

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.

Participants in the Local Government Forum are:
Federated Farmers of (NZ) Inc. (Secretariat)
NZ Business Roundtable
Business NZ
NZ Electricity Networks Association

The Forum newsletter is edited by Nigel Billings and Nick Clark: contact nbillings@localgovtforum.org.nz

BIGGER RATES REBATES NOT THE ANSWER *By Don Nicolson*

It must be an election year. With council rates rising at well over twice the rate of inflation, pressure has been steadily mounting to do something about the growing and disproportionately allocated rates burden on property owners.

Unfortunately, the Prime Minister's promise to provide higher rates rebates for people with incomes under \$20,000 fails to address, and may in fact worsen, the real problem of spiralling local government expenditure.

Higher rebates may be good news for those fortunate enough to be eligible for them, but they can only ever be a stop-gap. With rates continuing to increase rapidly due to rising council expenditure, there will be ever-increasing pressure to increase the rebates further.

A far better approach would be to encourage councils to focus on their core business, the provision of local public goods. This would help contain spending and therefore the demands on the ratepayer. A meaningful review of the funding of local government is also required to remove rating anomalies (although the case for new sources of revenue is dubious).

Particularly concerning is the likely impact on accountability and participation in the affairs of local government. At present, one of the few checks on councils is that ratepayers can and do get angry and demand change either through the annual plan submissions process or at the ballot box. By increasing the rebates there will be less motivation for many residential ratepayers to demand change when they will no longer bear the full costs of rates.

People should pay the full costs of their use of council services and the benefit they derive from council activities. They should not be subsidised by other ratepayers, or taxpayers for that matter. Demands for more council spending are easily made by those not paying.

Perhaps a reasonable fear is that bigger rebates would result in greater apathy in the affairs of local government, lower election turnouts, and a further screwing of the scrum against businesses and farms, the groups that already bear the brunt of local government funding demands.

What is needed from our leaders in an election year is principled policy on local government, not quick fixes that only reinforce current unfair bias. The Local Government Forum will be monitoring the local government policies of our political parties as the election draws nearer.

Don Nicolson is Chairman of the Local Government Forum

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WELLINGTON V8 CAR RACE

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*Should
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Events?*

Around the world, local governments are addicted to building stadiums or staging events.

All too often the estimated net benefits of such projects are grossly inflated, and ratepayers end up picking up the tab. Two recent cases: Hamilton City Council paid over \$5 million to bail out the Waikato Stadium in 2002 and Auckland Regional Council is reported to be facing losses of \$1 million on Ericsson Stadium's new grandstand.

The latest potential folly was Wellington City Council's proposal to stage a V8 street car race over 7 years. The Council was arguing, on the basis of a flawed consultant's report, that the spending of \$22.9m estimated to be associated with the race was a benefit to the city.

The Council's approach confused spending (or revenue) with the creation of economic value, which is the appropriate measure of benefit. The calculation of economic value requires the deduction of the full costs (including opportunity costs) of the goods and services sold. Net economic value was likely to be nearer \$2m than \$23m, which fell short of the estimated cost to the Council.

No one can object to such an event if it meets normal planning requirements. The objection is to ratepayer subsidies. Businesses and others lobbying for the event should put their hands in their own pockets, not ratepayers'. The case for subsidies is weak.

The proposal has now been abandoned (on the grounds that resource consents could not be obtained in the time available) but the lesson about spurious economic analysis should be learned by the local government sector at large.

For further discussion, see *Should Governments Subsidise Stadiums and Events?* New Zealand Business Roundtable, 1999, www.nzbr.org.nz

COMMUNITY OUTCOMES: DEGREES OF UTOPIA?

Seasoned local government watchers will have noticed a new section in council long-term and annual plans, that relating to 'Community Outcomes'.

Community Outcomes arose from the Local Government Act 2002 and comprise statements describing how the community would like to see itself in terms of its social, economic, environmental, and cultural well-being. They are designed to assist councils to align their activities with the community's objectives.

Most local authorities have now adopted Community Outcomes in their long-term council community plans after consultation with their communities. Most are high level, feel good utopian statements that on the face of it are hard to disagree with.

The problem is that most Community Outcomes are so wide-ranging and open-ended that they'd enable almost any activity to be pursued, regardless of inconveniences such as value for money.

Highly motivated interest groups will find them a great vehicle for pushing their particular barrows, like sports stadiums, pensioner housing, and tourism promotion, all of which would fit nicely under various headings of most Community Outcomes.

Central Government will also see them as great ways to push more responsibilities onto local government, regardless of whether the additional burden is wanted. Recent examples of this phenomenon include national drinking water standards, building regulation, prostitution regulation, dog control etc.

In both cases ratepayers seem likely to pay the price of utopia through ever increasing rates burdens. All those with an interest in promoting efficiency in local government should take a close interest in Community Outcomes as they develop over time.

A CONSTITUTIONAL VIEW OF LOCAL GOVERNMENT

By Roger Kerr

The essence of a constitution, written or unwritten, is to protect citizens against state power and provide a framework for democratic government.

Too often local government operates without the consent of the governed. Businesses, which pay around 50% of all rates, are largely disenfranchised.

A sound framework limits government to its proper role and aims to ensure that those who govern do so only with the consent of the governed.

How well does local government in New Zealand conform to constitutional principles? The answer is, rather poorly.

The Local Government Act 2002, with its wide purpose section and power of general competence, is a charter for open-ended expansion of council activities.

It was rammed through with a narrow parliamentary majority and in disregard of the weight of submissions on the bill. With this birth defect, it is unlikely to survive a change of government – a sorry state of affairs for a quasi-constitutional measure.

The US Constitution delegates specific ('enumerated') powers upwards from the people to the states and to the federal government to provide public goods such as national defence. In a New Zealand context, a good case can be made

that the powers of councils should be defined and enumerated in legislation. Councils should be prohibited from engaging in other activities unless they obtain ratepayer consent in a poll supported by more than a simple majority.

As far back as 1988, an Officials Coordinating Committee on Local Government expressed the view that "the key role for local government lies in the provision of local public goods where such goods are not more efficiently provided by markets, voluntary arrangements, or by central government." This principle should be the basis of enumerated powers.

Such a charter would see councils exit from a range of private good activities (eg commercial enterprises) and focus on performing their core functions better.

It would also provide a proper constitutional anchor to local government and help restore genuine local democracy.

Roger Kerr is the executive director of the New Zealand Business Roundtable

RATES BURDEN BECOMING OPPRESSIVE

Over the past decade rates payable by households and businesses have increased at 2.7 times the rate of other consumer prices.

The burden on business owners is becoming oppressive. For example, rates rank in the top six farm expenses for the majority of the Ministry of Agriculture and Forestry's monitor farms.

The cost of local government services is increasingly out of step with the rest of the economy. In fact local council rates and fees are among the bigger cost increases driving inflation over the past 12 months.



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'LESS IS MORE': CONSUMER READERS

A major survey of 12,000 readers of the Consumer magazine has found satisfaction with local authorities to be higher in smaller centres than in bigger metropolitan areas.

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According to the Consumers Institute, the results show council services and standards in high growth areas, most notably those in and around Auckland (but also the Far North, Kapiti Coast, and Queenstown-Lakes) are 'crumpling under the pressure', with many complaints about building permits and resource consents. Poorer performing councils also tended to have higher rates.

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Those councils that performed best tended to be the smaller cities and rural district councils (with Christchurch being the only big city to perform well across all criteria). The best regarded councils tended to be those without major pressures on infrastructure and they had lower rates. Smaller councils were regarded as being better at consulting their communities.

Along with the Local Government Forum's Hot Councils exercise last year (which also concluded that smaller councils tended to be better than bigger ones), the Consumer survey is another useful attempt to benchmark councils, this time from a resident's perspective.

In response to pressure to provide consistent information on council performance, officials from the Department of Internal Affairs are now working on a website database. While not intended to rank councils, it should still enable the public to get a clearer understanding on how their council is performing across a number of criteria.

The website is due to come on line in the middle of 2005 and will be added to over time.

Watch this space.

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