occur both in the short- and long-run (studies on which our estimates are based do not have a consistent definition for short- and long-run, although short-run is often considered to be a one-to-two-year, and less than five, year timeframe, and long-run anywhere from about five to 30 years).

Table 3: Local government's net economic contribution (productivity impact)

	Impact	Contribution to	Proportion of
Net contribution to economic growth (productivity impact)	Productivity impact (network infrastructure investment)	Short-run impact – \$410m	GDP (short-run) – 0.1%
		Long-run impact – \$545m (undiscounted)	GDP (long-run) – 0.1%
	Net additional economic contribution – \$0.4b (short-run) to \$0.5b (long-run)		GDP – 0.1%

Source: BERL analysis

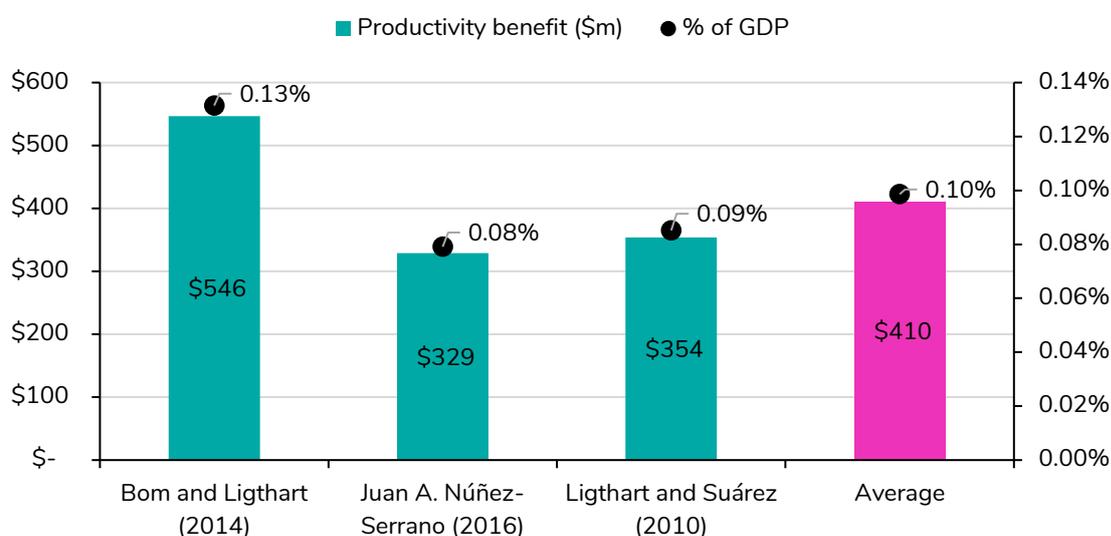
Given New Zealand’s struggling productivity growth local government’s contribution to productivity, while small in proportion to GDP, is a substantial contribution to economic growth.

4.2 Short-run impact on economic and productivity growth

We base the short-run estimated impact of public capital and infrastructure investment on economic growth on literature meta-studies, adjusted for the New Zealand context. The results are summarised below, ranging from a short-run impact from \$329 million (0.08 percent of GDP) to \$546 million (0.13 percent of GDP), and an average impact of \$410 million (0.10 percent of GDP).

The literature and meta-studies of the impact of public investment on economic output and growth are often at the national level, for both central and local government, which we apply to local government in New Zealand. Bom and Ligthart (2014) found that economic returns from local infrastructure are higher than from central government, and are nearly double at the local and regional level.

Figure 18: Short-run economic impact estimates (\$m)

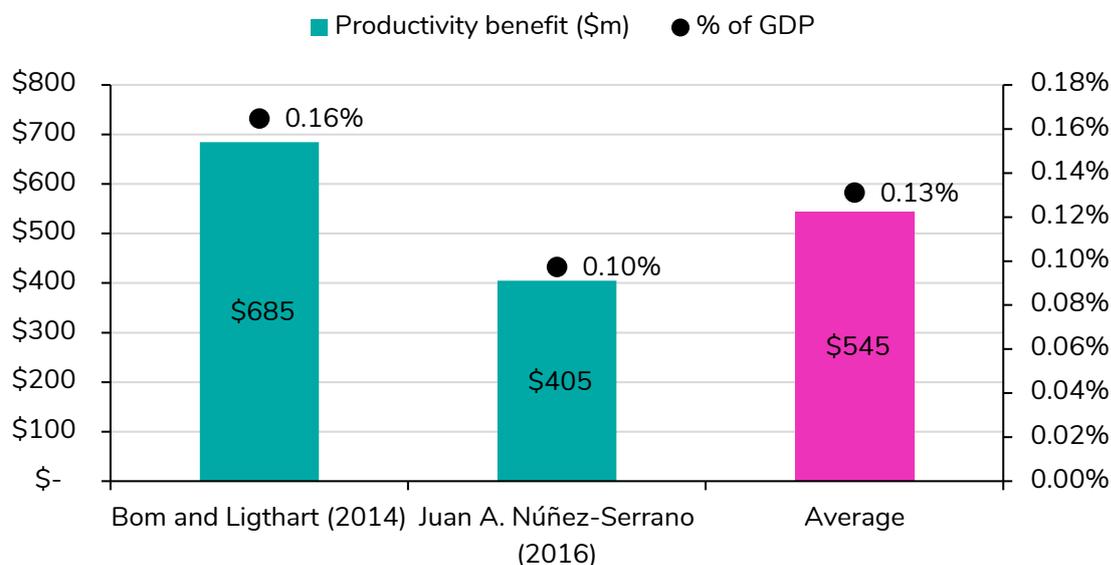


Source: BERL analysis

4.3 Long-run impact on economic and productivity growth

The long-run estimates for the impact of network infrastructure investment on economic growth range from \$405 million (0.10 percent of GDP) to \$685 million (0.16 percent of GDP), with an average impact of \$545 million (0.13 percent of GDP). These figures are not discounted into present day values, largely because the definition of long-run varies, and the literature used for this analysis comprise meta-studies.

Figure 19: Long-run economic impact estimates (\$m)



Source: BERL analysis

4.4 Estimation methodology summary

4.4.1 Counterfactual and net contribution to the economy

To assess the impact of a system of government and, in this instance, the value added to the economy by local government, the fundamental question of what contribution governments make to the economy must be addressed.

To assess any economic contribution, the counterfactual scenario against which to compare the status quo is usually defined. A possible and hypothetical counterfactual would be to assume no local government, where collected local government revenue, rates, and taxes are assumed to be returned to ratepayers, businesses, and the community, and the private sector hypothetically provides the infrastructure network and community and development services for the district.

Hence, from a strict economic theory standpoint, the assessment of the economic impact and contribution of local government could be 'net' of local government revenue. This is not the purpose of this study. The aim of this report is to assess and quantify the role of local government in contributing to economic growth and development. We focus on the status quo contribution of local government to the economy, without explicitly describing the counterfactual to local government.

Net contribution to economic and productivity growth

We acknowledge that it is not a net assessment overall, but we identify, assess, and quantify the net contributions to the economy from local government in terms of productivity benefits from network infrastructure investment. The logic for this impact representing the net contribution from local government capital expenditure is that local government has a monopoly in network infrastructure provision, and the provision of public goods, such as roads, to ratepayers.

The net contribution from local government network infrastructure investment, due to its monopoly position, is the attribution of the crowding-in effect of private investment and the ensuing productivity benefits to the local economy (Matvejevs & Tkacevs, 2023). Examples of crowding-in effects from public investment to private investment are summarised in the *Wider Benefits* section of this report.

4.4.2 Productivity impact methodology details

This section summarises at a high-level the methodology for estimating productivity benefits. Appendix B summarises the methodology for both short- and long-run estimates in detail.

The public investment literature, as listed in the short- and long-run sections above, outlines the relationship between economic activity and either network infrastructure capital investment or changes in capital stock. We use this, in the New Zealand economic context, to estimate the impact of local government capital investment, or changes in capital stock, on economic and productivity growth.

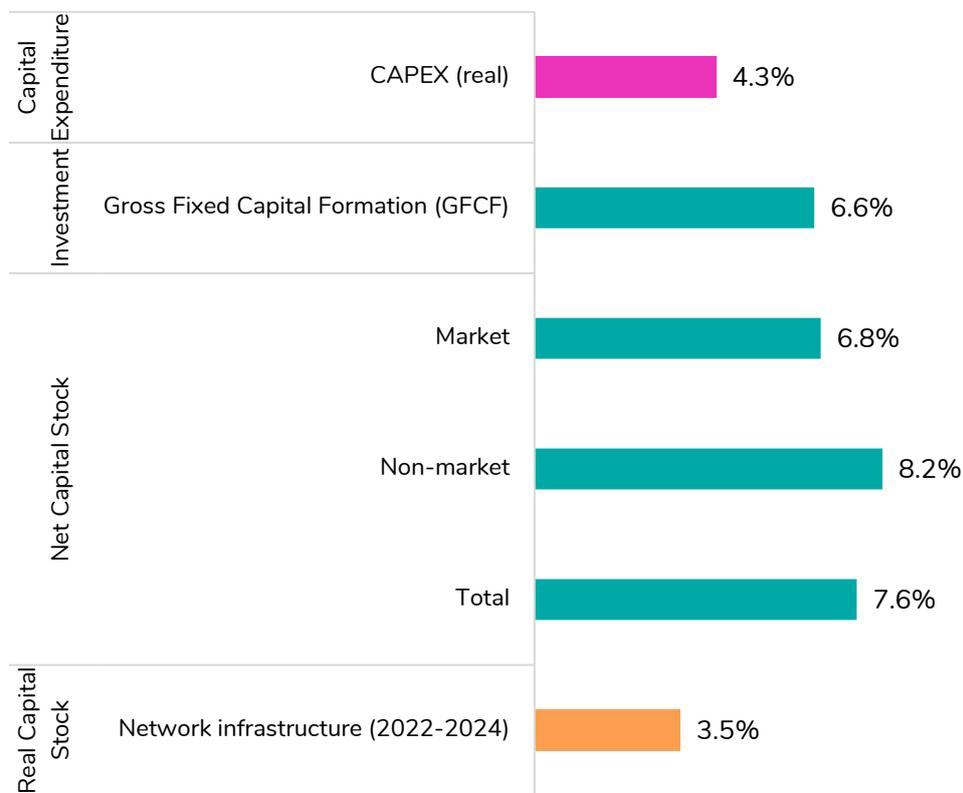
Figure 20 summarise the annual growth for different measures of investment, or capital stock, for the domestic local government since 2014. At a high-level, our approach is to apply the relationship between economic output and those measures from the literature, to estimate the average annual contribution to economic and productivity growth from local government since 2014.

Using the average annual impact over the 2014-2024 period, we express this impact using 2024 as a reference year to align it with other local government contribution figures provided in the previous sections of the report.

We take this approach in part because annual local government capital expenditures can be volatile year-on-year, which is smoothed by taking the average annual growth rate over the last decade.

Local government capital expenditures are deflated using BERL's own local government cost adjustors, which provide cost indices by network infrastructure investment (i.e., road, water, waste).

Figure 20: Local government capital and investment measures, annual growth rates since 2014



Source: NZIC (Real Capital Stock), Stats NZ (all other measures)

Figure 21: Local government network infrastructure – real capital stock (LHS, in \$m)



Source: New Zealand Infrastructure Commission, 2024b (Real Capital Stock)



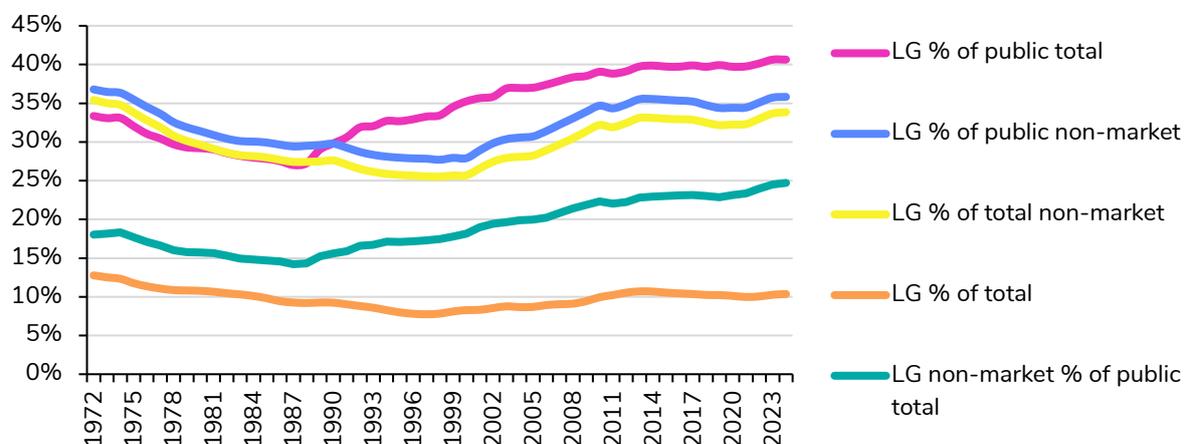
Finally, literature estimates are adjusted for the New Zealand context, accounting for the contribution of local government to public investment or capital stock (depending on the study) since 2014. Local government investment as a proportion of public investment, at around a third, remained stable over the past 30 years. Its share of the total and public capital stock has been gradually increasing over the same period to also reach about a third of public capital stock (across different measures) and ten percent of the total stock. Public investment literature suggests that returns from local government infrastructure investment tend to be above that of central government investments (Bom and Ligthart, 2014). Given the increasing share of local government stock, this suggests that local government would have contributed to greater overall productivity benefits from total public (central and local) infrastructure investments over the past decades.

Figure 22: Local government investment (gross fixed capital formation)



Source: Stats NZ

Figure 23: Local government net capital stock by share



Source: Stats NZ



4.5 Our net economic contribution estimate is conservative

On balance, we assess that our estimate is conservative based on the following:

- Our estimate does not include the multiplier effects from operational expenditures, which include both the indirect economic impact from subsequent supply chain spending, and the induced economic impact of higher consumption from local government wages.
- Research points to higher returns from local government than from central government investments (Bom and Ligthart, 2014), with public infrastructure returns larger during periods of slower growth as per current conditions (Abiad, et al., 2014).
- It does not include the benefits from expenditure towards managing natural hazards (such as river schemes). Those benefits are avoided consequences (e.g., from flooding) for the economy.
- Increased planned infrastructure investment by local government over the coming decades (compared to historic levels), will increase local government's contribution to the economy.

However, other factors point to an average impact of local government on growth in New Zealand:

- The composition of projected spending across councils varies, particularly across metro, provincial, and rural councils, with metro councils accounting for the bulk of new infrastructure investments, while rural councils with low growth prioritising renewing existing infrastructure. Rural and provincial councils' share of CAPEX has increased from a third to almost half.
- Larger and better-quality existing networks tend to lower the impact of new additions (NZIC, 2024). Compared to the median OECD country, New Zealand has a typical amount of physical infrastructure per capita (\$55,800 of infrastructure per New Zealander in 2022) (NZIC, 2024).
- Local government capital stock, relative to the total private capital stock, has also remained more consistent over time than the ratio of central government to total private capital stock and has gradually recovered since the late 1990s. However, local government capital stock compared to private capital remains lower by historical standards (at 0.14 in 2024, while 0.21 in 1972).
- Research indicates that the return on infrastructure investment to allow for local district growth varies amongst councils, with Auckland, Hamilton, and Tauranga exhibiting lower returns, while Dunedin and Christchurch have higher returns on investing in growth (NZIC, 2025).

5 Alternative economic contribution methodology

Value placed on and expected economic contribution from network infrastructure

An alternative methodology takes a different approach and is summarised in Figure 24. The basic logic of our second estimation methodology of the impact of network infrastructure is that the willingness to pay³ or fund core services capital expenditure is related to the economic benefit expected from those investments.

The overall economic premise is that the cost or funding for providing network infrastructure, paid through rates and other levies, is related, commensurate, or equal to the benefit to ratepayers. If it is not, then network infrastructure is either over or under provided relative to the monetary and non-monetary benefits expected by the community from the provision of network infrastructure.

Implicitly, the basis for our estimation methodology is that the desired level of funding of infrastructure from ratepayers is related to their expectation of financial benefit returns, expressed through the exercise of local democracy.

Furthermore, some benefits from infrastructure provision may not be valued by some or all ratepayers overall. The wider economic benefits section provides a full analysis and study of the range of benefits from investment in network infrastructure, for which the willingness to pay may vary amongst ratepayers.

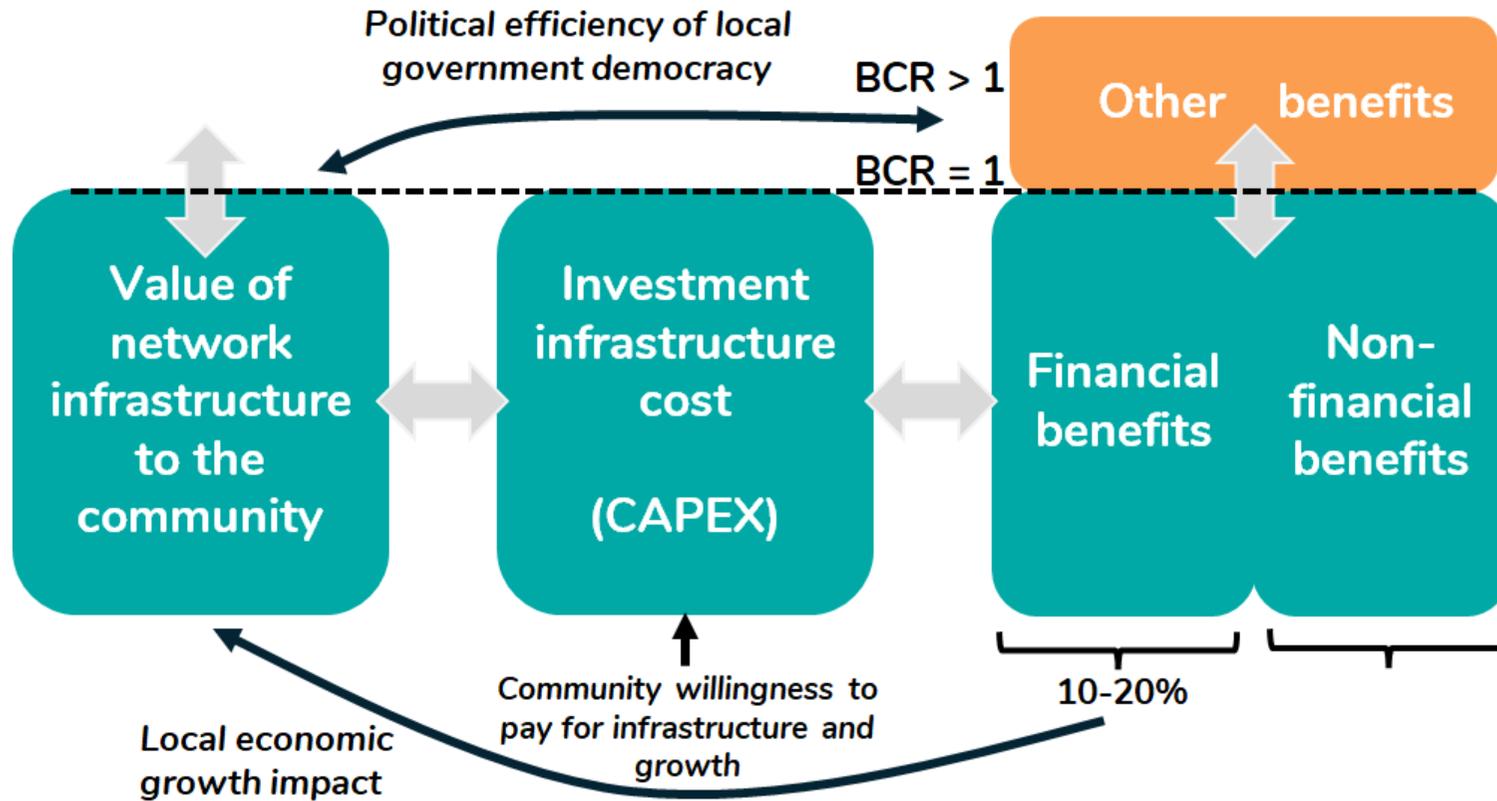
Alternative methodology

The two key assumptions of the second methodology, summarised in Table 4 are that:

- Network infrastructure investments have at least a BCR of 1 (assume a BCR of 1 to 1.5 for our calculations), acting as a proxy for the political efficiency of local government. If BCRs are above 1, we assume additional benefits will be a mix of financial and non-financial (social) benefits.
- Marginal financial benefits from network infrastructure investments are 10-20 percent of total economic benefits, based on the literature, although this is likely to vary by councils as shown by the variation of financial returns to councils investing in growing their district (NZIC, 2025).

³ Willingness to pay is the maximum price a customer is willing to pay for a product or service.

Figure 24: Valuing the contribution of network infrastructure to economic growth



Source: BERL

5.1 Productivity benefits estimate

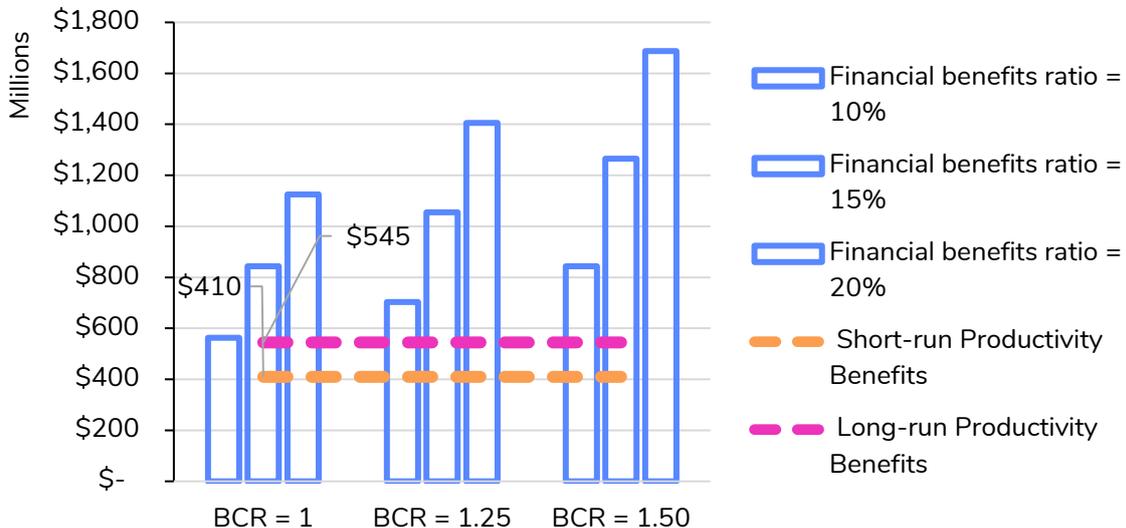
Relative to the alternative valuation method

Figure 25 compares the short- and long-run (undiscounted) productivity benefit estimates, with the alternative valuation methodology based on the high-level assumption (above) for the expected financial return on network infrastructure capital expenditure by local government (\$5.6 billion in 2024).

The estimated short- and long-run productivity benefits are benchmarked as series of BCR and financial benefits ratio assumptions. Implicitly, the estimated productivity benefits are compared with the expected financial return by ratepayers from network infrastructure capital investment.

Using this approach, our productivity benefit estimates sit within the range of BCR and financial ratio assumptions (informed by the literature), implying that our productivity estimate is plausible based on those high-level informed assumptions, and therefore that ratepayer expectations for financial return on investment from network infrastructure investment are broadly satisfied.

Figure 25: Productivity benefits estimate, relative to alternative valuation method



Source: BERL analysis

5.1.1 Rates of return on network infrastructure investment

Confirming the findings from our alternative valuation methodology, we compare the implicit financial return of our productivity estimate on network infrastructure investment with research rates of return from the public investment literature, notably Bom and Ligthart (2014).



Table 4: Benchmarking implied productivity benefit estimate rates of return

	Bom and Ligthart (2014) rate of return	BERL Implied rate of return
Short-run	17%	9%
Long-run (undiscounted)	25%	11%

Source: BERL analysis

Our productivity benefit estimate, based on implied rates of return, is below rates of return from the public investment literature (noting those rates are for all public investments, not local government). This is consistent with the findings from the NZIC’s National Infrastructure Plan that New Zealand infrastructure investment delivers lower outcomes than other OECD countries (NZIC, 2025b).

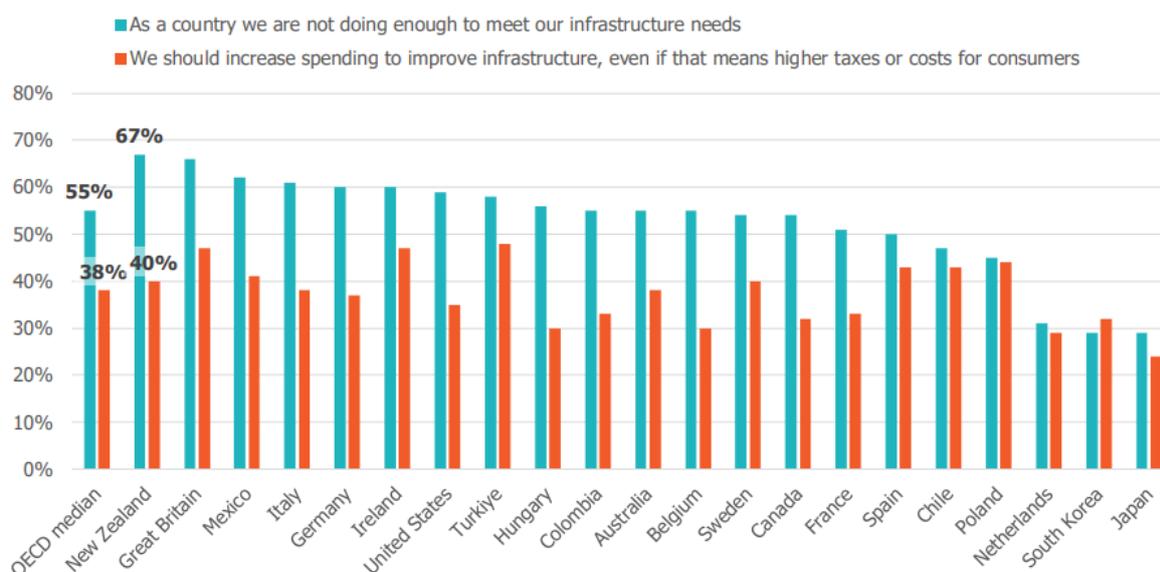
5.2 Local government political efficiency

Our alternative methodology relies in part on the assumption of a certain level of policy efficiency within the local government electoral and decision-making, so that the democratic process sets CAPEX spending at a level commensurate to the economic and financial benefits from the investment.

5.2.1 Public resistance to infrastructure spending

There is evidence that points, at the national level, away from the assumption of political efficiency which is conducive to political economy around the funding of infrastructure in New Zealand.

Figure 26: The public is resistant to increases in charges or taxes to fund infrastructure



Source: NZIC (2025)



Public opinion polling shows that while New Zealanders perceive a high degree of infrastructure needs, they are resistant to paying higher charges to fund them (NZIC, 2025).

The public is resistant to increases in charges or taxes to fund growing infrastructure needs, because of the difficulty for infrastructure investment economic and financial benefits to cover the upfront cost, even though there is an expectation and an unmet need for greater infrastructure provision.

5.2.2 Political efficiency at the local level

Local political efficiency determines whether rates or spending decisions are a good measure of ratepayers' preferences in terms of economic benefits from infrastructure investment. At the core of the issue of local government political efficiency is the question – is infrastructure over or under supplied by local government, relative to the preferences of local ratepayers?

It comes back to the political economy of rates, local government CAPEX spending, the economic logic of funding network infrastructure, and the willingness to pay for it from ratepayers. Key considerations in this space include how the costs and benefits are shared within communities, and how preferences towards infrastructure spending (and other local government issues) across communities are averaged and consensus achieved through the electoral process.

Consultation and engagement

Local government consultation processes, more frequent and bespoke than those of central government, provide political efficiency as an integral part of the local government political and democratic process.

Local councils engage with the community on a range of matters, including their budgets, individual investments or requirements that might impact the community, and ratepayers are consulted and able to provide feedback on specific policy details of local council proposals.

Localism

At the local level, there are arguments for greater levels of political efficiency on the issue of infrastructure spending.

Research supports the premise that infrastructure needs to be prioritised and coordinated at a subnational or regional level (Cisneros and Fulton, 2021). Economic returns from local infrastructure are higher than from central government infrastructure, almost doubling at the local and regional level (Bom and Ligthart, 2014).



The overarching argument is that with local government "closer" to investments, the asset base, and ratepayer preferences, local governments are the better owners and investors for it.

Through localism, local government better handles imperfect information amongst ratepayers (which otherwise reduces political efficiency). Localism also allows for the socialisation of costs and benefits amongst ratepayers, where some ratepayers value some services or investments more than others, with the expectation that the overall value to each ratepayer balances out through the local political process.

5.3 Key assumption: Maturity of the network

The other key drivers of the economic and financial benefits of network infrastructure investment are the maturity of the network and the composition of CAPEX spending to meet additional population and economic growth, improving levels of services or renewing existing assets. The Office of the Auditor General (2022) estimates that:

- Renewing or replacing existing assets makes up 42 percent of councils' planned expenditure
- More than a third of capital expenditure is to improve current levels of service
- 24 percent of forecast capital expenditure is for new infrastructure to meet additional demand.

Each category of spend will have different economic multipliers and, given the variation across councils of planned capital expenditure by type, economic multipliers also vary by council.

Table 5: Forecast capital expenditure by subsector and type of capital expenditure

Proportion of 2021-31 forecast capital expenditure by subsector and type of capital expenditure

Capital expenditure	Auckland*	Metro**	Provincial	Regional	Rural
Meet additional demand	29%	25%	16%	15%	8%
Improve level of service	30%	38%	37%	42%	29%
Renewal existing assets	41%	37%	47%	43%	63%

Source: OAG (2022)

Investment towards meeting additional demand largely takes place in metro areas, while rural councils do not experience high levels of growth and focus on renewing existing assets (OAG, 2022).

6 Wider economic benefits

Local government's delivery of services provides and enables an extensive range of benefits to the economy and local communities. These benefits extend beyond our estimated impact of services, including impacts that are often perceived or easily quantified collectively.

The existing body of literature does not necessarily isolate the attribution to local government as understood in New Zealand of each of the identified impacts. Rather, these impacts are typically analysed from a broader investment perspective without a "local government" lens. This literature review provides a broad overview of the range of impacts that can result from local government undertaking their responsibility and function associated with network infrastructure. Where possible, we try connecting some level of attribution specifically to local government.

6.1.1 Place-making by local government

An inherent product of local government is their part in place-making. This involves forming communities, spaces, and areas that function and are attractive to the people who would use them. Place-making is what keeps people in one area or attracts them to another.

The more recognised role of local government engaging in place-making is through their services and activity in community and development, namely recreation and sport, culture, community development, as well as (but generally less perceived) economic development and cluster or industrial support. There is limited research, however, quantitatively assessing the economic effects of local government in place-making (i.e., recreation and sport, culture, community development).

A study in Toronto (The Creative School, 2022) found that place-making initiatives resulted in a 63 percent increase in positive feelings towards the locations and a 53 percent increase in positive perceptions of the location.

We can also draw on several articles (i.e., grey literature) that lean on the qualitative side stating that place-making can improve property values, attract talent, encourage private investment, and boost business activity (White, 2020; Wheeler, 2023; Courage et al, 2021; Michigan State University, 2016).

6.1.2 Road transport

Local government's role in developing, maintaining, and operating New Zealand's local road transport network creates a wide array of economic benefits, both directly and indirectly.

There is a rich body of domestic and international literature and research available that is relevant to the benefits from road transport expenditure. This includes established frameworks for understanding how and to what extent expenditure or investment in road network infrastructure results in a range of impacts, from changes in transport costs to wider economic benefits. There are also broader studies reviewing transport projects post implementation. Wignall (2017) re-analysed 24 individual transport project economic appraisals, comparing ex-ante costs estimates and benefit with actual-post outcomes. This paper found that travel time savings represented 80 percent of the benefit proportions, while benefits such as vehicle operating cost savings, emissions reduction, safety improvements, and health benefits from walking and cycling represented 18 percent.

Domestically, the benefits and costs associated with types and levels of road transport expenditure is structurally laid out by the New Zealand Transport Agency (NZTA). NZTA outlines a Land Transport Benefits Framework that outlines five benefit clusters used for benefit management processes (NZTA, 2023). Of relevance are the changes in transport costs and the wider economic impact clusters.

Changes in transport costs and system reliability

Road network expenditure impacts the network itself through changes in transport costs resulting from increased system reliability and overall productivity and utilisation. Chow, M., & Chen, T (2017) explain that road deterioration reduces the road network's ability to serve its function and creates safety risks for users and pedestrians. Therefore, maintenance and renewal work - a core function of local government in New Zealand - contribute to improving accessibility and safety for road users and the general mobility of the network (NZTA, 2017). Maintained roads are less likely to add travel time delays or unplanned road closures. The actual "economic" benefit of these impacts includes lower fuel consumption and thus costs, less frequent car repairs, and less costs associated with accidents and injury (Transport Research Laboratory, 2012).

Wider Economic Benefits (WEBs) of road network expenditure

"Wider economic benefits (WEBs) are impacts that can result from transport investment. ... and can be thought of as impacts that are additional to the conventional benefits to transport users." (NZTA, 2025)

More traditional "economic" benefits that arise from road network expenditure and investment are mostly categorised as WEBs. It is necessary to note that generally only significant road network infrastructure projects and improvements are likely to generate WEBs, or at least measurable WEBs.



Such projects would need to be significant enough to change the distribution or density of households and firms within a major metro area, or provide tangible accessibility improvements between regions. As discussed previously, this is typically less likely in areas with a mature network. NZTA (2025) notes three specific WEBs: productivity, labour supply, and imperfect competition:

- The clustering of activities in towns and cities from well-functioning local roads results in agglomeration effects which contributes to **productivity** gains. This is understood broadly through two types of clusters: static and dynamic. Static clustering from road network investment allows users to move around one location more easily while dynamic clustering leads to land use change, for example impacting the density of a region and creating economic interactions. Gains in productivity are realised through economies of scale benefits, specialisation, and positive impacts on employment or, more broadly, from encouraging the concentration of economic activity. Agglomeration benefits of this kind will “largely only occur in major industrial and urban centres of New Zealand.”
- Investment in the transport network can enhance the efficient functioning of the **labour** market on the **supply** side by improving accessibility to jobs.⁴ This includes improving individuals’ ability to get to work, and may also encourage individuals into the labour market –through the reduction in transport costs associated with time and money (e.g., commuting costs or fuel required).
- Lower transport-related costs as a result of maintaining and operating local road networks in **imperfectly competitive** markets can lead to higher output and lower prices, creating additional economic output (or GDP). Whether this increased output is allocated to domestic or international markets will also have an effect on exports.

6.1.3 Public transport

The main function of local government, as it relates to public transport, involves the development of regional public transport plans, and intersects with the delivery of their core functions tied to the road network. This often includes some form of management of public transport services and infrastructure. A consideration for understanding the broader benefits of public transport is the important dynamics of public and private partnership in the delivery of public transport services. As

⁴ Demand side effects can also arise from transport service and infrastructure investment. However, in “well-functioning labour market economies” it is likely that the labour market adjusts to a ‘natural rate’ of unemployment nationally.

is the case in New Zealand, private operators often deliver the service in contract with local government.

While presented separately, there are multiple overlaps in the broader economic impacts of local government's role in the local road network and in delivering public transport services and infrastructure. In particular, economic benefits that can be attributed to local government, as it relates to their role with local public transport, are pinned to productivity improvements.

Agglomeration effects in practice for public transport

Hazledine et al, (2013) researched the contribution of public transport to economic productivity in New Zealand, specifically productivity as it relates to the patronage of publicly funded public transport services in an urban economy. Their report found that agglomeration effects occur from public transport investment in the same conceptual understanding as those effects from road network investment.

Reducing congestion

Another avenue that economic benefits accrue from local government's delivery of public transport is through the potential relief provided by reduced congestion and its associated costs – the primary effect on economic productivity from public transport (Hazledine et al, 2013). Public transport services can reduce congestion through increased patronage, leading to broader benefits for commercial trucking and allowing for greater labour mobility (APTA, 2020). The latter could be understood by the concept of static clustering noted by NZTA (2025).

6.1.4 Water

The management and provision of water resources and services (e.g., treatment and distribution) is a core function of local government in New Zealand. Across New Zealand, around 759,000 people are supplied water that is not safe to drink that can lead to long-term health issues (Productivity Commission, 2020). Globally, it has been previously estimated that ten percent of the burden of disease could be prevented with improvements to water, sanitation and hygiene, and better water resource management worldwide (OECD, 2011). Particularly in developing countries, such investment can generate BCRs of seven to one.

This section focuses on the wider economic benefits associated with the management and provision of water resources and services. This includes literature discussing the potential benefits from investment in water resources and infrastructure, often also grouping both water and waste

management together. Literature on this topic is relatively scarce in comparison to the benefits associated with road network investment.

Literature on the broader benefits from carrying out such a role largely focuses on avoided health costs. That is, “economic benefits” are largely a product of improved health outcomes for local communities, as this is the primary outcome of safe water delivery. This benefit is often measured in productivity gains, such as improved productivity in the labour force.

There is evidence pointing to the importance of water infrastructure for water dependent commercial industries, where measurable links are made between the delivery of water services and economic activity (i.e., GDP), as a key driver for economic growth (OECD, 2011). Investment in water infrastructure can minimise water losses from the infrastructure allowing for gains in efficiency to free up resources for other uses.

Residential water supply

Residential water supply that is managed and maintained by local government across New Zealand includes drinking water provision, as well as use of water for showers, dishwashers, and washing machines, etc. Domestic use (residential water) is estimated to represent 63 percent of all water demand in New Zealand (Hughes, J., & Van Raalte, L, 2016).

At a broader level, looking at the water and sanitation value chain, the OECD (2011) identified several relevant economic benefits from providing access to safe water and sanitation:

- Time saved for productive activities
- Increase in productivity
- Impact on tourism from improved amenity.

Time-saving benefits from water investment are rarely factored into evaluations despite being estimated as a substantial factor in the overall benefit assessment completed by Prüss-Üstün (2008) as cited in OECD (2011). This was estimated at 20 billion working days a year globally with a monetised value of US\$63 billion a year in 2004. This is a product of time saved from not collecting water from a distance away. Hutton and Haller (2004), as cited in OECD (2011), estimate that households gaining access to improved water supply could save on average, 30 minutes a day. Such features are generally not perceived as benefits.

Commercial water supply

There are clear economic benefits derived from providing reliable and safe water to industries where production requires water as an input – water-dependent industries. These industries include manufacturing, education, retail, and accommodation.

‘Without water, production in many industries virtually grinds to a halt.’ (VOW, 2023)

A well-managed and maintained water infrastructure system provides stability for water-dependent industries and limits the number of disruptions to water supply, including the associated costs of such disruptions. For these industries any level of disruption can significantly affect production and ultimately impact GDP (VOW, 2023).

The accumulation of multiple, even short-term, disruptions creates economic costs. The severity of this impact varies by industry. Sjöstrand et al (2021) found that a two-hour disruption could result in a seven percent reduction in value added GDP (in the information and communication sector, or a 62 percent reduction in the food, beverage, and tobacco sector). Effectively, the broader benefits of commercial water supply are best understood as cost avoidance.

Water-dependent industries, and the broader water sector, also account for a notable amount of employment that would be at risk. In 2020, an estimated total of 13,250 FTEs were in the water delivery sector in New Zealand (Deloitte, 2021). Other studies estimate that around 42 percent of the world’s workforce is working in heavily water-dependent sectors (Sjöstrand et al, 2021).

6.1.5 Waste

Local government delivers waste management in New Zealand, specifically solid waste and refuse.

There is an overlap in the available literature on the wider economic benefits from such waste management and the management of water services, specifically as it relates to improved health outcomes and the avoided costs. This is often captured in productivity gains by enabling greater health of the workforce (i.e., less sick days).

Similarly, there are benefits largely by way of cost avoidance for businesses in water-dependent industries. For example, water quality degradation increases the cost of water treatment systems. Investment in waste infrastructure and management can improve water quality and ultimately lower required pre-treatment costs downstream for businesses that use water as an input (OECD, 2011). Effective levels of waste management will also have an impact on tourism, enhancing the level of appeal and ultimately the export earnings associated with tourism (OECD, 2011).

The wider waste, resource recovery, and contaminated land management sectors contribute over \$3.3 billion to the New Zealand economy, which local government is inextricably involved in (NZIER, 2025).

6.1.6 Natural hazards - Flood protection

Flooding is the most frequent natural hazard in New Zealand that results in economic, environmental, and social costs (OAG, 2018).

The economic benefit from investment in flood protection is understood as “cost avoidance” from the reduced risk enabled by improved protection. Through infrastructure development and land-use planning, local government’s broad investment in flood protection provides higher levels of safety for households, businesses, and industries. This includes physical works such as stop banks and maintaining and clearing channels, as well as stormwater system infrastructure (OAG, 2018).

NZIER (2024) provides a credible and extensive evidence base for relaying different types of economic benefits that can be, whether implicitly or explicitly, connected to local government’s role in flood protection. This research include an expansive literature review and an assessment of 80 flood risk reduction projects in 2023.

In the context of cost avoidance (i.e., the economic benefit of flood protection), NZIER (2024) structures their analysis by direct and indirect impacts.

- Direct impacts primarily include damage to properties, along with emergency and rescue operation costs, and loss of stock or other outputs.
- Indirect impacts are broader and include economic disruption that detracts from GDP, including disruption to school, work, and business (Handmer et al (1986) as cited in NZIER (2024)), and additional costs incurred by reduced infrastructure capacity (i.e., greater strain/demand on undamaged infrastructure).

Specifically, business closure as a result of flood damage can be costly, both in terms of production and exports. This can impact the productivity of workers employed in areas impacted by flood damage. Such impacts, and the scale of the costs associated with them, are what is understood as the “economic” benefit of flood protection infrastructure, specifically indirect impacts. Just over half (55 percent) of tangible benefits are attributable to the avoidance of the indirect costs of disruption of activity.

From their review, NZIER (2024) found that “the split of benefits between direct and indirect cost avoidance is similar to that between local and national government funding input.” The evidence indicates that completed flood protection projects have an average BCR between two and four.

Overall, the assessed 2023 programme had a funding split of 60/40 between central and local funding, respectively. If we take the midpoint BCR range provided (i.e., 2.6), we could surmise that local government is attributable for 40 percent of the total \$856 million impact (~\$343 million).

Investment in flood protection infrastructure can increase the nearby land value and enhance investor confidence in the area (NZIER, 2024, Doeffinger and Rubinyi, 2023). While receiving less analysis than flood protection infrastructure, stormwater services also serve as a key system for managing and reducing both flooding and erosion.

Local government is responsible for managing the stormwater system in New Zealand which acts to divert rainwater to protect communities and households. Sharing similar benefits (from cost avoidance) as flood protection infrastructure, investment in stormwater systems provide greater safety for properties, including housing and businesses (OAG, 2018).

7 Opportunities for local government to contribute to economic growth

This section, building on our estimate of the economic impact of local government, identifies key opportunities to optimise local government's role and remit to grow the local and national economy.

7.1 Projected local government capital expenditure

The OAG forecasts that councils will spend \$77.2 billion on capital expenditure programmes for the duration of their long-term plans, significantly higher than what councils have forecast in the past. Notably, a number of councils discussed the implications of historical underinvestment in water infrastructure. (OAG, 2022).

Figure 27: Local government CAPEX forecast by activity (long-term plans)

Forecast capital expenditure in the 2021-31 long-term plans, compared to 2018-28 long-term plans

Capital expenditure	2018-28 long-term plan (billions)	2021-31 long-term plan (billions)	% increase
Meet additional demand	\$12.4	\$18.2	47%
Improve level of service	\$18.6	\$26.5	42%
Renew existing assets	\$23.5	\$32.5	36%
Total	\$54.5	\$77.2	42%

Source: OAG (2022)

At the same time, the Infrastructure Commission concluded in its National Infrastructure Plan (2025b):

We spend more than most on infrastructure. Over the last 20 years, New Zealand spent an average of 5.8% of gross domestic product (GDP) on all types of infrastructure, putting us in the top 10% of OECD countries for infrastructure investment over the last decade. [...]

We don't get enough for our infrastructure dollar. The quality of our infrastructure lags, relative to what we spend on it. High-level comparisons suggest that New Zealand is in the bottom 10% of OECD countries when it comes to the 'bang for buck' we get from our infrastructure spending.

Our overall recommendation is to leverage this strategic opportunity and maximise the economic impact of projected capital expenditure through a set of three virtuous cycle elements.



7.2 Opportunities to contribute to economic growth

Our strategic recommendation is to mutually reinforce 1) planning and coordination of growth to 2) maximise return on capital investment, while 3) better managing the political economy and local political efficiency for infrastructure investment funding and delivery.

Figure 28: Local government opportunity for supporting economic growth



Source: BERL

To give effect on this overall strategic opportunity and recommendation, we advise the following:

- **Central and local government measures** – Better alignment, planning, and coordination between central and local government would improve the consistency, predictability, and delivery of infrastructure with more efficiency and overall returns to the economy
- **Local government measures** – There are opportunities for local government itself to more effectively and efficiently support growth in their local districts. Bom and Ligthart (2014) find that economic returns from local infrastructure are higher than from central government, and can be nearly double at the local and regional level. Recommendations include more efficient investment delivery, maximising private investment returns by matching asset and population growth, and more systematically assessing the costs and benefits of investments.

The economic opportunities for local government may be sizeable. Stronger governance in advanced economies results in positive public investment shocks generating better macroeconomic outcomes.

Research shows that in countries with stronger governance, a positive investment shock of one percentage point of GDP increases output by about 0.8 percent in the same year, and by 3.2 percent in the medium term. This is about four times the short-run impact ratio, and ten times the long-run impact ratio used for this analysis (Miyamoto et. al, 2020).

7.3 Plan, strategise, and coordinate investment for growth

7.3.1 Central and local government coordination

Overcoming coordination challenges is key to better infrastructure policy, and strategic planning is necessary for infrastructure programmes to be delivered successfully (Sense Partners, 2021).

We support the National Infrastructure Plan approach, as a way to 'clear the hurdles' for infrastructure, and provide a 'fundable and coordinated view of our infrastructure spend' (NZIC, 2025b).

Central government needs to lift its game, but [local government] need to be on the field as well. Consensus is needed. Investment decisions [need to be more] durable and executed with greater stability. The overall approach we're taking to infrastructure investment should be well-understood and broadly agreed (NZIC, 2025b).

[We need] persistent effort to improve the operating environment for infrastructure and build up the capacity and capability of our infrastructure workforce to build and maintain the infrastructure we need (NZIC, 2025b).

7.3.2 Planning and strategising investment

Councils often find they need to constantly review and revise their infrastructure demand and investment forecasts, either because demand disappointed or higher-than-forecast growth has occurred as a result of changing demographics, environmental, or land use drivers (OAG, 2022).

Forecasting demand and the financing, coordination, and delivery of infrastructure projects is a persistent challenge, not only because of forecast inaccuracies but also because population, technological or climate change causes the economy to evolve unpredictably (Sense Partners, 2021).

Infrastructure strategies

We support the OAG (2022) recommendation that councils need to include better disclosures about how they plan to fund infrastructure in their infrastructure strategies:



We consider that infrastructure strategies should:

- Tell the story about where the councils are, where they expect to be, and how they intend to get there
- Include relevant assumptions and disclosures of funding, data, risks, and delivery
- Create the right debate and be credible by connecting with financial strategies, demographic change, and other relevant influences. This includes being clear about the effect of change on infrastructure needs (OAG, 2022).

7.3.3 Expand local government funding and financing

Local government currently operates in a funding system and financing environment that causes local authorities to be financially constrained. We recommend that local councils, through new and expanded funding and financing tools, be able to earn back the growth that they create through investment, particularly in network infrastructure (Infrastructure New Zealand, 2023). City and regionals deals provide the institutional framework and mechanism, to negotiate and agree with central government the expansion of funding and financing tool with local authorities.

Councils should benefit from the growth they're creating, and their communities are paying for. The introduction of new funding and financing tools alongside the improved use of existing ones is required. Earn back mechanisms, user pays charges and GST sharing on housing developments should be considered within the deals (Infrastructure New Zealand, 2023).

7.4 Maximise return from investment

7.4.1 Increase public investment efficiency

We support the Infrastructure Commission recommendation that the structure of local government should ensure that it provides infrastructure in an efficient and well-coordinated way, especially in growing urban areas that are spilling across existing council boundaries (NZIC, 2022).

Research suggests that public capital investment with a high degree of efficiency, where additional public investment spending is not wasted and is allocated to projects, deliver higher economic rates of return for the locality (Abdul, Furceri and Topalova, 2016).

There are many considerations in reviewing the structure of local government, yet the high-level balance is between the size of local councils and economies of scale, and the efficiency achieved

through localism, and the ‘closeness’ of council decision-making to the district and the beneficiaries of council decisions (NZIC, 2022).

‘Regionalists’ typically argue that consolidating local governments can reduce the cost to provide infrastructure and services through economies of scale and improved management of cross-border spillovers.

‘Localists’ argue that local government fragmentation improves the diversity of service provision to meet local preferences and drives cost efficiency because smaller local governments must compete with their neighbours for residents (NZIC, 2022).

Importantly, local government in New Zealand is already centralised and consolidated compared to other developed nations. Furthermore, research indicates that local government size in New Zealand has no impact on cost efficiency for three important council services (road maintenance, building consent processing, and governance and support services) (NZIC, 2022).

We agree with the recommendation that supporting measures are needed to ensure local government and public investment efficiency, particularly in planning and coordinating investment for growth, as mentioned above.

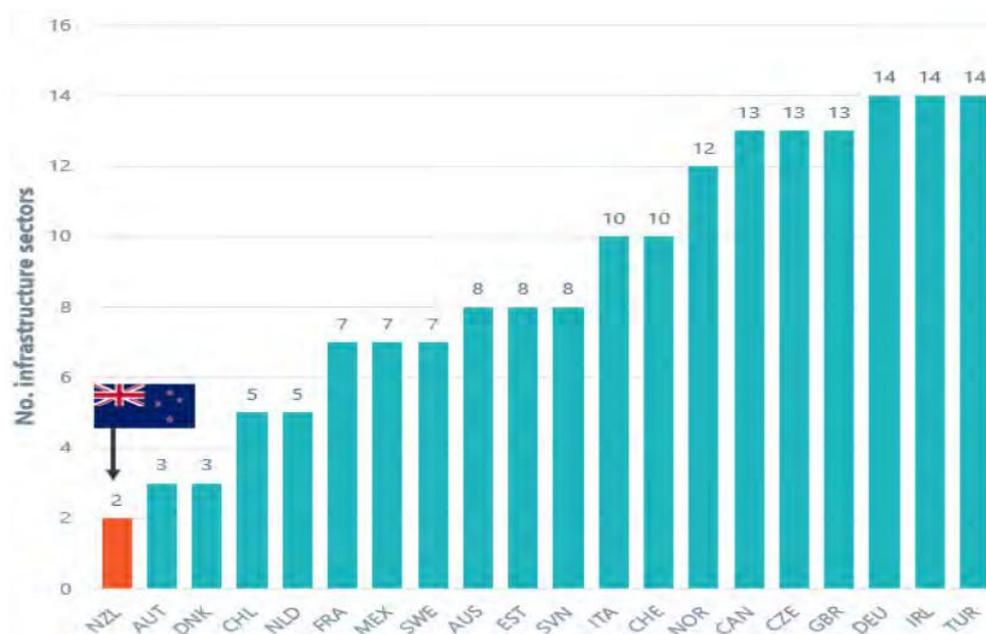
7.4.2 Evaluate investments more systematically

Project quality is a key determinant of the economic return from infrastructure investment. Projects that are cost-effective to build and which serve more users or beneficiaries will yield higher returns. This pattern is consistent across different types of projects with different funding tools (NZIC, 2025).

New Zealand lags behind other developed nations in evaluating infrastructure projects and has a comparatively poor record in investigating the economic case for infrastructure investments.

According to the OECD, New Zealand is ranked last in its use of cost-benefit analysis for investment decisions (NZIC, 2025).

Figure 29: Sectors where cost-benefit analysis is usually performed, OECD countries



Source: NZIC (2025)

Cost-benefit analysis can help to identify projects that are likely to have higher returns (higher benefit-cost ratios tend to also have higher financial returns). Financial returns are higher when resulting more new private investment (NZIC, 2025).

We support the NZIC recommendation that local and central government agencies undertake, and publicly release, social cost-benefit analyses of all public infrastructure investment proposals where the whole-of-life costs of the proposals exceed \$150 million (NZIC, 2022).

7.5 Maintain political efficiency and manage the political economy of funding and delivering infrastructure

7.5.1 Match asset growth with population growth

The political economy of infrastructure investment for councils is challenging.

Beyond the economic returns of local infrastructure, our recommendation is to manage the political economy of infrastructure provision and maintain local political efficiency by making ‘growth pay for growth’ financially for local councils.

Growth is best made to pay for growth when population and infrastructure stock are increasing at similar rates (NZIC, 2025).

[The recommended] approach is to invest incrementally, expanding networks gradually over time in response to proven demand. Councils that were able to grow their networks proportionately to population growth were much more likely to come out financially ahead after 25 years. An incremental approach also enables public infrastructure providers to build a revenue base to deliver projects that don't come with revenue streams (NZIC, 2025).

7.5.2 Engagement, consultation, and oversight

Our final recommendation is that engagement, consultation, and oversight processes are key to maintaining political efficiency in funding and delivering infrastructure.

As the Infrastructure Commission recommends:

Consumer interests must be protected. Sound oversight mechanisms are crucial for maintaining public confidence in infrastructure providers. Maintaining consensus on investment means being transparent about investment and asset performance and accountable for good performance. (NZIC, 2025b).

For instance, the OAG (2022) found that about 20 percent of councils' infrastructure strategies had few or no disclosures that explain how councils plan to fund infrastructure, making it difficult for communities to effectively engage with the strategy.

Appendix A Regulation and institutional functions

Local government's regulatory functions and institutional role provide a level of coordination and integration for the development of local economies, despite the political incentives placed on local councils that may limit or constrain growth. We do not assess the net benefit of those functions (developing a robust counterfactual alone would be highly challenging).

The contribution of local government's regulatory functions to economic growth are debated, particularly its zoning and land use regulatory powers. The role of land-use regulation in housing supply and shortage, along with planning and consenting timeframes for residential, commercial, or industrial developments, are often mentioned as constraints on local and national economic growth.

We do not assess the economic contribution of local government's regulatory functions. Aside from its land use powers, local government has a variety of regulatory functions that provide benefits to their localities. Primarily our study is focused on the impact of local government on growing their district and its contribution to economic growth at the local and national level.

To an extent, local council's regulatory functions vis-à-vis allowing districts and their economies to grow, is what you 'make of them'. Councils, following consultation with their communities, ultimately agree a land-use policy for their district.

Stepping back, however, local government's institutional role and regulatory powers in their localities provides integration for the 'moving parts' (i.e., the alignment of spatial planning and zoning with infrastructure funding and delivery, as well as with council financial position and strategies) in developing their local economies.

In other words, the economic returns of network infrastructure are maximised not only through the efficient delivery of public investment, but also by integrating network infrastructure and community and development to leverage infrastructure provision and maximise private investment and the financial return for communities, businesses, and local councils.

Appendix B Productivity benefits, detailed estimation methodology

Table 6: Short-run GDP impact methodology, 2024

	Elasticity	Adjustment	Adjustment Ratio	Adjusted Elasticity	GDP 2024 Impact (\$m)	% of GDP
Bom and Ligthart (2014)	0.15%	LG infrastructure stock as % of total infrastructure stock	33%	0.05%	\$546	0.13%
Juan A. Núñez-Serrano (2016)	0.13%	LG non-market capital % of public capital	23%	0.03%	\$329	0.08%
Ligthart and Suárez (2010)	0.14%	LG non-market capital % of public capital	23%	0.03%	\$354	0.09%

Source: BERL analysis

Table 7: Long-run GDP impact methodology, 2024

	Elasticity	Adjustment	Adjustment Ratio	Adjusted Elasticity	GDP 2024 Impact (\$m)	% of GDP
Bom and Ligthart (2014)	0.19%	LG infrastructure stock as % of total infrastructure stock	33%	0.06%	\$685	0.16%
Juan A. Núñez-Serrano (2016)	0.16%	LG non-market capital % of public capital	23%	0.04%	\$405	0.10%

Source: BERL Analysis

Both short-run and long-run impact estimates are based on

- Nominal production GDP for March year 2024 (\$415 billion).
- Local government network infrastructure nominal net capital stock percentage share of total local government nominal net capital stock, since 2014 (75 percent).

Appendix C Broader impact assessment of network infrastructure

Road transport and public transport

Activity	Contribution (i.e., benefits)	Specific impact(s)	Literature and data
Roothing	Changes in transport costs	Impact on system reliability (i.e., safety, accessibility, and mobility)	Land Transport Benefits Framework (NZTA, 2024).
		Impact on network productivity and utilisation	Monetised Benefits and Costs Manual (NZTA, 2024)
		Impact on vehicle operating costs	Benefits and costs of different road expenditure activities (NZTA, 2017). Scotland Case Study (Johnson, 2015).
		Reduction of accident costs (e.g., reduction in loss of life, health care costs, and vehicle repair costs)	Benefits of Investing in NZ's Road Infrastructure (Infometrics, 2004). Benefits and costs of different road expenditure activities (NZTA, 2017).
Roothing, Transport ation	Improved business efficiency	Agglomeration or specialisation of economic activity arising from improved transport that can encourage economies of scale	Contribution of transport to economic development (MoT, 2016). Monetised Benefits and Costs Manual (NZTA, 2024).
		Mitigating existing market failures by improving accessibility and therefore competition between markets	Monetised Benefits and Costs Manual (NZTA, 2024)
		Increased output in imperfectly competitive markets by diminishing persistent externalities	

Activity	Contribution (i.e., benefits)	Specific impact(s)	Literature and data
		Technology and knowledge transfer by connecting people and places, and increasing the interaction between economic actors.	
		Increased activity through changes in development patterns and activities that are enabled through transport system changes.	
	Wider Economic Benefit (WEB)	Improving the efficient function of labour markets, increasing labour market flexibility and the accessibility of jobs.	Contribution of transport to economic development (MoT, 2016). Monetised Benefits and Costs Manual (NZTA, 2024).
		Increasing domestic and international trade by reducing the costs of trading (through falling transport costs)	The Geography of Transport Systems (Rodrueg, 2024).
Roading		Increased land values	Benefits of Investing in NZ's Road Infrastructure (Infometrics, 2004).
Roading, Transportation		Increased international visitor activity	Land Transport Benefits Framework (NZTA, 2024). Monetised Benefits and Costs Manual (NZTA, 2024)
Roading		Impact on transport resilience	Monetised Benefits and Costs Manual (NZTA, 2024).
Transportation		Time-savings	Impact on congestion costs
		Travel-time savings (i.e., reduced traffic, reduced time driving and parking for new passengers)	Economic Impact of Public Transit Investment (APTA, 2020)

Activity	Contribution (i.e., benefits)	Specific impact(s)	Literature and data
	Cost-savings	Travel and vehicle ownership cost savings	
	Safety improvements	Impact on injury reduction from mode transfer	
		Reduced costs of traffic enforcement and emergency services	
Footpaths		Impact on pedestrians (e.g., health, safety, security, visual amenity, community accessibility).	

Source: BERL

Water

Function/Role	Contribution (i.e., benefits)	Specific impact(s)	Literature and data
Residential water supply	Expenditure on water infrastructure and maintenance (e.g., reservoirs, pipes, mechanical and electrical equipment, and buildings).	Impact on safety of supply of drinking water to households (reduced health risks)	Benefits of Investing in Water and Sanitation (OECD, 2011)
		Benefits to environment (certain sectors and standard of living)	Benefits of Investing in Water and Sanitation (OECD, 2011)
		Reduced time requirements for water collection	
		Impact on reliability of drinking water to households	
		Accessibility to drinking water supply	
		Impact of preventing contamination of water supply	
		Time-saved from not requiring to collect water from elsewhere	
		Impact on land value	
		Impact on water supply for fire fighting	
		Reduced vulnerability to water shortages	
		Increased education	Economic Impact of Investing in Water Infrastructure (VOW, 2016).
	Aesthetics	Improved tourism due to clean water sources	
Commercial water supply	Supporting business activity	Impact on business operations and sales	Economic Impact of Investing in Water Infrastructure (VOW, 2016).

Function/Role	Contribution (i.e., benefits)	Specific impact(s)	Literature and data
		Improved tourist attraction	The Value of Water - Estimating Water-Disruption Impacts on Businesses (2021)
		Increased business productivity	Economic Impact of Investing in Water Infrastructure (VOW, 2016).
		Reduced investment uncertainty	Economic Impact of Investing in Water Infrastructure (VOW, 2016).
Waste water collection, treatment, and disposal	Collection and treatment	Improved quality of water for water-dependent industries (i.e., fishing, agriculture, and tourism) and households	Benefits of Investing in Water and Sanitation (OECD, 2011)
		Reduced downstream costs for society and businesses	Benefits of Investing in Water and Sanitation (OECD, 2011)
		Reduced business uncertainty (water storage)	Benefits of Investing in Water and Sanitation (OECD, 2011)
		Reduced flood risk/damage to households	Benefits of Investing in Water and Sanitation (OECD, 2011)
		Improved education	Economic Impact of Investing in Water Infrastructure (VOW, 2016).
	Ecosystem services	Maintained ecosystem services	Economic Impact of Investing in Water Infrastructure (VOW, 2016).
	Aesthetics	Increased land value	Benefits of Investing in Water and Sanitation (OECD, 2011)

Source: BERL

Waste

Activity	Contribution (i.e., benefits)	Specific impact(s)	Literature and data
Rubbish disposal and collection	Improved public health	Impact on public health cost savings from waste handling	
		Reduced risk of disease and poor hygiene	
		Reduced cost for businesses	
		Reduced health expenditure	
	Less environmental burden	Increased international visitor activity	A comprehensive study of the environmental and economic benefits of resource recovery from global waste management systems (Zaman, 2016)
		Increased international visitor activity	
		Reduced clean-up costs	
		Increased intrinsic environmental benefits	Economic factors of Waste Minimisation in New Zealand
	Aesthetics	Reduced resource usage	
		Amenities impacts	Economic factors of Waste Minimisation in New Zealand
Management of landfills	Aesthetics	Reduced housing and prices	Economic Instruments for Waste Management (COVEC, 2005)

Activity	Contribution (i.e., benefits)	Specific impact(s)	Literature and data
	Environmental impacts	Increased future burden, and reduced living conditions	Economic Instruments for Waste Management (COVEC, 2005)
Waste reuse and recycle	Resource, Energy and water recovery	Reused materials re-entering the market	A comprehensive study of the environmental and economic benefits of resource recovery from global waste management systems (Zaman, 2016)
		Reduced demand on energy grid	A comprehensive study of the environmental and economic benefits of resource recovery from global waste management systems (Zaman, 2016)
		Reduced demand on water resources	A comprehensive study of the environmental and economic benefits of resource recovery from global waste management systems (Zaman, 2016)
		Impact on domestic production	
		Impact on industry sectors involved	Economic Instruments for Waste Management (COVEC, 2005)
		Increased chances of illegal disposal (negative)	Economic Instruments for Waste Management (COVEC, 2005)
		Increased revenue for certain industries	
		Impact on cost savings for rubbish collection and disposal	
		Cost-savings from material recovery	
		Waste treatment	Water savings

Source: BERL

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