

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. 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 Forum are:

BusinessNZ
Federated Farmers of NZ (Secretariat)
NZ Chambers of Commerce
NZ Electricity Networks Association
NZ Initiative
NZ Retailers Association

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

A big year

By Michael Barnett

2013 is proving to be a big year for local government, perhaps even bigger than 2012 with all its reform ructions.

2012 saw controversy and at times bitter acrimony over the Government's determination to force local government to be more efficient so it can cut its growth in spending, rates, and debt. The Better Local Government reforms and particularly the Local Government Act Amendment Bill put councils on notice that things had to change and that the Government was determined to force change if necessary.

The Forum is on the record as supporting the reforms and we stand by the reforms as necessary and desirable.

2013 is proving to be no less significant. The reform programme didn't end with the passage last November of the Local Government Amendment Bill. In fact it is continuing with the outcomes of various reviews being considered by the Government, and a further amendment Bill is likely later this year.

One of these reviews was undertaken by the Productivity Commission on the topic of local government regulation. It found some serious problems with both central and local government. Both have to lift their game, although there was quite an emphasis on central government to improve its processes for developing policy and passing legislation.

The latest regulatory failure is the debacle over Christchurch City Council's building consent performance, where the council has lost its accreditation and requested a Crown Manager to be appointed to clean up the mess.

Housing affordability is shaping up to be a hot political issue and an area which exposes central and local government's uneasy relationship. Forum member the New Zealand Initiative is undertaking a major research project on what is causing the problem and options for best addressing it. The only certainty is that the debate will rage on.

Council draft annual plans indicate that overall the growth of council spending and rates are both moderating. This is great news but it is not being felt everywhere, with Kaipara and Westland ratepayers in particular facing big increases this year.

The Local Government Commission is considering its first proposals under the new provisions for local government reorganisation. Currently in the mix are proposals from Northland, Hawke's Bay, and Wairarapa/Wellington, with more likely.

Last but by no means least, in a few weeks time voters will have the opportunity to decide the make-up of their councils. It is crucial that we all take an interest, get involved (or at least informed) and vote.

This newsletter contains articles on all these issues. The Forum welcomes your feedback. Please feel free to contact us with any thoughts (care of nclark@fedfarm.org.nz).

Michael Barnett is Chief Executive of the Auckland Chamber of Commerce, a Director of the New Zealand Chambers of Commerce, and Chair of the Local Government Forum

Time to get involved

by Katie Milne

With local elections looming it's time all New Zealanders took a much closer interest in their council.

On the face of it this seems a case of wishful thinking. Despite postal voting making it very easy to vote, on average fewer than half the registered electors bother to vote in council elections. Reflecting this there's also been a drop in the number of candidates per elected position.

I find this apathy hard to understand especially when so many people get upset when their council increases their rates or threatens to cut a service. I also find it hard to understand when you consider the importance of local government services to our everyday lives. The next time you drive your car, ride the bus, turn on the tap, flush the toilet, take out the rubbish, play sport, or go to the library or the art gallery then most likely you are using a council service. And if you own a dog, if you ever have to build a house, if you run a business

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(especially in food or hospitality), or if you own a farm then you will be subject to council rules and regulations.

Perhaps it's because these are such everyday things we tend to take them for granted. And for most people, the reality is they either don't pay rates directly (because they are renters) or the rates they do pay are not much more than the phone bill or the power bill and although we all grumble when these go up, New Zealanders are a law abiding people and we pay up.

For some people though rates are more than just a nuisance to grumble about. Thanks to the vagaries of the property value rating system a disproportionate share of the rating burden is placed on minority groups like farmers, businesses, and the elderly.

For farmers, rates are particularly punishing due to their property values in no way reflecting their incomes, let alone their access to or benefit from council services, especially those catering to people in the towns and cities. There are many examples of farmers paying their councils more than \$20,000 per year and in return getting little more than a gravel road. Farmers battle hard against their high rates but even in 'rural' councils they are a small minority of the voters.

For businesses, councils all too often use differentials to punitively shift rates off residents and onto the commercial and industrial sectors. Again, councils can get away with this because businesses (like farmers) make up a small percentage of the voting population so have little real say. So business groups, like chambers of commerce, continually have to push back against business differentials.

For the elderly, rates are a problem because, like farmers, their property values don't reflect their incomes. However, the elderly are good at voting and they're a growing segment of the electorate so little wonder they get help from the Government's rates rebates scheme.

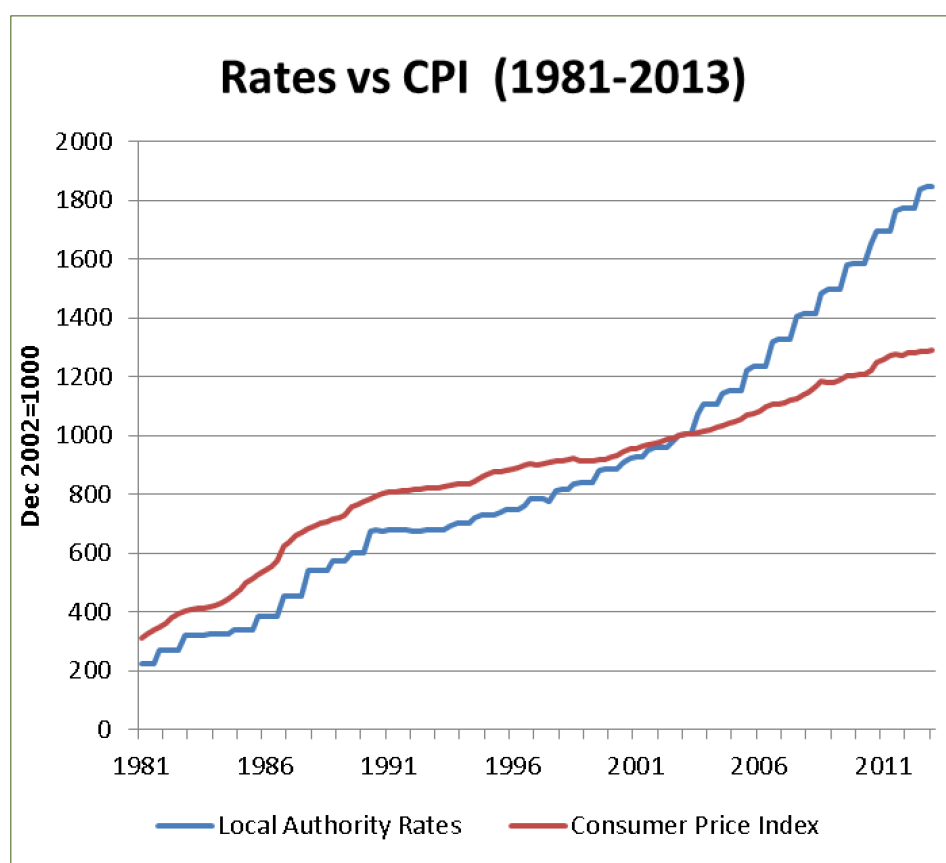
So with this year's elections looming ever closer, what should businesses and farmers be asking their aspiring councillors to ensure they don't forget about the people that pay the bills? I've come up with a few suggestions, which follow below:

- In what ways can the council encourage economic growth and development?
- Will you commit to getting the council to contain rates increases within the rate of inflation?

- Will you endeavour to focus councils on the core purpose of efficient delivery of infrastructure, public services, and regulation?
- Will you question whether activities are best undertaken or funded by the council or should be undertaken or funded by others, such as central government or the private and voluntary sectors?
- Will you seek a funding and rating review that aims to ensure that the council's funding policy and rating tools results in those who use and benefit from council activities pay for them commensurate to their use or benefit?
- Will you commit to getting the council to provide ratepayers with itemised rates assessments?
- What is your view on local government restructuring into fewer, bigger councils?
- How will you ensure the council carries out its basic regulatory roles, such as resource management and building, efficiently and effectively?

Katie Milne is Federated Farmers of New Zealand's National Board Spokesperson on Local Government

State of the gap



Source: Statistics NZ Consumer Price Index

This graph has been published regularly in Forum Newsletters, and reflects an expanding differential between local government inflation and that of the wider economy. 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 2002 is well ahead of the overall rate of inflation.

The big 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.

The local government sector believes it is overly simplistic to compare its cost pressures with the CPI. While acknowledging that local government's cost pressures are different, Forum members' concern is from a consumer's perspective.

Reforms progressing

by Nick Clark

It's been nearly 18 months since the Government announced its Better Local Government reforms. The reforms were promoted to focus councils on core activities and, by improving efficiency and effectiveness, to ease the pressure on councils to continually ramp up rates. So how have they progressed and what effect will they have?

Phase One

The reforms have been progressed in two phases. Phase one was advanced late last year with the passage of the Local Government Act Amendment Bill, which made a number of changes:

- Amendment to the purpose of local government. 'Out' is the promotion of social, environmental, economic and cultural well-being ('the four well-beings') and 'in' is a new purpose "to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost effective for households and businesses". The Forum supported this change as helpful for providing councils and their communities with a clearer steer on what local government should focus on. Regarded by some as 'window dressing' and by others as 'the end of the world' and 'a lawyer's dream', the change was strongly opposed by the local government sector. It's still early days so too soon to say who was right or what impact the Act's new purpose will make on council spending and rates.
- Introduction of a set of graduated ministerial interventions in response to 'problems', with the level of intervention depending on a council's performance against financial prudence thresholds. Previously, the only interventions available were of the 'nuclear variety' so the Forum supported this new approach as enabling earlier assistance before problems become too large. These thresholds will be in regulations being developed by the Government in consultation with the local government sector. Again, it's too soon to say how they will play out in practice.
- Changes to governance, such as applying some aspects of the 'Auckland model' more generally, and enabling councils to determine some staffing policies and requiring councils to report staff numbers and remuneration. In particular, the

Forum supported greater transparency on staffing policy and remuneration and it will be very interesting to read in council annual reports how many staff are paid in the higher salary bands.

- Changes intended to make it easier to advance changes to local government structure, including amalgamations. The Forum generally supported these changes but cautioned that bigger is not always better. At the time of writing four proposals were with the Local Government Commission for consideration - Far North, Hawke's Bay, Wellington and Wairarapa. None will have been determined before the upcoming local authority elections.

Phase Two

A further parallel programme of work has been undertaken as 'Phase Two':

- The Local Government Efficiency Taskforce was tasked with finding improvements to council consultation, reporting and decision-making processes. It reported to the Government in late 2012 with 32 recommendations.
- The Local Government Infrastructure Efficiency Expert Advisory Group reported to the Government in March 2013 with 63 recommendations on how local government infrastructure can be delivered in the most cost-effective manner.
- The Department of Internal Affairs is undertaking a review of development contributions to get greater consistency and certainty in council policies so as to reduce costs which are impacting on housing affordability.

- Finally, in May 2013 the New Zealand Productivity Commission reported to Government on its Inquiry into Local Government Regulatory Performance. The Commission found major shortcomings in processes of both central and local government and poor relationships between the two tiers of government. It made 19 recommendations to improve this state of affairs.

The Forum mostly supports the findings and recommendations from each of these reviews, which are now being considered by the Government. Any changes will be included in a further local government amendment bill likely to be introduced later this year.

Whether the Better Local Government reforms live up to their promise remains to be seen. For residents and businesses the proof will be whether we get good infrastructure and services without the vicious rates spiral we have experienced over the past decade.

Central government has been unrelenting in pursuing efficiency in its part of the public sector. But to achieve this in local government, central government will need to develop sound, workable policy and legislation and local government will have to implement it with that same focus and commitment.

The Productivity Commission's finding that significant improvements are needed to existing central-local government processes and relationships makes fixing this interface a crucial place to start.

Nick Clark is Manager General Policy at Federated Farmers of New Zealand

Important election dates

19 July 2013:	Candidate nominations open, electoral roll opens for inspection
16 August 2013:	Candidate nominations close (12 noon), electoral roll closes
28 August 2013:	Public notice of elections and candidates
20-25 September 2013:	Voting documents delivered
12 October 2013:	Voting closes (12 noon), preliminary results announced
17-23 October 2013:	Final results declared
November 2013:	Elected members sworn in

For more information contact your council or visit:
<http://www.dia.govt.nz/Services-Local-Elections-Index>



Who is taking who for a ride?

by John Pask

For a number of years businesses, and others, have been concerned about the respective roles of central and local government. Some, including the Local Government Forum have questioned whether local government is focused enough on delivering local public goods.

Concern with local government interfering in the legitimate activities of businesses and imposing unnecessary costs and obligations is legendary. However, is local government sometimes the “whipping boy” for central government directives? There is some evidence that this is the case.

The Productivity Commission’s recent Inquiry into Local Government Regulation found “serious weaknesses in the regulatory system” and “shortcomings in the regulatory design process at the central government level, including poor policy analysis, a lack of quality engagement with local government during policy development and limited implementation analysis”. The Inquiry also found that “there is a poor relationship between central and local government” and that “this is having a detrimental impact on New Zealand’s regulatory system”. The Commission believes that “if regulatory outcomes are to be improved, then a more productive relationship and interface is needed between central and local government”.¹

The report outlined work conducted by Castalia Strategic Advisors in 2012, which found that only 36% of the 42 Regulatory Impact Statements reviewed fully met Cabinet’s quality requirements. Therefore, while the Government’s priorities for growth have become a central point for policy development, a corresponding improvement in the quality of regulatory decisions is also needed. Then the private sector will be able to see clearly that the Government is heading in one growth direction.

A number of recent central government proposals will impose huge obligations on local government (and ultimately ratepayers and building owners). One such example is a proposal put forward in a Ministry for Business, Innovation and Employment discussion document earlier this year entitled “Building Seismic Performance”. Essentially this would require all non-residential and multi-unit multi-storey residential buildings to be strengthened with 15 years (5 years for assessments and 10 years to take appropriate action) if they do not meet the earthquake strengthening level of 1/3 of the new building standard.

A number of Forum members have put in extensive submissions on the consultation document outlining our major concerns. For example, BusinessNZ submitted on the report and made a number of points including:

- The case for intervention (of the type proposed) is not clear
- Lack of flexibility for communities to take account of the risks, costs, ability to pay and timeframes which can allow for rational trade-offs to be made
- Consistency in regulatory interventions, particularly interventions which impact on valuation of life
- Lack of discussion on possible compensation for deemed ‘regulatory takings’.

To be fair, the Government is still reviewing all these submissions and no decisions on the way forward (in terms of timeframes, potential compensation to building owners etc.) has yet been made.

Notwithstanding the above, ultimately, ratepayers will logically bear a significant portion of the costs of bringing earthquake-prone buildings up to scratch, given the array of buildings owned and operated by local councils.

One could argue, legitimately, as to why councils own many buildings given that building ownership has little to do with the provision of local public goods. Putting this aside for the moment, councils will once again get blamed for rising rates burdens, not necessarily through any fault of their own but as a direct result of misguided central government decisions which impose unnecessary costs on building owners without any thought for the desirability of compensating owners for such costs. Maybe the stick should be pointed at central government not local government to raise its game – at least on this occasion.

Improving the quality of regulatory interventions requires a systematic change in behaviour and legislative discipline, such as a comprehensive Regulatory Responsibility Act outlined by the Regulatory Responsibility Taskforce. Sound principles are needed, not the ad hoc approach taken to date.

John Pask is an Economist at Business NZ

Christchurch Building Consents

As has been extensively reported in the media, Christchurch City Council has been stripped of its accreditation to issue building consents and the council’s professional indemnity and public liability insurer has withdrawn cover for any claims which may arise under the Building Act.

This is a significant, unprecedented, failure of a council’s basic regulatory responsibility.

At the Council’s request the Government has appointed a Crown Manager, Douglas Martin, to address issues relating to the Council’s building consenting functions.

The Council is still able to issue building consents, but it will need to dramatically improve its performance, especially with the major rebuild getting up a head of steam.

It is also a timely warning for all councils to ensure they are performing their regulatory duties effectively and efficiently.

¹ Towards Better Regulation, Final Report of the Inquiry into Local Government Regulatory Performance, New Zealand Productivity Commission, May 2013.

Paradise Lost: The Zeitgeist that Prevented New Housing

by Luke Malpass

House prices are ultimately driven by market value: some areas are going to be more expensive than others and it is right that this be so. But that doesn't mean that all houses should be expensive, or as expensive as they are. Particularly when that shortage is, at least in part, a creature of regulation.

Planning and resource management, far from meaning each man somehow acts as his brother's keeper through the Resource Management Act, is really each man for himself, using the RMA and town and city planning to stop pain-in-the-neck potential neighbours or environmental despoilers, building or undertaking development.

Partly as a result, home ownership rates in New Zealand are now about where they almost were a century ago in 1916, when government got actively involved in housing.

Over time, housing was primarily subsidised through two methods: a corporatist approach to land development and capitalisation of the family benefits and 3% loans, provided by the State Advances Corporation. Here alone the figures are staggering. From 1960 through to the mid-1970s an average of 7500 of these loans were uplifted a year, and crucially for most of this regime, the loans were only available for those building new houses. This created a market for new, low cost housing with taxpayer subsidised finance.

Evidently, government shouldn't be as actively involved as it once was, but it could at least be less dirigiste. The notion that a young, sparsely populated country like New Zealand should have a shortage of houses is inexplicable. The country is only 170 years old, and less than 1% of New Zealand is

taken up with urban development: a figure that includes landfill, motorways and urban green space.

Obviously, widespread propagation of that figure has prompted debate over land use, which is a good thing, but given that basically no form of land use is fixed for eternity, it does reveal an amount of hysteria about growing town borders.

Opposition to the dreaded notion of urban sprawl can be seen against this backdrop.

It is unfortunately true that some councils, particularly urban councils with most of their assets paid for, do not wish development in their area. And there is also a very powerful push within the planning community for higher density housing, despite the fact this is often not what people want.

In essence, while the 1980s and 1990s saw many sorts of liberalisation, town planning has become less about the technical skills of how to provide infrastructure and lay out roads for a bigger population. It has become a method of designing ideal communities, whereby people will escape the supposed social atomisation of life in the suburbs. It's as if the planning profession thinks that life in the suburbs is sort of like a Coen brothers' movie: a dystopian place where people live desperate lives of hopeless ordinariness.

As an upshot of these views, many councils have had policies of effectively creating a land shortage through zoning and town boundaries, artificially pushing up price of land for development. There is also a great difficulty that councils are monopoly consenters and providers of infrastructure. Naturally and justifiably councils do not want

to be on the hook for infrastructure that might be a white elephant, but it can be used as a justification to slow development.

And justifiably, many councils, in their role as consenting authorities have been spooked by the leaky homes liability that they (and by extension ratepayers), have been compelled to bear.

There are also daft ideas surfacing, that emanate from Britain such as 'affordable housing' quotas in new developments (driving up prices for everyone), and planning gain uplift, where councils grab a chunk of any calculated increase in land value conferred by a rezoning decision.

Homebuyers have to also look in the mirror to see where some level of cost inflation is coming from. The sort of houses the average consumer expects today has a much larger square footage and sophisticated fit out than did a house in the 1960s or 1970s. Subsequently, they cost more. Some of these changes are mandated by government, and are particularly applicable further south.

Of course, some increase in size and price is driven by ever more restrictive and prescriptive covenants – which are driven, in part, by artificial scarcity of land.

Incentives for local councils to encourage building, abolition of town borders, and a general liberalisation of land use and infrastructure provision are all required to end the scarcity of housing.

Luke Malpass is a Research Fellow at the New Zealand Initiative

To merge or not to merge

by Jeremy Harding

All around the country debates are taking place as to whether to change local government structures. In most cases the debate is whether to merge with neighbouring councils to form bigger regional entities, but in some instances the debate has been whether to secede and go it alone.

The structure of local government is an important issue and there are many perspectives on whether or not it is a good thing. The Government has taken the approach not to impose a single solution,

instead wanting to enable local communities to determine their future local government arrangements. This is wholly appropriate and a number of communities have set the ball rolling in their areas.

Last year's amendments to the Local Government Act have significantly changed the process for such reorganisation to occur. Any person, body, or group may make an application to reorganise local authorities.

The Local Government Commission (www.lgc.govt.nz) is the body responsible

for receiving and considering reorganisation applications.

To-date four reorganisation applications have been received by the Commission covering Northland, Hawke's Bay and Wellington. Others are expected.

Understandably, the debates taking place in different parts of the country are throwing up contrasting ideas for reform from within each area. In Wellington, for example, it

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is suggested that up to seven applications from various groups of councils could be submitted reflecting the range of views for local government in that region.

It is up to the Commission to consider the proposals it receives from around the country and present its preferred option (either one of the proposals or its own variation) to the public and to then seek submissions. Following that there may be a poll of electors in one of the affected TLAs and a second one of electors in the entire affected region before a reorganisation scheme is approved and implemented.

There are a number of issues ratepayers and citizens should be thinking about when considering the best structure for their area.

Inevitably, efficiencies and economies of scale and reduced numbers of staff and politicians are often top of mind but the reasons for amalgamation are deeper than that. Improved decision making free from council rivalries is key as is the ability of a region to speak with one voice. The streamlining of rules and practices across a region will also make a difference for businesses and farmers.

While finding efficiencies isn't the prime driver for amalgamation, this is still an important consideration. It is essential that any amalgamation process does not result in the creation of a large bureaucracy. We expect any reorganisation of local government to aim to achieve efficiencies with savings being passed back to rate-payers. There is

no reason to believe this can't be achieved if care is taken.

Another thing to avoid is the accentuation of existing bad practices in rating policy and other areas. CBD businesses and farmers for example are often seen as cash cows by local Government politicians and rating systems reflect this. It is important that protections are put in place to ensure the existing unfair burden paid by these groups is not compounded as the rating base increases.

Jeremy Harding is a Manager at the Wellington Employers' Chamber of Commerce

Annual plan season

by Nick Clark

Maybe because it's election year or maybe because councils are listening to their ratepayers – and to central government – but 2013/14 draft annual plans indicate an encouraging moderation in the growth of both council spending and rates revenue.

According to media reports the average rates increase for the coming year will be around 3.8 percent. This is still significantly higher than the current rate of inflation of around 1 percent but it is a big improvement on the 8-10 percent increases that were commonplace in the 2000s.

Many councils have slashed their rates increases, with Rotorua District, Lower Hutt City, and Tauranga City all planning rates rises of less than 1 percent and Queenstown-Lakes District aiming for a zero increase.

These and many other councils have taken a good, hard look at what they provide, how they pay for it, and how they operate, and they are to be congratulated.

Unfortunately there are still some places where the unfortunate ratepayers are facing hefty increases.

That Kaipara District's rates increase of 9.3 percent is the biggest will come as no surprise. Its elected council resigned en masse last year and government-appointed Commissioners are grappling with the deep financial hole caused by the cost blowouts and ballooning debt from the Mangawhai wastewater scheme. There doesn't seem to be any easy way out.

Following closely behind Kaipara is Westland District, with a proposed increase of 9.2 percent. This followed the discovery of a financial hole caused by accounting errors associated with its solid waste activity.

Buller and Horowhenua districts follow with increases each of around 8 percent. Christchurch City went to its community proposing a 7.7 percent increase in rates revenue for 2013/14 followed by increases of 7.1 and 7.2 percent for each of the next two years as it seeks to fund its share of the earthquake rebuild.

Clearly there are still a number of councils that have a lot of work to do! And equally clearly capacity and capability issues will make this a big challenge – and not just for small councils, as Christchurch is showing.

"Note: this article was written prior to the publication of final annual plans and the examples cited in this article could be subject to change."

Nick Clark is Manager General Policy at Federated Farmers of New Zealand

REFRESHED WEBSITE

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

To see the new website go to www.localgovtforum.org.nz