

*Newsletter of the*  
LOCAL GOVERNMENT  
FORUM

Number 8 February 2009

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.

## PROSPECTS FOR CHANGE

*By Charles Finny*

**Councils this year face the challenge of budgeting in a recession, no easy task when their role has expanded under legislation with few checks and balances. This edition of the Forum newsletter examines the task of reining in the sector that lies ahead of the new Local Government Minister.**

Welcome to another edition of the Local Government Forum newsletter. As the newly elected chairman I am excited by the prospects for positive change in the sector at this time. Local government is a vitally important institution. It provides for democratic decision-making within local communities and touches most aspects of people's lives. In terms of revenue, spending and assets, many councils rank with New Zealand's largest enterprises.

In light of this importance, it is essential that local government is well run. The Local Government Forum was established with this in mind - to promote greater efficiency in the local government sector and to contribute to the debate on policy issues affecting it.

We believe the local government sector has expanded its sphere of activity too widely in recent years and has allowed the rating burden to fall disproportionately on to the business and farming sectors. We are also concerned about inadequate scrutiny of local government expenditure and the need for more effective monitoring of its performance. We believe New Zealand is due for some significant reforms of the sector to address these concerns.

As we enter turbulent economic times it is doubly important that these issues are addressed and that local government makes a positive contribution and does not act as a drain on the economy.

In this regard, I am pleased with the drive by many local authorities to cut costs and constrain rate increases in the face of tough economic times. At this time of economic recession it is important that councils cut their cloth. Businesses can't pass on higher costs and neither should the local government sector. But to my mind more radical measures are necessary.

*Continued....*

## PROSPECTS FOR CHANGE *Continued....*

This edition of the Local Government Forum Newsletter focuses on some of the ideas for reform that the Forum has been promoting. There are many more.

I am very pleased with the appointment of Rodney Hide as Minister of Local Government. Rodney's views on local government are well known and the Prime Minister's decision to give the portfolio to him was a good one. His appointment sends a clear message to the local government sector that its performance is central to the economic performance of New Zealand as a whole.

Mr Hide takes office at an interesting time with the increased focus on the role of local government, with the Reserve Bank Governor criticising local government for its excessive rate rises, and with the Royal Commission on Auckland Governance soon to make its recommendations.

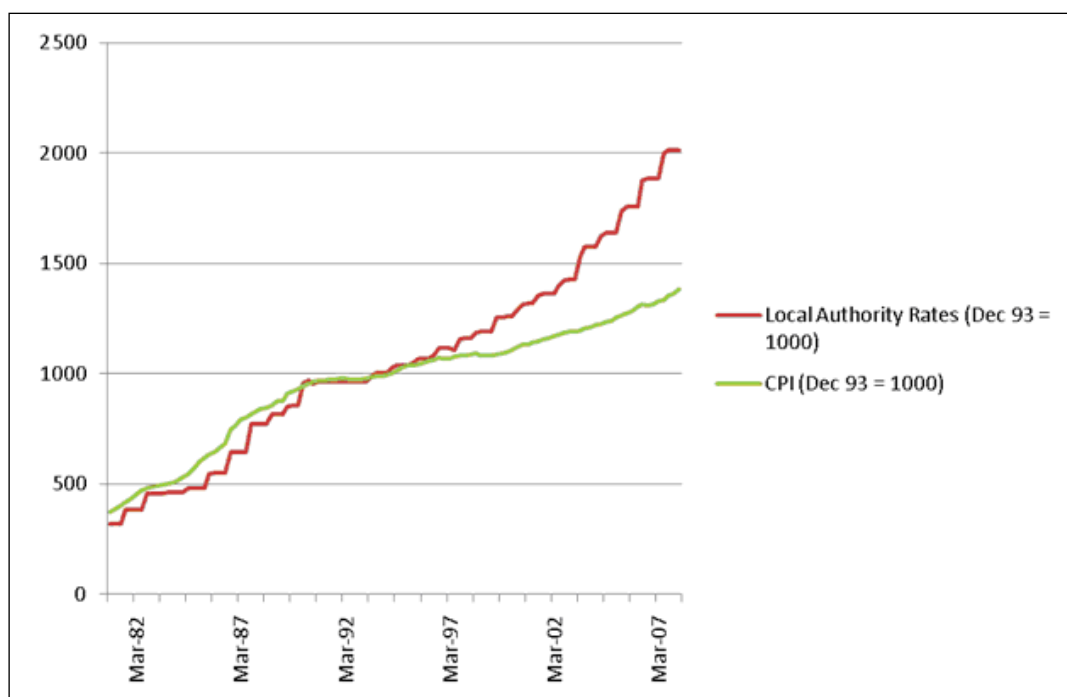
Already I am greatly encouraged by the response we have had from the new Minister to the ideas put forward by the LGF. Many of the reform proposals floated in this newsletter are shared by him and we are pleased to be able to contribute to the debate in this way.

*Charles Finny is the Chief Executive of the Wellington Chamber of Commerce and Chair of the Local Government Forum*

## STATE OF THE GAP

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. As such, it is one of a number of factors contributing to interest rates that have been higher than

necessary as the Reserve Bank fights 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.



*\*Graph based on information supplied by the Department of Statistics*

# REFOCUSING THE ROLE OF LOCAL GOVERNMENT

By Roger Kerr

**Last November saw the release of the Forum study *Local Government and the Provision of Public Goods*, a sequel to the Forum's 2007 overview paper *Democracy and Performance: A manifesto for Local Government*. It was welcomed by the Minister of Local Government, Hon Rodney Hide, as broadly in line with his thinking. (Both documents are on the websites of Forum members (e.g. [www.nzbr.org.nz](http://www.nzbr.org.nz)))**

A clear understanding of the nature of public goods is essential because ensuring their provision is the core role of local government. A 1988 Officials Committee affirmed that the key role of local government should be to provide local public goods that cannot be more efficiently provided by the private sector.

As the Forum study explains, public goods have two distinctive features:

- once a public good is provided, it is difficult to exclude non-payers from benefiting from it. (they can be 'free riders'); and
- one person's use of a public good does not limit its availability for use by others.

Technically these are known as the non-excludability and non-rivalry characteristics of public goods.

Examples of public goods at the local government level are streetlighting, footpaths, parks and reserves, civil defence, public health and safety, and regulatory functions.

By contrast, private goods can best be provided by private enterprise. A rough rule of thumb is that if a good or service can be charged for cost-effectively it is a private good.

Councils are engaged in a wide range of private good activities. Examples are property, carparking, ports, airports, public transport, portfolio investment, marinas, sports stadiums and cinemas.

The Local Government Act 2002 blurred the focus on public goods by giving councils wider purposes and a power of general competence. It encouraged the expansion of council spending and the rate increases of recent years.

The Forum study argues that the Act needs to be amended to refocus councils on their core public good roles.

It suggests enumerating the core public good activities of local government in an amended Act. Other activities (eg the provision of stadiums) could be undertaken provided that more than a simple majority of ratepayers approved proposals in a referendum.

The Forum considers that such an approach would strengthen democracy at the local level, curb rate increases, release resources for better use in the private sector, help the economy weather the current difficult economic conditions, and promote productivity and economic growth in the longer run.

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

## THE BECKHAM FIASCO

A recent example of councils straying far beyond their core role was the initiative by the Auckland Regional Council (with Auckland City Council involvement) to promote a soccer match at Mt Smart stadium featuring British soccer star David Beckham.

The venture, which the New Zealand Herald called a "dim-witted decision", failed to break even and is reported to have cost the ARC approximately \$1.8 million. It sparked an internal inquiry and was condemned by the Minister of Local Government.

This fiasco followed others such as the Wellington City Council's loss-making sponsorship of Tiger Woods, the Hamilton City Council's loss on a Warriors event, Tauranga City Council's contribution to an artificial reef for surfing that hardly works, the Buller District Council's failed sock factory and the Westland District Council's failed plastics factory.

A current example of inappropriate expansionism is the reported proposals by six councils to facilitate the provision of banking services (and in the process discriminate in favour of one bank).

## RATES INQUIRY: WHY THE WAIT?

By Don Nicolson

**After years of closed loop deliberations between central and local government the 2007 Rates Inquiry at last gave ratepayers a say. What has happened to all that hard work?**

Eighteen months ago the Independent Inquiry into Local Government Rates submitted its report to the then Minister of Local Government. The report caused quite a stir by stating that 'local government is paying insufficient attention' to 'affordability of expenditure and equity of funding' and by recommending changes aimed at reducing the reliance on rates and improving transparency.

After due consideration by officials and ministers, most inquiries sooner or later get a formal government response. These responses set out whether the government agrees or disagrees with an inquiry's findings and they state what the government will do against each recommendation. Sometimes, but especially when they involve money or law changes, responses can take time.

Even so it is remarkable that a year and half has passed without any response to the Rates Inquiry. Ratepayers will be forgiven for wondering what has happened to the report and its 96 recommendations and whether the issue has simply been put in the too hard basket.

Central and local government officials have been working behind closed doors but there has been scant engagement with those that pay

the bills, despite the Rates Inquiry suggesting the establishment of a 'high level taskforce' (including ratepayer representatives) to work on implementing its recommendations.

The prospects for progress under the previous government were virtually nil but the change in government, and with it a new Minister of Local Government, should provide fresh impetus. The jury is out on whether these hopes will be satisfied, but Rodney Hide's public comments show willingness to promote meaningful reform.

Funding policy must be a key plank of any package of reforms. The connection between the cost of council services and who in the community is paying for them must be made clear. Without this information the community has little hope of ensuring that council provides wanted and appropriate services at a reasonable cost.

The Local Government Forum urges the new administration in Wellington to deliver its response, whatever it is, to the Rates Inquiry report. The ratepayers who travelled to meetings, hunched over computers writing submissions, and who through their rates and taxes funded the whole exercise, have earned it.

*Don Nicolson is the President of Federated Farmers of NZ*

## COMING SOON FROM THE FORUM...

Following on from recent publications *Democracy and Performance – a Manifesto for Local Government* and *Local Government and the Provision of Public Goods*, the Local Government Forum will soon be publishing a further think piece *Income and Wealth Redistribution – Should it be a Role for Local Government?*

The report will look at the role for central and local government in income and wealth redistribution, both directly and indirectly, and asks whether it is appropriate for local government to engage in such activity.

Along with *Democracy and Performance* and *Provision of Public Goods*, this report

will be an important resource for all those interested in local government policy, particularly as councils begin consulting their communities on activities and funding through their draft long-term council community plans.

# INFORMATION SHOULD BE RELEVANT

By Nick Clark

**The Local Government Act 2002 gives clear direction on the principles of consultation. Councils are good at following the processes prescribed, but are ratepayers getting quality information or a big pile of words?**

Ratepayers face an avalanche of information from councils this year as long term council community plans (LTCCPs) are produced for consultation and adoption. The LTCCPs already released are averaging 4cm in thickness.

For the ratepayer wanting to form an opinion about their value for money the problem is obviously not a lack of information but a lack of high quality information. High quality information would be information that compared the cost of services with other councils, showed the cost per ratepayer or \$ of property value of each major service, and then compared the contributions of other ratepayers in the area. This is largely absent. Even comparing expenditure from year to year can be difficult, and rate increases are frequently stated against the previous forecast rather than in the current year.

And, despite it being easy to do so, few councils provide ratepayers with itemised rates assessments or even include rates breakdowns for benchmark properties in their annual plans.

**For the ratepayer wanting to form an opinion about their value for money the problem is obviously not a lack of information but a lack of high quality information.**

The situation is even worse for those who want to compare councils. This is partly because the local government sector has been reluctant to make it easier for the public to compare councils and it has been highly critical of attempts to do so. The sector claims that each council has differing expenditure patterns and funding systems and that it is unfair to compare councils when each council's topography, geography, and population density can result in huge variations in the costs of building and maintaining infrastructure; when councils fund activities (e.g., water) in different ways; and when some councils provide facilities and services that are used by people residing in neighbouring council areas.

These concerns are reasonable but they can and should be resolved and central government needs to step in to provide public information on activities, expenditure and revenues to enable councils to be

compared and benchmarked. Also, the points made above are reflective of bigger policy issues that need to be addressed and publishing the information allows the arguments to be debated in the public arena and might actually help resolve the issues.

In 2005 (prompted by an exercise by the Local Government Forum the previous year to rate and compare councils) the previous government established a public website [www.localcouncils.govt.nz](http://www.localcouncils.govt.nz). This website is useful but it could be improved if there was a section that listed all councils and their expenditure, revenue and rating information (historic, current and forecast). The website should also include more information on council rating systems, including choice of rating base, UAGC percentage as per legislative cap, number of rateable properties, percentage of rates revenue collected from residential, rural, and business sectors, non-rates revenue (fees, charges, etc).

Even the 2007 Rates Inquiry was frustrated by a dearth of quality, consistently reported information. It made a number of recommendations to improve the quality of information for ratepayers. Councils must do better at improving the information they provide to their communities but central government also has a responsibility to collect and analyse local government financial and statistical information and then publish it in a user-friendly manner.

The Local Government Forum agrees. Better quality and more relevant information will not only improve public understanding of how councils are performing and motivate greater involvement in local government issues but it will also improve the quality of information for decision making at both a national and a local level – surely a win-win for all concerned.

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

# TASK FORCE SHOULD EXAMINE POLICIES

By John Pask

## The Government should establish a taskforce/policy unit to ensure that local government is contributing to the Government's growth goals

Given the importance of the local government sector to the New Zealand economy it is important that local government activities contribute to improvements in productivity and economic growth. Local government spending is equivalent to more than 3 per cent of gross domestic product. During the next 10 years councils in aggregate expect to spend \$31 billion over the next ten years on capital expenditure alone<sup>1</sup>.

Ratepayers' equity as at 30 June 2007 was a massive \$81.6 billion or around \$19,000 per capita<sup>2</sup>. This is almost double the current capitalisation of the NZ Stock Market (\$46.5 billion as at 16 February 2009<sup>3</sup>) and again almost double taxpayers' equity in central government (\$46.7 billion as at 30 June 2008<sup>4</sup>).

Businesses pay about half the country's rates bill, a huge burden given the size of the business sector and extremely disproportionate to the level of services supplied to them.

Unlike central government, local government does not face the strong day-to-day scrutiny of expenditure decisions which would put the acid on councillors to make sound economic decisions.

The Local Government Forum believes local government should be restricted by law to providing local public goods and efficient local regulation. The Forum would also like to see local government contributing to the Government's overall growth goals of enhancing productivity.

A taskforce or policy unit should be established to ensure that the activities of local government contribute positively towards the central government productivity goals.

This would impose greater pressure on local government to ensure that the provision of local public goods was as efficient as possible and would encourage a hard look at the often monopoly provision of water and waste services - among others - and their associated pricing decisions.

There is often weak transparency around pricing decision-making for private goods and services provided by local government. This provides little incentive for the efficient use of resources and provides scant guidance for councils in making important long term investments in important infrastructure such as water and roading.

There are already various bodies charged with monitoring local government behaviour such as the Office of the Auditor General and the Local Government Commission, but these agencies tend to have a narrow brief precluding their involvement in fundamental or broader policy issues.

Given the Government's stated focus on improving regulatory processes and improving productivity of the entire economy, such a taskforce or policy unit may well sit alongside or even within the proposed Productivity Commission.

<sup>1</sup>*Report of the Independent Inquiry into Local Government Rates*

<sup>2</sup><http://www.localcouncils.govt.nz>

<sup>3</sup><http://www.nzx.com/markets>

<sup>4</sup><http://www.treasury.govt.nz/government/financialstatements>

*John Pask is an economist at Business NZ*

## TIME TO ADDRESS APATHY

By Jeremy Harding

**The Local Government Forum believes there needs to be a fundamental review of the consultation and decision-making provisions of the Local Government Act 2002 (LGA 2002).**

2002 was a watershed year for local government. The LGA 2002 brought in the principle of the “power of general competence” – the power for councils to essentially provide the community with whatever they want subject to the LGA 2002 and the general law. The check on this new power was to be a requirement for councils to increase their levels of consultation with citizens. Councils had argued that they should be free to respond to the democratically expressed wishes of their diverse community. Three-year elections and the range of consultation procedures and accountability documents (Long Term Council Community Plans (LTCCPs) and Annual Plans etc) would provide the necessary constraints.

Seven years later it is clear that this hasn't worked as well as it should. Where it has fallen down is the simple fact that people are not as interested in local government as they need to be to make it work.

For example, less than half of all voters participate in local government elections whereas over 80% of voters participate in parliamentary elections. Voters often know little about the candidates or their policies. Councils are also subject to much less scrutiny by the media and independent agencies than central government. The consultation associated with the various plans attracts only minority interest and such exercises are often perceived to be a sham or a waste of time.

The apathy towards local government since the passage of the LGA 2002 could have something to do with the strong economy and in particular the buoyant housing market experienced since 2002. It's possible that interest in local government will be stimulated as the economy weakens and its cost is felt more in rate-payers' pockets. It is encouraging that many councils are looking for areas to cut expenditure as tough times loom after years of substantial increases.

Demands on ratepayers have increased far beyond the rate of inflation in recent years but there is a perception amongst many people that the rate-take is linked to house prices – i.e. a continuous increase in their rate bills is to be expected while house values are appreciating. Many of these people will be surprised when they see rates continue to rise in the face of falling house prices. This may further awaken interest amongst ratepayers as to how local government is spending their money.

The power of general competence only works when consultation is working well. Unfortunately it isn't. This is not for lack of trying. As the 2009 round of LTCCPs approaches, councils are bending over backwards (and spending lots of money) to get their communities interested and ensure they are seen to be consulting. Wellington City Council, for example, has established a Residents Panel to help them form their plan and is hosting a number of roundtable meetings with the public.

The truth is only organisations like the Local Government Forum and minority groups are interested in local government affairs, but this is not enough to make consultation work and to justify the power of general competence.

An independent review is needed. One alternative offered, which the review should consider, is either encouraging or requiring local authorities to make greater use of referenda if they wish to undertake significant new activities beyond a core role.

Binding referenda on new projects would attract interest from rate-payers, especially where full information as to the project's cost is provided. The preference of citizens would be much more likely disclosed through referenda than through the existing consultative exercises. There would be a great deal of debate as to what would be the core range of services local government can provide without calling a referendum but this, in itself, would also be healthy.

***Jeremy Harding is Policy Manager at the New Zealand Chambers of Commerce (Inc)***

## LOCAL GOVERNANCE: A BIG GAP TO BRIDGE

By Alan Jenkins

**On one level designation just reduces bureaucracy, allowing the party who obtains it (the requiring authority) to do things like maintain roads without going through the full complexities of the relevant district plan.**

Last November the Auckland City Council announced a proposal to “designate” all the roads it feels it owns under section 168 of the RMA. This is, according to the ACC, “to enable the safe and efficient functioning and operation of the council’s road network while managing the use of the road corridor for other network utility infrastructure.” The notice is online<sup>5</sup> and details are supposedly available on a link at that site, although finding them is no easy task. Submissions closed on 9 February.

Utility operators, who also have statutory rights to road reserve areas, are understandably very keen to be consulted on any moves to change their status. So too would be the consumers of electricity, gas and telco services who ultimately meet the costs of any new requirements imposed on road corridor users. Consumers, however, generally cannot be expected to be familiar with processes like RMA designations, and rely on service providers like the local electricity distributor to protect their interests.

Behind the scenes there has been a very useful cooperative exercise going on to ensure that all the parties using road reserve areas around New Zealand collaborate. At the heart of this is a new National Code for utilities in the transport corridors, which went on line <http://www.nzuag.org.nz/> just before Christmas. Under the new code the respective rights and roles of local bodies and utilities are clarified, and people authorised to work in the road reserve are provided with various templates on who to contact and how to ensure that costs are allocated and disruption to the public is minimised.

So what does “designation” under s168 mean, and how does this mesh with the new code?

On one level designation just reduces bureaucracy, allowing the party who obtains it (the requiring authority) to do things like maintain roads without going through the full complexities of the relevant district plan. On another level, however, it restricts what anyone else can do on the designated land without the requiring authority’s permission, which can be withheld. This is not a welcome message to utilities, who know that power and ‘phone lines, and gas pipelines, provide vital services too.

There is no suggestion that the ACC has set out to undermine the new code by taking on pre-emptive powers, but this type of unilateral action by a local body underlines the need to be able to keep local bodies’ powers and behaviour under review. It also illustrates the problems facing the wider community in keeping track of what is going on in the arcane world of local government.

Keeping a check on how local authorities are performing, and on how the property rights of others are being handled by territorial authorities with very powerful statutory rights, is a challenging but important job. The Local Government Forum is one mechanism for doing this. The Forum aims to keep issues like the application of the RMA, and the extensive powers of local bodies to impose rates and charges on the wider community, under review. It also seeks to keep the powers and rights of the various parties relying on community and private services, and on transport corridors, in balance. A more formal role for the Forum, as a bridge linking the various users, funders and administrators of local government services, could be a useful objective for 2009.

<sup>5</sup><http://www.aucklandcity.govt.nz/news/notices/200811/23/n01.asp>

*Alan Jenkins is chief executive of the Electricity Networks Association*

## AUCKLAND ANNOUNCEMENTS ON THE WAY

With 1.4 million people Auckland is by far our largest centre of population and it is the major centre for services, manufacturing, transport and communications. It even has a significant rural hinterland and much productive farm and horticultural land. Auckland therefore plays a critical role in the New Zealand economy and most people understand that if Auckland is not working then the prospects are bleak for the prosperity and living standards of all New Zealanders.

For years there have been concerns that the way Auckland is structured and governed is holding it back and impeding the country's economic performance. In 2007 the previous government responded by establishing a Royal Commission to investigate and make

recommendations on local and regional government arrangements for the Auckland region in the future.

After much research and consultation, including consideration of no fewer than 3,500 submissions, the Commission is now finalising its report in order to have it ready to meet the 31 March deadline for presenting its report to the Governor General.

There has been much speculation in the media on what might or might not be in Commission's report, with much of it around whether there will be a single 'super city'. There are pros and cons for and against a 'super city' but what is likely to be most important is function rather than form. As discussed in greater detail in

the Forum's 2007 publication, *Democracy and Performance* – a Manifesto for Local Government, there is much to be said for regional management of big ticket items like roading and water (preferably on a more commercial basis) while leaving other activities for a tier of more 'local' decision-making.

Because of the proximity to the next local elections in October 2010, whatever the Commission comes up with will need to be promptly considered and acted upon. The Local Government Forum and indeed Auckland as a whole will be eagerly awaiting its report and the Government's response – including whether there is scope for applying aspects to other parts of the country.

## 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))
- **Coming Soon: Income and Wealth Redistribution – Should it be a Role for Local Government?**

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

The Forum newsletter is edited by Nigel Billings and Nick Clark: contact [nbillings@fedfarm.org.nz](mailto:nbillings@fedfarm.org.nz)