

Newsletter of the LOCAL GOVERNMENT FORUM

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Wellington

Welcome to the Forum

The Local Government Forum advocates policies that create a positive economic environment. Recognising the significant role of local government in private investment decisions, the Forum was established in 1994 to promote greater efficiency in the local government sector and to contribute to debate on policy issues affecting it.

The Forum comprises business organisations that have a vital interest in the activities of local government, and regularly produces publications addressing crucial issues relating to the performance of local government and legislative developments in that sector.

This newsletter offers commentary on a range of issues affecting local governance, and is written and produced by Forum members.

The Local Government Forum's vision for local government is outlined in the 2007 publication "Democracy and Performance, a Manifesto for Local Government". Copies can be obtained by emailing Nigel Billings nbillings@fedfarm.org.nz

Participants in the Local Government Forum are:
Federated Farmers of (NZ) Inc. (Secretariat)
NZ Business Roundtable
Business NZ
NZ Electricity Networks Association
NZ Retailers Association
NZ Chambers of Commerce

The Forum newsletter is edited by Nigel Billings and Nick Clark: contact nbillings@localgovtforum.org.nz

INQUIRY LIMITED ON TWO COUNTS

By Don Nicolson

There are some good reasons for the business community to be satisfied with the report of the Local Government Rates Inquiry.

The report makes it clear that local government needs to do much more to restrain expenditure, and points to several significant problems related to the financial decision-making of councils.

Long held concerns about the meaninglessness of local consultative processes are raised with recommendations for more selective and streamlined consultation arrangements and the itemisation of rate demands.

There is also cause for cautious optimism with the emphasis placed on targeted rating, a discipline that in the Panel's vision would replace the often obscure and highly politicised use of rating differentials.

Overall, however, one is left with a feeling of discomfort that the Inquiry Panel's re-working of the basic funding model, while intelligent, is an attempt to defer the community's antagonism with local government but not resolve it - a good but hasty tune up of a rather badly designed engine.

Two major factors appear to have limited the ability of the Inquiry to present bold solutions, the first being the exclusion of local government's role and the scope of its activities from the terms of reference.

A number of submissions to the Inquiry, including that of this Forum, questioned the merit of this, arguing that it is pointless to discuss the funding of local government without first considering what its activities should be.

This is not a new problem in local government policy making. The Local Government Act 2002, for example, was considered entirely separately from the Local Government (Rating) Act of the same year, exacerbating the discord between the expansionary mandate of councils and the narrow and obscure property value rating system funding it.

There is no doubt that the two must be taken together, a fact the business community has repeatedly emphasised. The deeply held cynicism that any new funding arrangements delivered to local government will augment rather than supplant rates - and be quickly used to their limits - will not go away until local government's role is clearly defined by its Parliamentary creator.

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INQUIRY LIMITED ON TWO COUNTS *Continued*

The second limitation on the Inquiry relates to its own adoption of the mantra that local government's autonomy in financial decision-making equates to good public policy.

The record shows that while local democratic processes continue to be an inadequate check on unnecessary spending, such autonomy will not serve ratepayers well.

The surfeit of recommendations to enhance the accountability and monitoring of local government will surely fail, as all others have, to restrain the juggernaut.

The insistence on autonomy restricted the range of options for either replacing the rating system entirely or more closely prescribing its use. As

such the real solutions – which lie in prescribing local authority functions and applying the appropriate funding tool to each – were beyond the grasp of this Inquiry.

INEQUITY AN EXPENDITURE DRIVER

The role and therefore expenditure of local authorities is directly related to the transparency and equity of their funding tools. An example of how the two relate was recently published in *The Bay of Plenty Times*. In the course of intense debate over a multi-million dollar waterfront museum proposal the most quoted statistic has been a survey showing that half the residents supported the proposal. A later cross-tabulation of the survey showed, however, that support among residents that actually paid rates dropped to 18%.

The report of the Rates Inquiry Panel has gone much further than recent attempts to review local government's financial performance. It has shown a commitment to independence that surpassed expectations. While we await government's response the first conclusion has to be that there are a few more sacred cows to cull before we get to an efficient, transparent and equitable model for local government.

Don Nicolson is Chairman of the Local Government Forum

COMMISSION TO REVIEW KEY LEGISLATION

The Local Government Act 2002 includes provision for its operation to be reviewed after 5 years. The intention of this review clause was to assuage concerns at the consequences of the new general empowering provisions of the LGA for ratepayers. The effectiveness of the Local Electoral Act also falls within the ambit of the review.

Businesses are concerned that the 2002 legislation has encouraged many local authorities into a wider range of 'non-core' activities, most especially in the case of regional councils.

The consultative requirements designed to protect the community from rampant local authority expenditure are proving expensive and essentially meaningless.

The Local Electoral Act also appears to be failing to improve participation in local authority elections.

Taken with the evident growth in local government expenditure and revenue there is clearly a risk to the ratepayer of expanding and overlapping local government unchecked by meaningful democratic constraints.

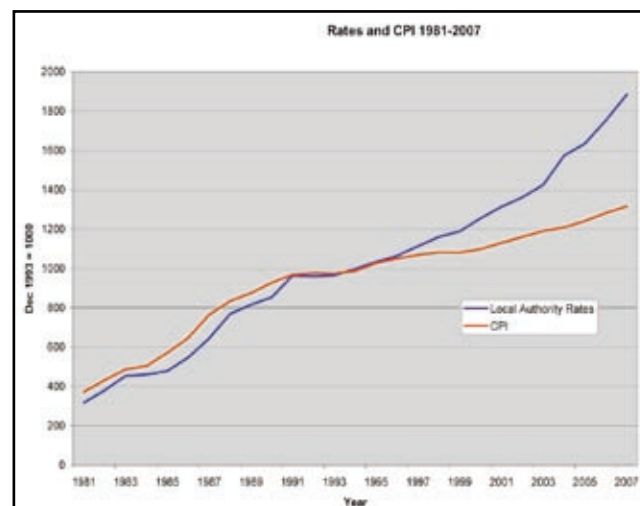
The Local Government Commission recently announced the commencement of the 5 year review and invited submissions from interested parties by 30 September. The Forum hopes that the LGC will rigorously explore these concerns.

RATES RAMPING UP*

Over the past decade the rates demanded of households and businesses have increased at almost three times the rate of other consumer prices.

Since June 1997 the rates component of the consumer price index has increased by 69% compared to a 23% increase in the CPI as a whole.

The Rates Inquiry was established to investigate this phenomenon and confirms that it is unsustainable. Will government now have the courage to act?



**Graph based on information supplied by the Department of Statistics*

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AUCKLAND GOVERNANCE REVIEW

By Roger Kerr

The government has announced the establishment of a Royal Commission on local government in Auckland.

The starting assumption for the Royal Commission should not be that Auckland would be better off with one big council.

The Local Government Forum's report Democracy and Performance: A Manifesto for Local Government argued that the role and functions of local government should be determined before issues of structure are considered. It favoured restricting councils to specified core public good activities unless ratepayers agreed otherwise in a referendum.

The next issue should be which activities would be best undertaken on a regional basis and which are genuinely local.

In Auckland, roading, water, and public transport are regional activities. In each case, better governance arrangements are needed. Political decision-making is slow and inefficient.

For roading, a more commercial approach involving one or two publicly owned entities to operate roads in Auckland (or maybe the North Island) should be adopted, along the lines of earlier road reform proposals.

A similar approach should be applied to water. An issue would be whether wholesale supply

and distribution should be integrated with the retail level or kept separate.

A regional entity such as the ARC should fund any subsidies for public transport, but services can largely be supplied by private operators.

Democracy and Performance discusses options for funding amenities such as the Auckland City Gallery and the Auckland Zoo.

For genuinely local activities, the principle of subsidiarity – that activities should be undertaken at the lowest feasible level of government – should apply in the interests of constraining bureaucracy.

Following an analysis and allocation of functions and the establishment of commercial entities, the issue of the number and boundaries of councils could be addressed.

The major gains, however, are likely to come from more commercial investment, pricing and operating decision-making in the 'big ticket' infrastructure activities.

Roger Kerr is the executive director of the New Zealand Business Roundtable.

RATES REPORT CARD RESULTS

By Nick Clark

Taranaki Regional Council has emerged as 'top council' according to the results of a Federated Farmer's rates report card.

The Report Card, which received 1,800 responses from around the country, asked people to rate their local and/or regional council according to criteria around listening and taking notice of people's views, satisfaction with council services, value for money, and transparency and affordability of rates.

Taranaki Regional Council rated consistently highly across all criteria and as a result it was the clear winner of a 'top council' award with an overall grade of A-. Importantly for a regional council it rated notably well for its implementation of the RMA, something we think other regional councils could learn from.

Taranaki's good result compares with a national average grade of 'C', a narrow pass but clearly plenty of room for improvement.

Overall, respondents were most likely to rate their councils

favourably for approachability and on understanding of where rates are spent, while they were most critical about a perceived lack of value for money.

In relation to this considerable concern was expressed about the affordability of rates after several years of large rates increases and a lack of prudence in council spending. Many respondents complained that their councils are engaging in non-core activities that have little benefit to rural people who pay a disproportionate amount of rates.

The Federation will be using the results of the Report Card both locally to get lower rates and nationally to get wider reform of local government funding.

Nick Clark is Federated Farmers' economist

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NEED FOR REALISM ON WASTE

By John Pask

Greater amounts of household and business waste are the natural outcome of economic and population growth.

Yet a bill currently before Parliament proposes measures to reduce waste that would be counter-productive to business and the community.

Although objectives of the Waste Minimisation (Solids) Bill are laudable, its concentration on reductions in waste disposal with no consideration for economic costs, suggests the bill is being driven to a greater extent by strong political considerations rather than sound economic sense.

It seeks to impose an additional waste disposal levy on business alongside requirements for extended producer responsibility and mandatory waste minimisation plans for business.

Just as the average Kiwi household would struggle to produce no waste, the real impracticalities these interventions pose for businesses of any size need to be acknowledged.

These include the hidden costs of energy use, money, people's time and the benefits derived from the quality of the natural environment.

With a lack of information on the true cost of waste management in New Zealand, Business NZ commissioned the NZIER report: 'Waste or rationality: Economic perspective on waste management and policies in New Zealand,' earlier this year.

Its findings challenge the notion that a concentration on minimal waste disposal, with no consideration for economic costs, is the best outcome for the community.

Business NZ supports efforts to reduce waste, but only to the extent these are practical and cost effective for the country to achieve.

Beyond a certain point, all efforts in reduction and recycling become increasingly more expensive, and the potential returns diminish.

And every dollar spent on reducing waste forgoes investment in other business opportunities or, in the government's case, spending in areas such as health, education of the environment.

While it is good to minimise waste, at some point it will require communities to compromise on other things they want. These costs must be carefully weighed and balanced.

Rigorous cost-benefit analysis – reflecting all the economic, environmental and social consequences of waste management activity – is needed to direct policy towards this optimal mix of disposal and recovery and to ensure efforts to deal with waste don't cost the community more than the benefits they deliver.

Goals to preserve New Zealand's clean, green reputation here and overseas are worthy of pursuit, but they should not drive us down a track that's irrational for businesses and communities.

***The Waste Minimisation (Solids) Bill is currently before Select Committee, which is due to report back on the bill in October.

John Pask is Business NZ's economist

ASKING THE HARD QUESTIONS

The Local Government Forum believes that the calibre and commitment of councillors requires more attention if local government is to ultimately provide value for money.


Members of the Forum have thrown their own challenges at candidates. The NZ Chambers of Commerce nationally circulated a questionnaire pinning down candidates views on issues ranging from debt management to their vision for their city or district.

Federated Farmers produced a card featuring six pledges for candidates.

I pledge that if elected as a councillor
I _____ will:

- ☐ view ratepayers as the council's most important customer
- ☐ push for rate payers to receive itemised rates assessments
- ☐ keep council focused on its core activities
- ☐ ensure full use of uniform annual charges and targeted rates
- ☐ use my position to lobby for a fairer rating system
- ☐ vote against any rate increase greater than the Consumers Price Index

Signed: _____ Date: _____

**FEDERATED
FARMERS
OF NEW ZEALAND**

DIFFERENTIALS HISTORY?

By Jeremy Harding

One of the more significant recommendations coming from the rates inquiry report was that rating differentials be abolished.

This is good news for business ratepayers in many local authorities who, because of the way the differential is applied, are charged significantly more per dollar of rateable property value than their residential counterparts.

Not so for the farming sector where rating differentials are applied to farm land to partially mitigate the effect relatively high property values have on farmers' rates bills. For farmers differentials are seen as restoring some equity between them and town businesses.

So why the large difference in opinion between the farming and business sectors?

What it boils down to is the inappropriateness of rates as a measure of consumption of local authority services and benefits where these are private goods.

Both sectors agree that rates need to better match the use of local body services, with user charges being applied where possible. Councils should also be required to substantiate the benefits before applying any rating differentials.

Unfortunately this has not been the experience as both farmers and business people are seen as a "soft

touch" by many councils who are more inclined to pander to the more numerous residential rate-payers.

Earlier this year, for example, Wellington City Council reneged on a commitment and stalled the agreed phase-down of the differential that exists between business and residential rate-payers. Councillors were quite open that the fact that it was an election year had something to do with the decision.

As is well known, the rates inquiry report acknowledged the weaknesses associated with rates but did not see fit to recommend any major new tax to replace rates.

However it did find that local authorities could spread the rates burden more fairly if they made better use of existing funding tools, such as user charging and targeted rates.

This is something that both the business and farming sectors agree on and will look forward to some direction from government on this issue.

Jeremy Harding is policy manager at the Wellington Regional Chamber of Commerce

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