

LOCAL GOVERNMENT BUSINESS FORUM

28 July 2016

Clerk of the Committee
Local Government & Environment Select Committee
Parliament Buildings
WELLINGTON 6140

SUBMISSION: LOCAL GOVERNMENT ACT 2002 AMENDMENT BILL (NO 2) 2016

Introduction

The Local Government Business Forum welcomes the opportunity to make a submission to the Local Government & Environment Select Committee on the Local Government Act 2002 Amendment Bill (No 2) 2016.

The Forum comprises organisations that have a vital interest in the activities of local government. Its members include BusinessNZ, the Electricity Networks Association, Federated Farmers of NZ, NZ Initiative, NZ Chambers of Commerce, and Property Council NZ. The Forum was established in 1994 to promote greater efficiency in local government and to contribute to the debate on policy issues affecting it.

Some individual members of the Forum will be making their own submissions on the Bill and we acknowledge their submissions.

BACKGROUND

The Bill is a key aspect of the Government's *Better Local Services* reforms which are intended to enable councils to deliver better services for ratepayers by encouraging more innovation and collaboration across local government to deliver better local services and infrastructure.

The Bill will provide for a broader range of functions to be transferred between local authorities, joint governance arrangements for areas of common or shared interest, and greater use of joint council-controlled organisations (CCOs), including water services CCOs and transport CCOs.

The Bill allows the Local Government Commission to initiate its own investigations in relation to reorganisations. The Bill also includes a provision for local authority-led reorganisations to be able to make submissions on reorganisation, including the establishment of multiply owned CCOs, joint governance arrangements, transfers of powers, boundary changes, and amalgamations.

GENERAL COMMENT

The Forum supports the intent of the Bill which is to encourage local government to be more efficient and effective.

Local government is a significant economic actor in its own right. As at 30 June 2015, local government's assets amounted to \$125.9 billion, with \$15.6 billion in liabilities. For the year ended 30 June 2015 its operating expenditure was \$8.7 billion and its operating revenue was \$9.7 billion, of which taxation revenue was \$5.4 billion¹.

Local government is also an important facilitator of economic growth and development. It provides important infrastructure and services (e.g., roading and transport, water and waste, recreational and community facilities, etc.), and administers and enforces regulation, most notably the Resource Management Act and the Building Act.

There are strong perceptions that local government is not as efficient and effective as it should be. This is reflected in Local Government New Zealand's own research which showed that "local government does not have a strong reputation with business and the public"².

These perceptions have not been helped by local authority rates rising significantly faster than general inflation over a sustained period. This is the case when measured against the overall Consumer Price Index (CPI) (see Appendix Figure 1) and when compared to other components of the CPI (see Appendix Figure 2).

The local government sector recognises that it needs to lift its game and Local Government New Zealand has launched its Excellence Programme as a way to encourage improvement. It has also acknowledged that the sector needs to embrace innovative approaches. These are positive developments.

The question is whether *Better Local Services* and specifically this Bill will help.

The Forum's assessment is that the reforms have the potential to facilitate more effective and efficient local government but that there is unlikely to be a rush for change, especially if the Local Government Commission promotes solutions which do not have local support. As legislating for regional and nationwide restructuring have both been ruled out³ councils and in particular their voters will need to be convinced of the benefits of change. There may need to be more of an incentive-based approach to encourage councils to partake, including financial incentives.

The Local Government Act 2002 is complex and it has been amended frequently since it was first enacted. With any amendments to complex legislation there is the potential for unintended consequences. While the Bill might seem relatively benign at first glance there will be 'devil in the detail' that will need careful consideration of the Select Committee.

¹ Statistics NZ *Government Finance Statistics (Local Government): Year ended June 2015*, published 17 June 2016.

² Local Government NZ, *Building a Stronger Local Government for New Zealand – a survey of New Zealanders' perceptions of local government 2015*.

³ Regulatory Impact Statement – Options for Improving Local Government Services, paragraph 53, page 18

MAIN PROVISIONS

The Bill has several key provisions, which are summarised below.

Transfer of Responsibilities

The Bill provides for amended provisions to better enable the transfer of responsibilities between regional councils and territorial authorities. **The Forum supports the Bill's intention in this respect.** There are likely to be activities (e.g., roading and the 'three waters') currently undertaken by territorial authorities that might in some circumstances be better undertaken by regional councils. This should be made easier where there are benefits from doing so.

While the emphasis appears to be on transfers from territorial to regional councils some activities currently the responsibility of regional councils (for example, passenger transport in some regions) might be better undertaken by territorial authorities or groups of territorial authorities within or across regions.

Reorganisations

The Bill changes the roles and powers of the Local Government Commission. There will be new provisions to facilitate local authority-led reorganisations and the Commission will be able to proactively initiate reorganisations.

The structure of local government is an important issue and there are many perspectives on whether structural change is a good or a bad thing. The Forum does not have a formal position on local government reorganisation. Individual members of the Forum have their own views on the issue, with many of them taking locally determined positions on a case-by-case basis and consistent with the principle of local democracy.

To date 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 the Forum continues to support this approach.

However, although the Local Government Commission is an independent body its evaluation criteria have been weighted in favour of fewer, bigger local authorities⁴. Recent proposals to reorganise local government along those lines have failed due to lack of local support. Bigger is not always better and we draw the Committee to a report recently produced by the New Zealand Initiative in partnership with the Forum, *The Local Benchmark: When Smaller is Better*⁵.

The Forum agrees that there are amendments that should be made to improve reorganisation processes (for example getting rid of the need for a petition to trigger a poll and instead moving straight to having a poll). However, we are mindful that if reorganisation processes continue to favour fewer and bigger local authorities there is only a remote chance of achieving local government reorganisation.

The Forum supports the Bill's intention to facilitate locally-led proposals and to make the consideration of proposals more responsive to local preferences. The

⁴ Regulatory Impact Statement – Options for Improving Local Government Services, paragraph 28, page 9

⁵ NZ Initiative and Local Government Business Forum, July 2016

Regulatory Impact Statement's Table 1 Options Analysis Summary Table suggests that the Bill's provisions should be consistent with those objectives.

Local Government Commission

With the Local Government Commission taking on a broader role than previously and with it having more direction and the ability to be more proactive we agree that its accountability should be strengthened, although not to the extent that the Minister determines its work and its priorities. The Commission has been an independent entity for many years and it is important that its objectivity is not unduly compromised. **The Forum supports the Bill's intention of providing the Commission with additional accountability arrangements but wishes it to remain objective and independent.**

Council-Controlled Organisations

The Bill puts in place a new regime for establishing and operating CCOs, including CCOs owned by multiple councils. The Forum agrees that multiply-owned CCOs have the potential to improve efficiency and effectiveness especially for major infrastructure. **The Forum supports the Bill's intention to facilitate multiply-owned CCOs.**

The Forum does not have any detailed comment on the Bill's extensive provisions on CCOs. However, as with our comments on reorganisation above we note that with regard to proposals to establish multiply-owned CCOs the Commission will need to be mindful of working constructively with councils and ensuring that there is local support. It will also need to be mindful of accountability of CCOs to ratepayers.

CONCLUSION

In summary, the Local Government Business Forum supports the intention of the Local Government Act Amendment Bill. On the face of it, the Bill makes what should be helpful amendments to facilitate more effective and efficient local government.

However, the Forum believes the Bill will probably have only a modest effect unless there are greater incentives, including possibly financial incentives, for councils to embrace change.

The Forum also urges the Committee to carefully investigate the clauses in the Bill to ensure that unintended consequences are minimised.

Thank you for considering our submission.

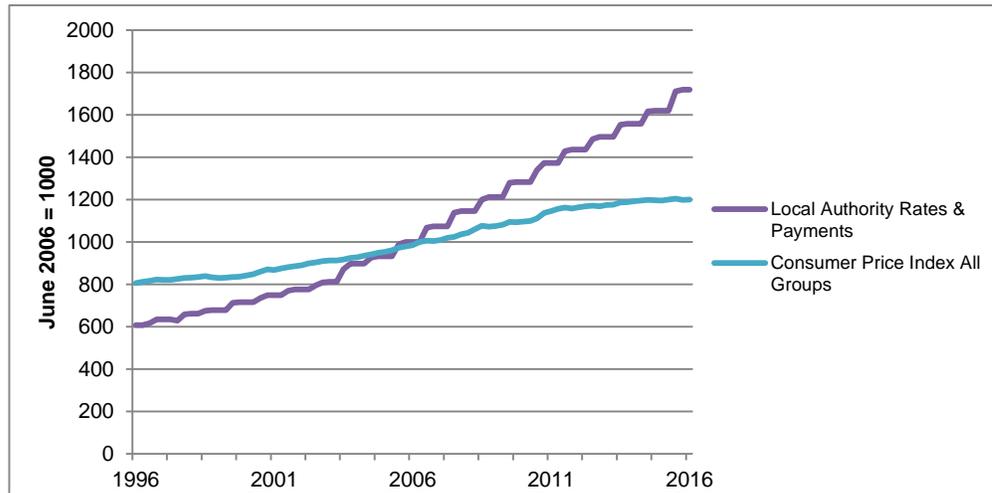
Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Barnett', written in a cursive style.

Michael Barnett
Chair

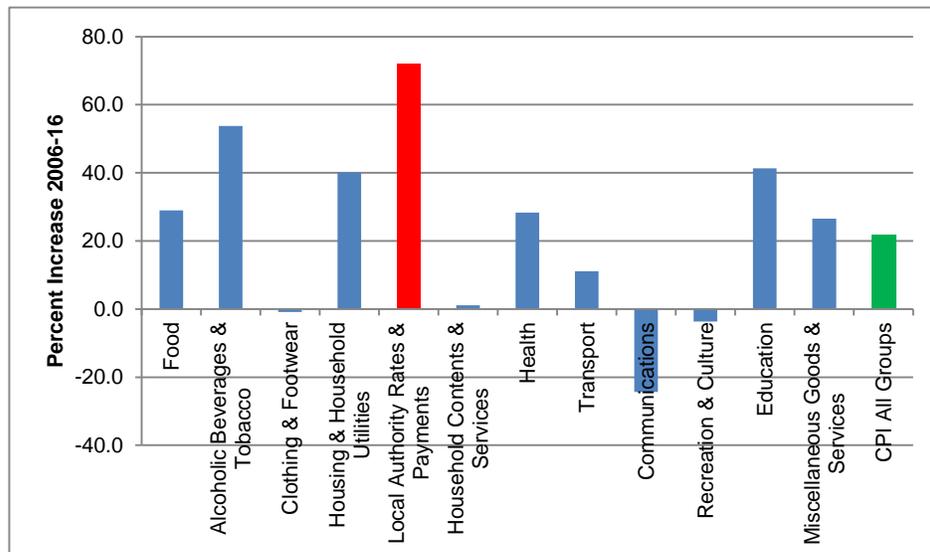
APPENDIX

Figure 1: Rates compared to Consumer Price Index 1996-2016



Source: Statistics NZ Consumer Price Index

Figure 2: CPI Groups' Percent Increases 2006-2016



Source: Consumer Price Index

The local government sector considers it simplistic to compare its cost pressures with the CPI due to its 'basket of goods' being different to that of consumers. It has instead produced, with the assistance of economic consultancy BERL, a Local Government Cost Index (LGCI) which indicates higher cost pressures. From the period June 2005 to June 2015 the LGCI increased by 37.6 percent⁶, which compares to an increase of 24.8 percent for the CPI.

The Forum acknowledges these different cost pressures. However, the fact that the LGCI has been consistently higher than either the overall CPI or its components is not an indication that local government should be excused completely but rather indicates that there should be room for improvement.

⁶ BERL, *Forecasts of Price Level Change Adjusters – 2015 Update, Note to Society of Local Government Managers*, September 2015.