Newsletter of the

LOCAL GOVERNMENT

BUSINESS FORUM

effective local government

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Welcome to the Forum

The Local Government Business 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 the sector. The Newsletter offers commentary on a range of issues affecting local government and is written and produced by Forum members.

Participants in the Local Government Business Forum are:

- BusinessNZ
- Federated Farmers of NZ (Secretariat)
- NZ Chambers of Commerce
- NZ Electricity Networks Association
- NZ Initiative
- Property Council NZ

This Forum newsletter was edited by Nick Clark
Contact: nclark@fedfarm.org.nz

The game of local government

By Michael Barnett

It is less than three months to the 2017 General Election but at the time of writing sport is grabbing most of the headlines, especially the Lions' big tour and the victorious America's Cup campaign. Local government doesn't usually grab election headlines and at the moment most people are probably more interested in the surfeit of sport than any politics, local or national!

Sooner or later people will become more interested in the election. Housing is shaping up as a major election battleground. Local government has a key role in facilitating housing development. Its decisions and actions influence the ability to build houses at an affordable price as well as the infrastructure to service them. Many councils are also providers of social housing. As a result, it gets blamed by many for the 'housing crisis'.

Yet to use a sporting analogy, councils are only players in a greater game, subject to rules set down by central government across 30 Acts of Parliament plus regulations. It's certainly true that councils' performance in playing the game should be a lot better but sometimes it's hard to play a good game if rules are flawed and the referee blames you. In this vein NZ Initiative's Eric Crampton writes about incentives and relationships in the central-local government relationship.

The Resource Management Act is a classic example of legislation that provides headaches for councils, developers, infrastructure providers, and the wider community. No one seems particularly happy with RMA and its implementation and this is explored in two articles, one by Property Council's Matt Paterson and the other by Electricity Networks Association's Richard Le Gros.

Local government funding and reliance on rates is another issue that is increasingly under the spotlight. Again, the rules for rates are set by legislation, the Local Government (Rating) Act. Rates might be administratively simple but in many other respects it's a flawed system. Business NZ's John Pask looks at funding options.

A good example of the failings of rates is the pressure on infrastructure caused by tourists coming to New Zealand in record numbers, including the Brits and Irish following their beloved Lions. The 2017 Budget provided a modest injection of taxpayer funding for councils' tourism infrastructure projects. Federated Farmers' Katie Milne gives her views on this cautious first step.

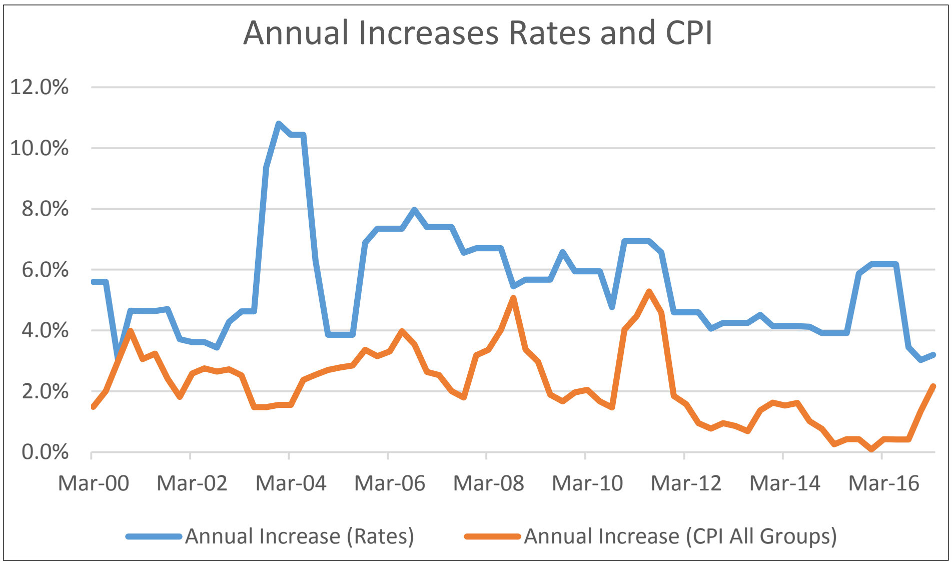
Whether local government plays and how it plays in economic development is a bone of contention for many in the business community. Councils spend hundreds of millions of dollars annually on economic development activities and many have economic development agencies that get involved in a wide range of activities, some of decidedly mixed value for money. Nick Clark from Federated Farmers writes about the Forum's view on this topic.

Nick Clark also takes a look at the latest tinkering with the rules for local government structure, through the Local Government Act Amendment Bill, now reported back to the House amended by the Local Government and Environment Committee.

I hope you find this newsletter to be interesting and informative. As always we welcome any feedback.

Michael Barnett is Chief Executive of the Auckland Chamber of Commerce, a Director of the NZ Chambers of Commerce & Industry, and he is Chair of the Local Government Business Forum.

The state of the Gap



This graph shows the difference between inflation of rates (as measured by the Local Government Rates and Payments component of the Consumer Price Index (CPI)) and inflation in the wider economy (as measured by the CPI – All Groups). Since 2000 the average annual rates increase has been 5.5 percent while for the CPI the average has been 2.2 percent.

The cost of local government (both directly through rates and charges and indirectly through the impacts of policies and plans) is a driver of inflationary pressures. The increase in the local authority rates component of the CPI since 2000 has been consistently well ahead of the overall rate of inflation, although the rate of increase has eased a little over the past few years, as has that of the CPI.

Source: Statistics NZ Consumer Price Index

The worry for ratepayers is the rapid increase of the rating burden in real terms which has not prevented the growth of a substantial infrastructure deficit or spectacular growth in financial indebtedness of some councils. The concern for New Zealand is the impact this ballooning cost is having on economic growth. Rates are becoming increasingly unsustainable and reform of local government funding is long overdue.

Don't hate da playa

by Eric Crampton

Rapper Ice-T isn't a conventional source of policy advice. But he was right about one big thing: don't hate the player, hate the game.

Local government too often makes it hard for business to get things done. And as far as much of central government is concerned, local government can barely be trusted to get the mayor's shoes tied, never mind run anything else.

Relations between central and local government have been strained for a while. Local government often makes decisions that are hardly in the national interest. Auckland's housing crisis stems from decades of planning and consenting decisions made by local councils that stymied growth. The consequences matter for the whole country, from macroeconomic monetary policy to dismal productivity statistics. And, from central government's perspective, local government too often comes cap-in-hand for funding that should be covered by rates.

But look to the incentives facing local councils: the game.

A council that facilitates growth, runs superb consenting processes, and lays out infrastructure for new development may see little reward for its efforts. Rates from new ratepayers will largely be eaten up by the costs of new infrastructure. And the council budget process makes the remaining contributions of those new ratepayers a bit harder to see: councils decide what to spend, then divvy it up across their ratings base.

Outcomes are then not particularly surprising. If councils bear most of the costs of growth, and central government sees most of the revenue boost when councils facilitate growth, the game will automatically lead to conflict.

But it gets worse. Central government mandates often require local councils to bear costs, without an accompanying revenue stream. This blurs lines of accountability for councils: poorly performing councils can blame central government for its cost impositions – and be at least partially right. And strong performers can be punished when voters see rates increases for which their council really is not to blame.

The New Zealand Initiative recently hosted a study-tour to Switzerland. Dozens of the country's top CEOs and Chairs went with the Initiative's Oliver Hartwich, Roger Partridge and Chelsy Blair to look at a different way of doing things.

Initiative Chair Roger Partridge described what he found in the Initiative's newsletter in June:

As part of the Initiative's recent visit to Switzerland, our group spent a day in Italian-speaking Ticino. Situated south of the Alps, it is to Switzerland what the West Coast is to the South Island.

Ticino is a place that does not only speak Italian but feels Italian. Its commercial centre Lugano is much closer to Milan than to Zurich, and the whole place breathes Mediterranean lifestyle.

But unlike its larger southern neighbour, Ticino is genuinely Swiss. It has the same 'can do' attitude that we encountered in other parts of the country.

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Ticino is also Switzerland's second-richest canton on a per capita basis. And during a reception featuring the city's mayor, we quickly learned why.

In talks by the mayor and local business people, we got an introduction to "Doing business in Ticino". It was not what you would have heard in New Zealand.

Instead of listing regulatory obstacles faced by foreign investors, our Swiss-Italian hosts got straight to the point. Their message was clear: "We want your business and we will solve any regulatory problems standing in your way."

Or as one of the slides stated under the heading "Bureaucracy": "Can Solve".

Of course, Ticino has the usual array of business laws. It is after all part of Switzerland.

But Ticino has every incentive to welcome foreign investment. Switzerland's decentralised tax system means it shares in the tax revenues from the business activity it generates.

Little wonder that Ticino is host to scores of multinational companies, many of whose origins lie just south of the border in Italy. Think of companies like Ermenegildo Zegna, Gucci and North Face.

The Swiss version of the local government game seems to work better.

Maybe it's time we re-thought the rules here.

Eric Crampton is Chief Economist at NZ Initiative

Time to rethink the wider planning system

by Matt Paterson

National and local governance systems coupled with a planning system that is no longer fit for purpose is holding back New Zealand's prosperity.

The evidence can be seen through escalating housing unaffordability and the consequent health and social issues. These are coupled with the high-cost of commercial development, groaning infrastructure beyond capacity and the struggle to fund much needed upgrades and expansion to infrastructure. The environment is suffering too. There has been a slow but significant deterioration in the quality of monitored streams, rivers and lakes in both urban and rural areas. Biodiversity is being lost.

The principal Act governing the system, the Resource Management Act (RMA), has undergone consistent and significant reform since 1991. Many of these reforms have been aimed at improving legislative efficiencies. However, the constant change and amendments signal that there are more fundamental problems with the RMA that flow through to our wider planning system.

There is an apparent disconnect between the RMA and our other planning legislation, such as the Land Transport Management Act and the Local Government Act. There is also a disconnect with local government funding. The legislative multiplicity has brought about inconsistencies in how plans and rules are applied. Some plans enable development, where others are a significant constraint. Inconsistent application of the RMA is an ongoing hindrance to efficient urban development. Business growth and development is suffering from our highly complex planning and local government system.

New Zealand needs a planning framework that enables us to build and develop our cities, but also protect our natural environment. - To avoid the current adversarial nature of the RMA, we must adopt a system that caters for, and recognises all interests and stakeholders that exist across managing the effects of development.

The Productivity Commission's Better Urban Planning report, released in March, provides one vision of how a new joined up system might work. While focused on urban areas, much of what it had to say might also be applicable to rural areas. However as good as the Productivity Commission's ideas are it is not a silver bullet.

History tells us that simply amending the existing Acts is not going to work. The time is right for a wide-ranging, nationally directed review of our whole planning system, that includes infrastructure, the local government system and how it is funded. Any such review should firstly identify the multitude of issues that currently exist, before addressing possible solutions. This would require a thorough and comprehensive process of establishing terms of reference for any such review. A review should then incorporate and consider a wide range of stakeholder interests. The review should be independent because change will need multi-political party support if it is to endure.

This is a call for the next Government and the next opposition to put a wide-ranging review on the table, stop tweaking and do it right. We have waited long enough. New Zealand will continue to be held back if we do not act.

Matt Paterson is Government Relations Director at Property Council NZ

RMA consistency under the spotlight

by Richard Le Gros

A lack of consistency in the resource management planning process under the Resource Management Act (RMA) has been highlighted by the electricity distribution businesses (EDBs) who collectively make up the Electricity Networks Association (ENA).

The EDBs identified the need for guidance material in regard to working with the RMA. With a secure supply of electricity being fundamental to the efficient and effective functioning of New Zealand society, the EDBs develop, operate and maintain some of the infrastructure most critical to supporting communities and economic growth.

For EDBs, working with the RMA can be quite complex. Many EDBs own and operate networks that span more than one (sometimes many) territorial authorities' boundaries, and therefore the planning regimes those authorities operate.

This can give rise to situations where a single overhead electricity circuit can be subject to different planning provisions in different areas, despite being a single asset from the EDB's point of view.

Other problems posed include definitions of commonly used terms (such as 'minor upgrading') which can vary greatly; a lack of consistency between plans including ones for neighbouring territorial authorities; no consistency with the provision of conditions of consent for the same activity within a district, let alone the same activity and status in another district; and district plans which contain unnecessary references to technical criteria, meaning compliance must be repeatedly established. And the list goes on.

In order to alleviate some of these issues, the ENA developed, in consultation with experts from within its membership, a *Guide to Planning for Electricity Distribution Networks under the Resource Management Act 1991* (http://ena.org.nz/user-friendly-guide-produced-for-the-rma-in-relation-to-electricity-networks/)

The aim of the guide is to improve outcomes, consistency and certainty in the treatment of EDB assets and activity within the planning community and to reduce costs for all parties participating in the planning processes.

The guide is intended to be used as a resource by local authorities to help promote awareness of resource management issues associated with electricity infrastructure, and assist in achieving sound outcomes within the RMA framework.

By providing national guidance, ENA hopes to firstly give greater assurance to local communities that the environmental effects of electricity distribution activities are being effectively managed, and secondly, to enhance the reliability and resilience of the electricity distribution infrastructure through ensuring timely approvals and an appropriate level of control.

ENA's next step is to promote the guidance to the Quality Planning website (see www.qualityplanning.org.nz). This website is a repository of best practice information for planners, and hosts a range of industry-developed guidance documents.

We've recently been encouraged to see that the Ministry for the Environment has launched a programme to develop national planning standards under the RMA.

They have published a series of discussion documents that consider a range of areas where consistency could be improved – for example, the structure, design and format of regional plans and policy statements, and the definitions, terms and metrics used within these.

ENA has nominated expert representatives from within its membership to attend the Utilities Working Group that has been established under this project, and will follow the progress of this work with great interest.

Richard Le Gros is Senior Advisor Policy & Innovation at Electricity Networks Association

Future funding options for local government?

by John Pask

Local government is funded from a mixture of sources, with rates still being the predominant source of income. Currently, local government operating revenue amounts to around $9.4 billion annually. Over $5.5 billion (well over half) comes from rates.

Several reports over more recent years have identified problems with the future funding requirements of local government. This includes high population growth areas (particularly Auckland) and areas where populations are either stagnant or declining and the rating base does not provide adequate funding for the renewal or upgrade of existing services.

This has been amplified by growing tourism numbers. While this is very positive for New Zealand overall it does put a strain on existing infrastructure, resulting in calls from various parties for more money to be put into both urban and regional New Zealand to cope with growing bottlenecks.

In some respects, this is a nice problem to have and shows that the New Zealand economy is delivering

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growth and employment opportunities for New Zealanders. However, such infrastructure does have to be funded. The $64 million question (or should that now be the $64 billion question) is how?

While rates will likely be the 'cornerstone' of local government for some time, they will need to be complemented and possibly eventually displaced by other revenue sources. This is to ensure that they better reflect the needs and costs of communities, noting that pricing mechanisms and availability of real-time data is improving by the day. Moreover, rating mechanisms are often a poor measure of costs imposed on (or benefits received from) local government.

BusinessNZ made an extensive submission on the New Zealand Productivity Commission draft report – Better Urban Planning - and specifically raised a number of issues about future funding options.

A number of funding options were considered in BusinessNZ's submission, including the pros and cons of different options. Options discussed include: user charges, differential and targeting rating, development contributions, uniform annual general charges, other tax mechanisms, including local income taxes or GST, royalties and tolling. Some potentially have merit while others are clearly problematic given that some may have little relationship to the amount of goods or services consumed via local government.

The government successfully partially privatised its power generation assets and still owns many more. In many cases councils own assets that could be sold or partially sold for the building of new infrastructure. Shares in council-owned assets could be sold to pay for urgently needed infrastructure thereby recycling one asset into another, higher priority asset.

There is also greater scope for the government and councils to use tolled roads or bridges, and cost-reflective pricing for water infrastructure.

The public-private partnership model is well suited to meeting infrastructure needs. Private partners can cover a project's upfront costs while recovering them over time from those who use it. Consideration should be given to greater private sector participation in the role of infrastructure development, operation and service provision.

Other options could include greater use of council balance sheets to fund new expenditure. It appears councils are currently constrained on debt financing where a local authority owns the infrastructure. In such cases new infrastructure can be debt-funded only on the basis of a multiple of existing income. But the development of long-life assets is not necessarily constrained to the same degree if infrastructure is in a Council Controlled Trading Organisation or other commercial structure.

While the search for new funding options can be seen as positive, if not necessary in some cases, it is important to recognise that the danger exists that new options will simply be used as a source of additional revenue without a clear understanding of the proper role of local government.

In this respect, members of the Local Government Business Forum are supportive of councils focusing their activities and spending on meeting the current and future needs of communities. This includes good quality local infrastructure, local public services and performance of regulatory functions in a way that is most cost-effective for households and businesses, and which will not be delivered adequately by the private sector. That's where arguably the conversation should start to better inform which future funding mechanisms are most appropriate in any particular case.

John Pask is an Economist at BusinessNZ

Tourism funding a first step

by Katie Milne

Tourism numbers are booming with new annual records set almost every month and annual numbers well on the way to breaking the four million mark. They spend a lot of money in the economy and help fill the Government's coffers. In fact, in the year to March 2016 tourists (international and domestic) contributed $2.8 billion in GST revenue. It is likely to have burst through $3 billion in 2017.

The downside of this boom is tourists putting increasing pressure on the country's infrastructure, especially in rural and regional areas. Freedom camping has been particularly problematic as some notorious stories from last summer attest. Who can ever forget the notorious headline French Freedom Camper Poos in Dunedin Street?!

Local government is a provider of important infrastructure used by tourists, from big ticket items like roads, water and wastewater, to smaller facilities like public toilets, car parks and freedom camping areas. However, the property value rates system completely fails the test for recovering costs related to tourists, especially when they are transiting a district. The funding burden is therefore lumped squarely and unfairly on ratepayers.

Federated Farmers has been advocating for a substantial funding boost for local tourism-related infrastructure through returning a portion of GST revenue from tourists or from a visitor levy imposed at the border.

Although both these options are 'off the table', at least according to the current Government, Budget 2017 did have some welcome news for councils struggling with the pressures tourists create with the establishment of a Tourism Infrastructure Fund providing $102 million over four years.

The infrastructure has to be visitor-related, which will confine the funding

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to things like car parks, visitor centres, camping areas, and toilets.

The Fund is now open to applications. Applicants will need to meet at least one of the following three tests (now or within five years), with priority given to councils that meet two or more of these tests:

- Visitor/rating unit ratio of greater than five. This means that a place like Franz Josef or Tekapo with very small resident populations but with high visitor numbers would be eligible.
- Revenue from tourism in the region less than $1 billion. This will focus the funding on smaller regions with smaller rating bases.
- Local Government Finance Agency lending limits have been reached. This is a tough one to achieve, especially for a lot of small councils that have avoided taking on debt. The intent is to ensure that councils have 'tapped out' on usual financing options.

Federated Farmers welcomed the new fund as a step in the right direction but it is only a first step and a cautious one at that. The local government sector claims the funding need is much greater, with its initial estimate of $1.4 billion. That was quickly rubbished by the Minister of Tourism as it included infrastructure also used by residents, known as 'mixed-use' infrastructure.

Local government actually has a point. Mixed-use infrastructure must be part of the mix. Tourists put a lot of pressure on roading, drinking water, waste water, and solid waste infrastructure, especially in small rural councils. This core infrastructure should also to be eligible and it should be open not just to capital costs but also a portion of ongoing operating costs as well.

$102 million over four years won't go far but central and local government now have an opportunity get together to quantify the need and to work out a new way for funding tourism and mixed-use infrastructure in a sustainable manner.

Is it time for a local share of that $3 billion tourism-generated GST revenue? I think so.

Katie Milne is National President of Federated Farmers of NZ

Making economic development work for business

by Nick Clark

It might seem strange to say this but 'economic development' can be a controversial subject for the business community. Why is this? Surely economic development should be a 'no brainer'.

The answer is that many businesses simply aren't happy with their councils' performance and what they are doing. Local Government New Zealand's 2017 Local Government Survey showed businesses to be considerably less satisfied with the performance of their councils than are residents. Businesses are particularly concerned about regulatory performance (especially for building consents and resource consents), the quality of spending decisions and the value for rates dollars spent.

The Local Government Business Forum believes that local government has a crucial role in local and regional economic development and that within this there is a role for entities like economic development agencies.

In practice, there are varied approaches within the local government sector on roles and activities in relation to economic development. Some are confined to facilitation and advocacy. Some fund the generic promotion of their cities, districts, and regions and the promotion of businesses and tourism.

The Forum's view is that the appropriate role for local government in economic development is to focus on providing a better business environment. This means efficient and effective provision of infrastructure, regulation and public services, and keeping the rates burden down. The emphasis should be on removing or reducing barriers to growth and development.

However, for too many in local government economic development seems to mean promotion of businesses and tourism. We don't necessarily oppose this sort of activity but it should be undertaken with the consent of business and tourism interests and – importantly – funded by those sectors through targeted rates. Where economic development agencies are funded through targeted rates and/or business differentials, the sectors funding should have representation on both governance and decision making on how the money is spent.

The Forum does not favour providing support and services to business, especially in competition with the private sector. With specific regard to economic development agencies, the starting point should be that they focus on the 'future platform' off which business might operate and not step into the business development role that competes with the private sector. In the event that there are gaps in the market they should look to partner with the private sector rather than compete.

Above all councils and economic development agencies mustn't lose sight of the need to do better with their regulatory performance and to be more effective and efficient in everything they do, especially when spending ratepayers' and taxpayers' money.

If not the next iteration of the Local Government Survey, due in 2020, won't be any better.

Nick Clark is Manager General Policy at Federated Farmers of NZ

Better local services - Take 2

by Nick Clark

Over the past five years the Government has been pushing reforms to improve the efficiency and effectiveness of local government. The latest iteration was the Better Local Services proposals, launched in March 2016.

A key plank of the reforms was a Local Government Act Amendment Bill to address concern that current local government structures limit the ability of councils and water authorities to work together to provide services and critical infrastructure The reforms proposed more flexibility to collaborate and develop shared services; reorganisation processes that can be locally led and driven; and greater use of Council Controlled Organisations (CCOs), with improved accountability tools to safeguard local democracy.

Sounds good, but as with many things in life, and especially policy, the devil is in the detail. The Bill that was introduced in June 2016 caused much controversy in local government circles. This not because the sector thinks local services are perfect and they needn't be better. Local Government New Zealand (LGNZ) has launched an initiative, the Local Government Excellence Programme, designed to lift performance and, importantly, measure how they are doing.

Local government's concern was more about how the Bill's provisions might impact on local democracy and the ongoing viability of some councils. Their greatest concern was the possibility of CCOs being mandatorily created from Wellington. LGNZ President Lawrence Yule said at the Bill's hearings in September 2016 that it posed a real threat to local democracy and the future of communities.

"It takes away a level of democracy. For smaller councils there is a real risk that larger entities that are forced on them will mean a loss of staff, and those smaller communities are ones we are really concerned about," Mr Yule said.

"If you take the critical mass of water and roading away from councils you are taking a major part of what they do away. If you are a small council you would be left with no critical mass and then they say should we actually merge somehow, and that is where you get into amalgamation by stealth."

"When you give another entity the ability to fundamentally change most of the major services like roading or transport into a CCO, you can't help but see there will be any other consequence but structural change over time."

Federated Farmers and the Local Government Business Forum both submitted on the Bill. Although supporting the Bill's ambition to improve council services, both organisations noted concerns about some of the detail.

Recognising the need to take time get the Bill right, the Local Government and Environment Committee delayed its report-back twice, first to March 2017 and then to June 2017.

The Bill has now been reported back to the House and a number of changes have been made to address concerns about the detail, many of which are process-related and seem very sensible. However, the key aspect of the Local Government Commission being able to advance CCOs, remains.

The Bill's progress from here will be dependent on numbers in the House. The Opposition parties put in a Minority Report acknowledging the reported-back Bill to be much improved but the Greens, Labour and NZ First nevertheless remain opposed to the CCO provisions and increased powers for the Commission.

As has often been the case over the past nine years, National will need to cobble support from a combination of the Maori Party, ACT, and United Future. Some beefed up provisions around Maori consultation may be a tip to where it expects to get its support.

Nick Clark is Manager General Policy at Federated Farmers of NZ

WEBSITE

The Local Government Business Forum website contains the Forum's published reports, media statements, submissions and newsletters.

www.localgovtforum.org.nz