

LOCAL GOVERNMENT FORUM

Things councillors should know

Congratulations! As a candidate in the 2004 local body elections, you could become a local body representative. Here are some things every councillor should know, brought to you by the Local Government Forum.

Core activities

Councils' core activities are:

- maintaining local democracy
- making regulations where necessary
- ensuring regulations foster efficiency and growth
- providing necessary goods or services where the private sector can't or won't
- outsourcing goods and services where possible
- ensuring council-provided goods or services are funded by user charges rather than rates where possible

Councils sometimes get involved in non-core activities that would be better carried out by the private sector, central government or community groups. Non-core activities can duplicate the work of other organisations and use up rates revenue without benefit to ratepayers. Keeping the focus on core activities should be the primary objective of all councillors.

Rates

Undisciplined spending by councils leads to high rates. Councils should stick to core activities, to curb spending and minimise rates.

User charges

Council-provided goods and services should be funded by user charges where possible. Rates should be used only if benefits exceed costs and it is not economic to recoup costs from user charges e.g. street lighting, civil defence, parks and reserves. User charges let consumers make choices via their spending decisions: they are more likely to conserve resources when they directly bear the costs.

Differentials

Under differential rating businesses have higher rates than residential ratepayers. This is a disincentive to growth and can't be justified on fairness grounds as there is no data on which to assess firms' ability to pay. Businesses don't get any advantage from being able to claim an income tax deduction for rates because the related gross income is taxable whereas residential ratepayers in NZ are not taxed on the imputed rental income of their homes. With GST, businesses charge tax on their outputs, deduct GST paid on their inputs and pay the net amount to IRD, and no tax advantage arises. Audit NZ has confirmed that businesses do not receive concessional tax treatment. Differentials should be phased out.

General competence

To help the focus on core activities, councils' powers and accountabilities should be clearly defined, with councils free to choose tools and structures. The Local Government Act's 'power of general competence' works against this as it fails to define the boundaries between core and non-core activities. Councillors should not be tempted into non-core activities by the power of general competence but should seek to limit their work to core activities.

Governance, management

Councils are about governance. Councillors sometimes intervene in operational areas that are the responsibility of council officers (management), when they should instead pursue outcomes through delegated management via the chief executive (governance).

Central & local govt

Central government decisions can impact heavily on local government. The Prostitution Reform Act 2003 is an example of a central government decision that puts difficult requirements on councils: requiring councils to regulate the location and signage of brothels creates more division and anger within local communities than if central government had simply made national regulations. Councillors should be aware that their responsibilities can be greatly increased or changed by central government decisions.

RMA

Councils' role in approving consents under the Resource Management Act has been criticised because of delays, treatment of vexatious appeals, disregard of property rights in imposing restrictions on landowners without compensation, using the process as a revenue source with charges unrelated to costs, and variability of actions between different councils. The resulting uncertainty is holding back growth in many regions. Councillors are urged to become familiar with the Local Government Forum ⁽¹⁾ benchmarks for RMA processes ⁽²⁾.

Hot Councils awards

The Local Government Forum began the Hot Councils awards ⁽³⁾ in 2004 to honour councils that focus on core activities and do not needlessly inflate rates through spending on non-core activities. The next awards will be run before the next council elections, to aid voter choice.

Councils in business

Councils tend to be inefficient at running commercial businesses: the temptation to use rates to subsidise operations brings higher costs. Councils also have an implicit guarantee - a rates-supported organisation can't 'go broke'; this reduces the sanctions associated with the threat of commercial failure and discourages monitoring. Managerial performance can be impaired as managers are protected from transfers of ownership. While private enterprises are generally managed by directors with resources at stake, council managers have no ownership interest and thus less incentive for efficiency. Politicians may interfere with the decisions of council enterprises, leading to inappropriate pricing, over-staffing etc. There may be confusion between commercial and political goals and conflicts of interest where councils are both owner and funder of services provided by the enterprise. In summary, commercial activities are non-core activities and should be avoided.

'Public goods' costly

Councils are often called on to provide things that are viewed as 'public goods'. Unlike privately owned goods (that have defined owners, excluding others), public goods are non-excludable (everyone can use them) and don't get 'used up' with usage. Goods or services that are seen as having a public good component include parks, libraries or water supply. They are not purely public goods, because they could be produced privately and the cost recovered by metering, membership fees, user pays etc. Goods or services provided by councils sometimes have public good characteristics, but this doesn't mean they must be supplied by council. Council provision may crowd out private provision that is cheaper, fairer and less risky (e.g. water can be supplied more cheaply by metering than via rates). Council provision can be more costly than commercial provision, as councils are commercially less efficient and political decision-making can be driven by narrow interest groups rather than the interests of the community at large.

Asset management

Many council balance sheets list assets worth millions of dollars. Councillors are responsible for protecting and improving the value of these assets in support of their core activities. Good councils have clear and appropriate asset management plans. Where assets are non-core, councils should consider divestment. Because the potential efficiency gains will be reflected in any sale undertaken via a competitive process, a successful bidder will be willing to pay more for the asset than it is worth in council ownership and the financial position of the council will therefore be improved even if it loses a dividend stream (it will be able to retire debt and reduce debt servicing costs). In the case of assets such as water supply and roading, councils should consider the use of more commercial structures and efficient charges to help reduce wasteful use and congestion.

Financial assets

Some councils use the sale of council assets for reinvestment in equities, bonds and other financial assets. But this is just exchanging one risky asset for another - risk could best be minimised by retiring debt and returning surplus funds to ratepayers. Income from bonds etc should not be needed to finance core activities as they should be financed by rates and user charges. Proper financing makes the costs of activities more transparent; councils should not try to conceal the burden of these by funding them from financial assets.

Consultation

Several laws require councils to consult but there are few requirements on how to do it. Councils should be clear about who they will consult, eliminate duplication, clarify the intent, wording, and action to be taken as a result of the consultation, audit the processes and minimise cost.

Monitoring councils

Although several central government agencies are involved in monitoring local government there is a low level of central government resources devoted to council issues. There is also no coordinated monitoring programme

to show how the sector as a whole is performing. The Local Government Forum's 'Hot Councils' 2004 promotion was the first in a series of comparative surveys of local authorities against key criteria which will hopefully prompt further coordinated monitoring initiatives.

STV

Single transferable voting is being used in council elections this year, replacing first past the post in some areas. The rationale is that it allows better representation of smaller groups and fewer votes are wasted than under FPP. But these qualities are also negative: recycling surplus votes from successful candidates to less successful ones, as STV does, dilutes representation of popular mainstream candidates who are in touch with the need for economic growth, and elevates fringe candidates whose vote was smaller precisely because their policies were not in touch with mainstream community values. Councillors should keep a watching brief on the use of STV with a view to returning to FPP if minority values get out of balance with those of the majority.

(1) *Local Government Forum - a forum of groups seeking efficient, fair local government: Federated Farmers, NZ Forest Owners' Assn, NZ Retailers' Assn, Business NZ, NZ Business Roundtable*

(2) *Criteria and benchmarks for Hot Councils are on:*
www.businessnz.org.nz/doc/770/HotCouncilsCriteria

(3) *Hot Council awards honour councils that promote growth through rating and spending discipline, and superior resource management and accountability through local democracy. 2004 results are on:*
www.businessnz.org.nz/file/710/HotCouncils2004RankingList.pdf