

*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.

### **FORUM WEBSITE**

The Local Government Forum produces in-depth publications, submits on government proposals, and makes media comment on crucial local government issues. The Forum's publications, submissions, and media statements are available at [www.localgovtforum.org.nz](http://www.localgovtforum.org.nz)

## **LOCAL GOVERNMENT AND ECONOMIC GROWTH**

*By Michael Barnett*

### **New Zealand's growth challenge**

#### **Welcome to this edition of the Local Government Forum's annual newsletter.**

The Local Government Forum has for many years advanced an agenda focussed on achieving economic growth. While local government does not directly drive growth, the quality of the performance of the sector counts significantly toward the ability of businesses to succeed.

Local government's impact on economic growth is often underestimated. The sector's debt concerns for example are not given the attention of those of central government, yet the debt levels of some councils have the potential to weigh their communities down in the future through higher rates, fees and other charges, and deteriorating infrastructure. While debt does not directly affect economic growth, debt at an inappropriate level can impede growth indirectly through higher rates and excessive charges, and inadequate infrastructure.

The Forum was formed to increase the profile of local government concerns, and advance a policy framework that would deliver an efficient local government sector focussed on the core role of providing communities with genuine public goods.

The Forum has produced a range of publications that examine key areas of local government policy and performance. A newsletter is produced annually with a major policy theme.

Local government's contribution to economic growth is the theme of this edition, with articles from a variety of business perspectives.

The important question of whether local government should subsidise major entertainment and sporting events is discussed in the feature article by the executive director of the Business Roundtable Roger Kerr. This looks beyond the feel good factor associated with such events when public funding is sought, questioning the underlying economic principles and the potential for a genuine return to ratepayers.

The role of economic development agencies also features, in the light of increasing local government investment in these vehicles.

Concerns around local government debt and its potential threat to communities are also covered on these pages, along with land transport funding and regulatory standards.

All of these issues relate directly to our economic growth performance, and the vital role of local government in meeting New Zealand's growth challenge.

*Michael Barnett is the Chief Executive of the Auckland Chamber of Commerce and Chair of the Local Government Forum*

## LONG TERM PLANS

**Local government's calendar for 2012 features consultation on Long Term Plans, which forecast council expenditure and activity for the next ten years.**

The concept of ten year plans was introduced in the Local Government Act 2002. They bring together key financial policies, asset planning and service level strategies, and are therefore crucial to the business community.

Originally titled "long term council community plans", the 2012 documents will be the first published under recent amendments to the Local

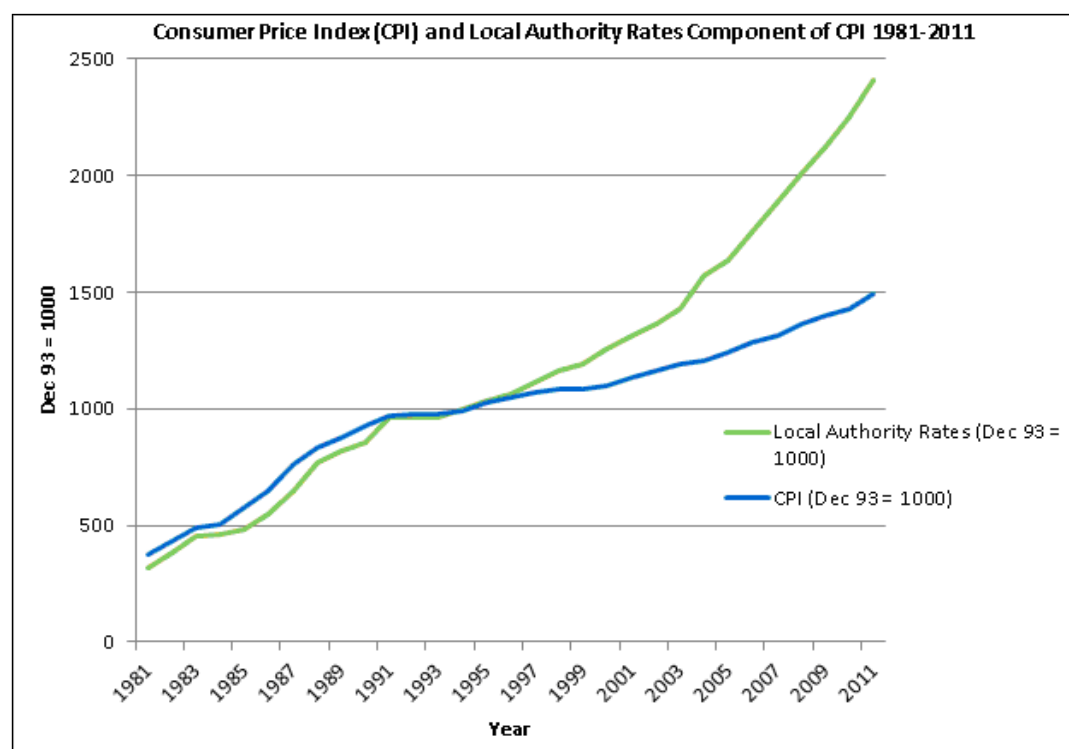
Government Act. The original brief, which was wide and required councils to incorporate high level community outcomes, has been constrained with the amendment. Hopefully the result will be more user-friendly plans, with greater relevance to the community's ability to afford their council's vision.

Long Term Plans may not be an attractive read but their substance is crucial to economic prospects.

The Forum urges all business people and organisations to check their councils' websites for news of the Long Term Plan, and take any opportunity to make their views heard.

## STATE OF THE GAP

**This graph has been published regularly in Forum Newsletters, and reflects an expanding differential between local government inflation and that of the wider economy.**



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

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 1997 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, according to Local Government New Zealand, has not prevented the growth of a substantial infrastructure deficit. The concern for New Zealand is the impact this ballooning cost is having on economic growth.

## MAJOR EVENTS: ARE THEY THE BUSINESS OF COUNCILS?

By Roger Kerr

*The main argument advanced in support of council funding of stadia and major events is that they produce significant economic benefits for the community.*

**The Local Government Forum has consistently argued that local authorities should focus on their core role of providing public goods and services, and the administration of regulatory functions conferred by parliament.**

These are vital roles for the overall well being of society. It is important that they are undertaken efficiently.

Public goods are those goods and services that cannot be readily provided by the private sector for two reasons. First, it may be too hard to exclude those who benefit but refuse to pay. Stop banks to prevent flooding may be an example. Secondly, the benefit obtained by one person may not detract from that derived by another person. Street lighting is an example.

The contrast is with private goods where no one can benefit from goods that have already been consumed and those who will not pay can be excluded. All the thousands of goods sold at the supermarket are private goods.

There are three main reasons for limiting the activities of local authorities to public goods. First, the larger the domain for government coercion, the smaller is the domain for individual liberty. Secondly, a system of voluntary exchange based on security in person and property is the best mechanism known for the creation of wealth. Thirdly, governments face problems of incentives and information that limit their ability to spend ratepayers' money wisely.

Some local authorities fund sports stadia, or major or special events. Councils, for example, contributed to the cost of the Otago Stadium in Dunedin, the redevelopment of Eden Park in Auckland and the Wellington Regional Stadium. They subsidised major events such as V8 races in Hamilton, the Rugby World Cup and the Ellerslie International Flower Show.

Should activities such as these be the business of councils?

First, note that seating at a stadium is a private good - like seating at a cinema. Only one person can occupy a seat at a time and those who want to benefit but not pay can be readily excluded.

The main argument advanced in support of council funding of stadia and major events is that they produce significant economic benefits for the community. Those benefits may include

the following:

- the creation of jobs during the construction of stadia and during events;
- the provision of improved facilities and infrastructure for the community; and
- spending by visitors to the country, region or district, including spending generated later from media coverage.

The economic argument for council funding of such activities is, however, weak for the following reasons:

- private spending on facilities or recreational activities independently provide such benefits (for example, Larnach's Castle, the Waitomo Caves, Tawhiti Museum in Hawera, Weta Cave in Wellington);
  - tax cuts instead could generate spill-over benefits by increasing private spending and/or law changes that reduce the regulatory barriers to hiring labour could soak up idle labour;
  - the hoped-for spill-over benefits from stadia might not be adequately captured by the wider community. For example, high prices for stadium seats might more substantially benefit high-paid professional athletes or some international sports body;
  - the disruption caused to regular domestic activities by one-off big events can be significant. For example, hotel occupancy rates might be disappointing because of cancelled business activity caused by high prices and risks of congestion; and
  - building capacity for a period of exceptional demand can lead to white elephants that are a drain on the community once the event is over.
- Local authorities can best contribute to economic development by focusing on their core role and keeping rates and regulatory burdens low. Special events and stadia are ventures whose costs and risks should generally be borne by the private sector rather than by ratepayers.

**Roger Kerr ([rkerr@nzbr.org.nz](mailto:rkerr@nzbr.org.nz)) is the executive director of the New Zealand Business Roundtable.**

# LOCAL GOVERNMENT AND ECONOMIC DEVELOPMENT – WHAT IS THE ROLE OF EDAs?

By Michael Barnett

**Local government makes an important contribution to the growth of local economic activity through providing secure, reliable infrastructure, accommodating business requirements wherever possible, keeping barriers to doing business low, and ensuring rates are kept competitive.**

*Business organisations such as chambers of commerce now find themselves in direct competition with some EDAs*

Beyond its 'core business', local government gets involved in activities as diverse as tourism planning, city branding and promotion, skills development, attracting investment, and coordinating regional projects among other things all with the aim of developing the local economy. These functions are often the responsibility of Economic Development Agencies (EDAs).

There is a range of views as to which of these are appropriate activities for local government. Readers of this newsletter are no strangers to the views of the Local Government Forum: local government activities should be confined to public goods - broadly those that can't be charged for. Sometimes it is a grey area what is, and what is not, a public good. This debate is healthy.

What is concerning is that the reach of EDAs and the range of activities they get involved with is steadily growing beyond what has traditionally been acceptable. For example many EDAs instead of focussing on developing the local economy, as their name suggests, want to work closely with individual businesses in the name of business development. With plenty of ratepayer and taxpayer money available to them, alarm bells should be ringing.

In general, we don't think picking winners or providing subsidies to selected businesses is the way to achieve any lasting benefit to the local economy beyond the benefit to the recipient businesses. Other businesses and householders bear the cost. It is doubtful that local government agencies are well placed to understand businesses' concerns and assist them meaningfully anyway.

In aggregate large sums of money are involved which could most likely be better spent elsewhere or retained by rate-payers. It also means that the private sector which has

traditionally provided business development services - and are generally better placed than EDAs to do so - are finding that well-funded EDAs are invading their traditional patch.

Business organisations such as chambers of commerce for example, which are largely funded by the voluntary subscriptions of their members and have traditionally focussed on a range of services for businesses including business advice, skills training and networking opportunities, now find themselves in direct competition with some EDAs. It is a classic case of the public sector using deep pockets to crowd out the private sector.

We also have the situation in some parts of the country of well-meaning councils wanting to promote, and being seen to promote, business in their city or district with their own business development programmes sometimes competing with the Economic Development Agencies their ratepayers are also funding.

Why are EDAs and councils diversifying their activities into traditional business organisation activities? It could be that they see associating with business provides them with credibility? It could be that they are not clear what their economic development role is or how best to achieve it? There seems to be increasing uncertainty as to how best to achieve economic development goals and EDAs are scrambling to find a legitimate role.

In my view, there is a role for local government in economic development outside the provision of infrastructure and traditional regulatory roles. Right now, for example, our three largest cities all face unique challenges – Auckland as it adjusts to life as a super city, Christchurch as it rebuilds post-earthquake and Wellington as it copes with the fallout from public service cuts. EDAs can probably play a useful role in each region – but what that role is needs to be

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carefully defined.

Unlike business organisations, which have the blow torch of membership numbers as an incentive to perform, performance measures for EDAs - which have a guaranteed source of income - are not so clear cut. Consequently some EDAs tend to have a large contingent of marketers and PR specialists on the staff often at the expense of economic expertise and strategic leadership which economic development by its nature requires.

Because EDAs are largely ratepayer and taxpayer funded, they should be providing 'public good' benefits not private benefits for the community and not be channelling their resources into private companies.

Meanwhile, business organisations, which are

privately funded by the voluntary subscriptions of their business members, are putting resources into economic development through their lobbying and advocacy function. This aims to improve the economic environment for all businesses and the community in general and is an example that EDAs should follow.

There needs to be a rethink on how the regional economic development model can best achieve its aims and how EDAs can make a difference.

*Michael Barnett is the Chief Executive of the Auckland Chamber of Commerce and Chair of the Local Government Forum*

## LIFTING THE COVERS ON COUNCIL DEBT

By Nick Clark

**To borrow or not to borrow, that is the question. With apologies to William Shakespeare, council debt has become an increasingly controversial issue with local government analyst Larry Mitchell going so far as to say that “council debt is now the number one financial issue facing the sector”.**

In contrast the 2007 Local Government Rates Inquiry said that “local government should look favourably on making more use of debt to finance long-term assets”. Who is right?

The Local Government Forum's view is that debt should be considered as deferred rates because it generally has to be serviced and repaid from current and future rates. From a perspective of intergenerational fairness debt is an appropriate means to fund projects where the benefits are realised over a long period. Debt also helps smooth the level of rates over time. Highly variable rates would arise if current spending as well as large and lumpy items of capital spending were solely funded from rates on a year-by-year basis.

Councils seem to have taken the Rates Inquiry's advice to heart, with local government debt increasing sharply in recent years, as shown in the red bars of the accompanying graph.

That said, at an aggregate level it is not clear there is a huge 'problem'. Local government's

combined debt of \$8.4 billion is a relatively modest 7.8 percent of its total assets. In comparison, central government's debt in June 2011 was \$91.0 billion, or 38 percent of its total assets. Local government debt is also low compared to New Zealand's sum of private sector debt (\$309 billion as at June 2011).

Another measure of sustainability is debt as a percentage of operating income. For the year ended June 2011 the local government sector's combined debt was 115 percent of total operating income, well under 150 percent which is considered by many as concerning. For central government the equivalent figure was 113 percent.

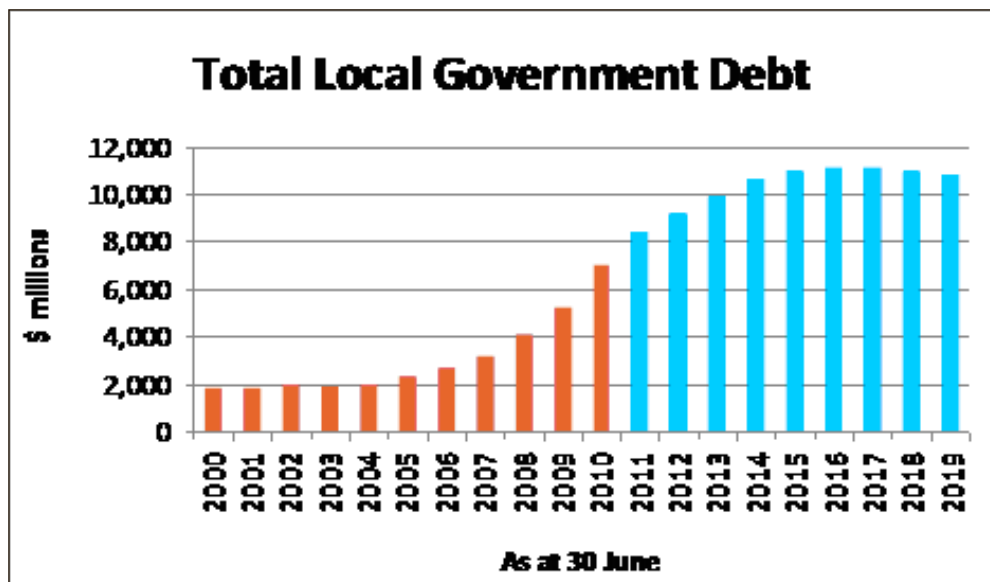
Looking at interest costs as a percentage of operating income, for the year ended June 2011 the local government sector's combined interest expenses was 6.4 percent of total operating income. For central government the equivalent figure was 3.8 percent.

According to an analysis of councils' 2009-19

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## LIFTING THE COVERS ON COUNCIL DEBT ...continued

By Nick Clark



Sources: 2000-10: Statistics NZ Local Authority Financial Statistics; 2011-19: Local Authority LTCCP Financial Analysis.

long term plans, the sector's debt is forecast to peak at \$11.2 billion in 2016 (or 8.8 percent of total assets), an increase of nearly \$3 billion from 2011. It will then supposedly begin to ease back to \$10.8 billion in 2019. These forecasts are shown in the blue bars in the graph.

Not surprisingly there is wide divergence among councils on their use of debt. A number have no debt at all while some have relatively high debt levels. Debt levels tend to be higher in Auckland and in other areas with high population growth where it has been used to fund new and upgraded infrastructure needed to meet increasing demand. In contrast, debt tends to be much lower in the South Island and most regional councils have low (or no) debt compared to territorial authorities.

It is the relatively small number of councils that have high and growing debt combined with small, shrinking populations and ageing infrastructure where there are likely to be problems.

That said the sector cannot afford to be complacent. Interest rates are currently at historic lows but ongoing instability in the global economy could restrict access to credit

and make that credit more expensive, increasing debt servicing costs. Although councils have the power to tax to meet debt costs, the majority of council assets are 'fixed' and not easily realisable in the event of financial trouble. Also, the events of the past twelve months show that natural disasters can put sudden and severe financial pressure on councils.

The local government sector is establishing a Local Government Funding Authority to help councils club together to get better access to finance at lower interest rates. The Local Government Borrowing Act 2011 provides the statutory authority for the scheme.

This initiative should help but councils need to maintain transparent and rigorous borrowing policies. Councils should continue to strive to run operating surpluses and any borrowing to fund operating deficits should be kept to a minimum while budgets are balanced. Most importantly though councils need to ensure that the projects they borrow for provide good value for money and deliver the promised long-term benefits for their communities.

*Nick Clark is General Policy Manager at Federated Farmers of NZ*

## ROADS ARE A NETWORK By David Rose

**On 27 July Transport Minister Steven Joyce released the 2012 Government Policy Statement (GPS) on Land Transport Funding.**

*Taken to its logical extent, a focus on traffic volumes raises the spectre of local roads being put into centrally determined categories*

*If our rural roads are allowed to deteriorate to the extent that they can't take a milk tanker or a livestock or logging truck then this bodes badly for exports*

The GPS is important because it directs where some \$35 billion of land transport funding will be spent over the next ten years. It outlines the Government's investment priorities and how funding will be allocated among activities like road policing, road safety promotion, state highways, local roads, and public transport.

The GPS's priorities are economic growth and productivity, value for money, and road safety. Federated Farmers strongly supports these priorities and we welcome the GPS's commitment that funding will be directed into high quality projects and activities that will support improved productivity and economic growth, particularly in the export sector.

In practice, the GPS is forecasting continued large increases in funding for state highways, particularly the so-called Roads of National Significance (RONS) which are mainly in and around our major metropolitan areas. Federated Farmers supports the RONS projects and we agree it's important to invest to ease the most significant pressure points in the national network and address the needs of key supply chain routes. However, there is a problem with the approach set out in the GPS. The emphasis on RONS has resulted in a reduction of government funding for local roads and this is placing more of the cost burden of the local roading network on local government and its ratepayers. While there may be some truth that the local roads funding squeeze will help drive efficiencies in council roading work, we have already seen several rounds of funding cuts and if efficiencies are not easily forthcoming or if the squeeze is too severe the consequences will be lower levels of service in rural areas, or increased rates, or both.

Even more concerning is the possibility of a change in how government funding for local roads is allocated. The GPS makes it clear that with respect to local roads there will be a focus on improving the condition and operation of 'key routes'. Taken to its logical extent, a focus on traffic volumes raises the spectre of local roads being put into centrally determined categories where those local roads deemed 'economic' (most probably in and around metropolitan areas) will

get more government funding with those deemed 'uneconomic' (most likely rural roads) getting less.

This is a particular problem in rural New Zealand where roading is the largest single activity for councils. Overall, around 17 percent of local government expenditure is on roading, but for rural councils it is around 37 percent and for some more than half of their spending is on roading. For these councils it's a huge challenge simply maintaining their existing networks to a reasonable standard let alone making improvements. It also puts huge pressure on rates and rating systems.

Although the GPS instructs the New Zealand Transport Agency and local authorities to consider roading from a 'national perspective' there does not appear to be the same recognition that all roads are part of a national network. While the GPS talks a lot about supporting the export sector, the fact is that around two-thirds of New Zealand's merchandise exports come from the primary sector and the vast bulk of this produce will have originated in rural areas, many of them remote.

If our rural roads are allowed to deteriorate to the extent that they can't take a milk tanker or a livestock or logging truck then this bodes badly for exports and makes redundant one of the key rationales for the RONS (improving the supply chain).

Given the state of the world economy, we are lucky that New Zealand produces food and other commodities, rather than being in the business of producing wide screen TVs, cars, or T-shirts. However, we can't take this good fortune for granted and we must recognise that our rural roading network is essential for the export-led recovery.

Federated Farmers is keen to ensure that policy makers in Wellington understand that our rural roads may not be congested like those in our metropolitan areas but they have a huge economic value to the country and are part of a wider national network alongside the RONS.

**David Rose is Local Government spokesperson of Federated Farmers of NZ**

# REGULATORY STANDARDS BILL: SHOULD IT APPLY TO LOCAL GOVERNMENT?

By John Pask

**After a long gestation period and extensive analysis, it is pleasing that the Regulatory Standards Bill has finally been introduced into Parliament. Submissions on the Bill are currently being analysed by the Commerce Select Committee.**

*It is difficult to understand why, if a proposed local authority bylaw must take into account the rights and freedoms in the Bill of Rights Act, it should not also be required to take into account the drafting principles of this Bill*

The aim of the Regulatory Standards Bill is to improve the quality, transparency and accountability of lawmakers.

The Bill has three key components:

1. It provides a benchmark through a set of regulatory principles that all regulation should comply with;
2. It provides transparency, by requiring all those with regulatory powers to certify that regulations are compatible with such principles; and
3. It provides monitoring of the certification process through a new declaratory role for the courts.

The Bill identifies a set of principles for responsible regulation that all regulation should be consistent with. Regulation is defined to include Acts of Parliament, statutory regulations and tertiary legislation.

Explicably, the Bill excludes local government regulation.

The principles of the Bill cover seven key areas, including:

- the rule of law
- the protection of individual liberties
- the protection of property rights
- the creation of taxes and charges
- the role of the courts
- the review of administrative decisions, and
- good law making

These principles are guides, not binding rules and the Bill provides that they can, if necessary, be breached. It does this by allowing for Parliament to pass any legislation, whether or not it complies with the principles. All the Bill requires is that departures from the principles are “reasonable and can be demonstrably justified in a free and democratic society.” As this is almost identical to the wording of section 5 in the New Zealand Bill of Rights Act 1990, it is difficult to understand why, if a proposed local authority bylaw must take into account the rights and freedoms in the Bill of Rights Act, it should not also be required to take into account the drafting principles of this Bill.

The exclusion of local government regulation from the requirements of the Regulatory Standards Bill is assumed to be based on the premise of “one step at a time”, with the possibility of including such regulation at a later time.

The exclusion is however problematic given local government’s extensive regulatory powers under various Acts, including the Local Government Act 2002, the Waste Minimisation Act 2008 and the Resource Management Act 1991.

While these powers are generally likely to be used in a constructive manner, there are a number of examples of inappropriate use with major implications, such as raising the cost of doing business and reducing competition in markets. This is a further reason for recommending that the Regulatory Standards Bill apply equally to local government regulation.

The Auckland Council’s proposed Strategic Direction for its draft waste minimisation and management plan is an example of the scope of local government’s broad regulation-making power. Potential implications include:

- A joint venture with landfill owners giving the Council exclusive rights to the Auckland waste that goes into landfills in return for ensuring private landfill owners are “not worse off”;
- Monopoly control of landfill pricing, substantially increasing the cost of solid waste disposal as a mechanism for Council revenue generation;
- A solid waste bylaw that regulates the collection and transportation of waste and provides control over transfer stations in order to maximise council revenue;
- Provision of subsidised community composting and similar services, with commercial implications for current service providers.

The reason given for the exercise of this regulatory power under the Local Government Act is compliance with the Waste Minimisation Act 2008. But as this would likely require exemption from, or modification to, commerce-related legislation, in itself the exercise raises questions of regulatory responsibility.

The proposed Strategic Direction is an example of local government regulation that would take or impair private property, diminishing freedom of choice and action with regard to the right to own, use and dispose of property. It is doubtful that the proposal would produce benefits outweighing costs. It seems unlikely that compensation for those adversely affected will be contemplated: indeed there is an express intent to impose costs and losses on individuals and businesses.

The above example is just one of several cases where clearly the decision-making powers of local government have major implications for businesses and the wider community, hence the need for the Regulatory Standards Bill to apply both to central and local government regulation.

*John Pask is an economist at Business NZ*

## RECENT PUBLICATIONS AVAILABLE FROM THE LOCAL GOVERNMENT FORUM

- **Democracy and Performance: a Manifesto for Local Government** (*Available from: [nclark@fedfarm.org.nz](mailto:nclark@fedfarm.org.nz)*)
- **Property Rights Primer** (*Available at: [www.nzbr.org.nz](http://www.nzbr.org.nz)*)
- **Local Government and the Provision of Public Goods** (*Available from: [nclark@fedfarm.org.nz](mailto:nclark@fedfarm.org.nz)*)
- **Efficiency and Equity in the Funding of Roothing Expenditures** (*Available from [nclark@fedfarm.org.nz](mailto:nclark@fedfarm.org.nz)*)
- **Income and Wealth Redistribution – Should it be a Role for Local Government?** (*Available from [www.localgovtforum.org.nz](http://www.localgovtforum.org.nz)*)
- **Taxing Growth and Development – a critical review of the role of development and financial contributions**  
(*Available from [www.localgovtforum.org.nz](http://www.localgovtforum.org.nz)*)
- **Port Performance and Ownership** (*Available from [www.localgovtforum.org.nz](http://www.localgovtforum.org.nz)*)

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*Participants in the Local Government Forum are:*

Federated Farmers of NZ (Secretariat)

NZ Business Roundtable

BusinessNZ

NZ Electricity Networks Association

NZ Retailers Association

NZ Chambers of Commerce (Inc)

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