



New Zealand Chambers of Commerce (Inc)

Local Government Manifesto

2010

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Introduction

With local government elections approaching in October this year, NZCCI has issued this document containing policies on a range of local government areas which we consider are in the best interests of New Zealand as a whole.

As the elections approach, chambers of commerce throughout New Zealand intend to scrutinise candidate's policies and publicise findings.

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This Manifesto comments on each of the following:

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1. ***The Role of Local Government***

Local government impacts on us in a number of ways. It provides important services to the community and plays a significant role in improving the overall living standards of New Zealanders.

NZCCI Position – The Role of Local Government

Local government is a vitally important institution but NZCCI believes that, in general, it has expanded its sphere of activity too widely in recent years. Councils have, for example moved beyond basic services such as water, rubbish and sewerage into various social, cultural, and economic activities.

NZCCI considers it essential that local government does not stray too far from its core business. The core business of local authorities is to provide **local public goods and services** that cannot be better provided by the private sector or central government.

A public good is defined as something that the private sector is unlikely to provide because it can't be charged for. Street lighting or civil defence are good examples of public goods. Circumstances where *local* government is better able to provide than *central* government are where local knowledge is required or the costs and benefits of government action accrue locally.

NZCCI sees local government core business as comprising activities such as emergency management; roading and related activities; stormwater and wastewater systems; parks and reserves; and public health and safety.

Sometimes it is a grey area as to which other activities local government performs are core. We don't think that councils should be prevented from undertaking private goods or activities when it can be shown that there would be genuine public benefits from doing so. However, activities outside the clearly defined scope should be the exception rather than the rule.

At the time of writing, Parliament is considering the Local Government Amendment Bill which includes a list of 'core services' that local authorities would have to have regard to. We support this approach but think the list needs to be more precisely defined.

With or without a specified list of core local government services, responsible councils should not sway far from a fairly narrow range of services without good reason. Local communities including the business community should help determine this list.

NZCCI Recommendation

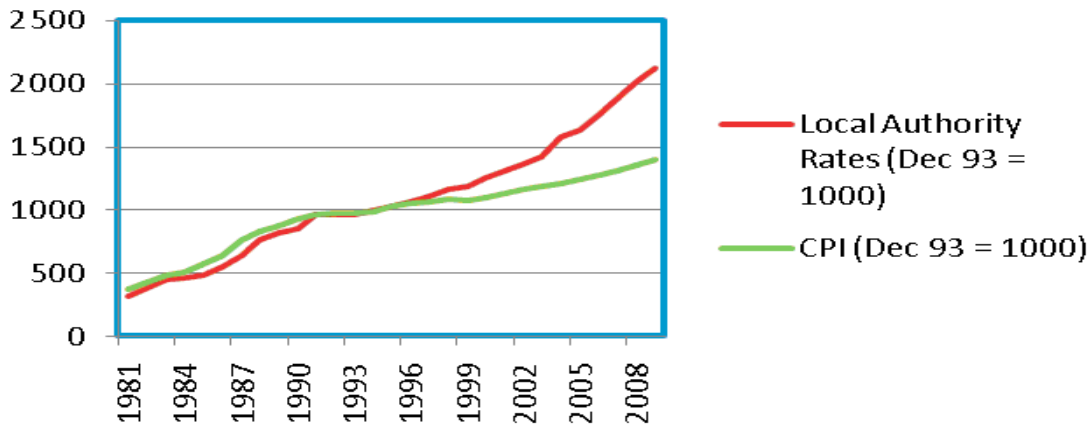
That local government is required to focus more on its core business of providing local public goods and looks to cease activities that are better provided by the private sector or central government.

2. Council Spending and Rates

The local government sector has grown quite significantly over recent decades. For example, total spending across the country increased by more than 55% between 2003/04 and 2008/09.

Rates per head of population have grown almost 30% in the last 20 years when adjusted for Inflation. This amounts to an average per capita increase above the inflation rate of around 1.3% per annum.

The chart below shows that local authority rate increases have far outstripped growth in the consumer price index. In the year to June 2010, local authority rates and payments increased 5.9% compared with 1.8% overall.



NZCCI Position – Council Spending

The main reason for the increased nationwide rate-take has been the growth in spending as local government has expanded its role (as discussed in the previous section). In addition, because councils have a monopoly in the provision of many of their services and because much of their income is guaranteed by legislation, it is apparent that inefficiencies have arisen in the delivery of some activities.

Overall local government politicians need to be focused on holding costs. One important way to do this is to be sure that new activities are subject to close scrutiny.

Local government is not well placed to provide many of the non-core services it is increasingly providing. This has costs beyond the cost of higher rate-payer bills. There is a crowding out of the private sector as local government increases its share of the national economy, and a reduction in economic growth as activities are run less efficiently than the private sector.

NZCCI Recommendation

Councils need to cease certain activities which stretch too far beyond core business. Councils also need to regularly review all areas of expenditure with a view to finding efficiencies.

Spending targets should be set so that expenditure does not exceed the combined rate of inflation and population growth per year. New functions should only be taken on when the cost benefit ratio is clear.

3. Rating Policies

Councils have a number of instruments available to them to raise revenue - general rates; targeted rates (which target a sector of the community); development contributions (are collected from landowners to bear the capital costs of works that are undertaken within subdivisions and developments.); and fees and charges for use of a specified service.

It is common for councils to spread the burden of rates and the costs of services away from those who benefit from them. Rates in themselves do this as they are determined on the basis of a property's value which has little relationship to the owner's ability to pay or consumption of services. Differential rates are often applied so that rateable properties used by business pay more than residential ratepayers per dollar of rateable land. (See box for more on this.)

The business sector is often a target. For example, businesses pay about half of the country's total rates bill but consume a relatively small proportion of council services. Businesses are often charged more on the grounds that they benefit more from council services but this is seldom substantiated.

Box - Differential Rates

Differential rates are usually applied to rateable property used by business ratepayers so that they pay more than residential ratepayers per dollar of rateable land. Currently businesses pay 3.1 times as much as residential ratepayers in Wellington City; 1.96 times in Auckland City and 1.66 times in Christchurch City.

This means, for example, the owner of a suburban Wellington business pays 3.1 times as much in annual rates as his residential neighbour in an identical property next door. The business does not receive proportionately more benefit.

Just as businesses are overcharged, because of these differentials, residential ratepayers are not paying the full cost of the services they consume.

Many councils are rightly reducing these differentials. As they do residential ratepayers are voicing concerns about the increase in their rates but rather than criticise the decision to phase down the differential, they need to question the cost of the services provided by the council. After all, the phase-down is simply ensuring residential ratepayers pay more of their share of what the council is spending on them.

NZCCI Position – Rating Policies

NZCCI believes that ratepayers should pay for the services they use but too often councils shift the rates burden on to business. The most common way is by differential rates (i.e. where a greater rate is applied per dollar of rateable land used by business than residential land.)

Councils must not penalise business. Not only are businesses the lifeblood of the economy, if businesses are ill-treated by council rating policies they are forced to either relocate; close down or contract; or, in some rare cases where they can,

simply pass the cost onto customers. If businesses flourish cities and districts prosper; if businesses are not profitable, the standard of living of everyone declines.

Not only does putting the impost unduly on business often disregard where the benefit lies, it does not reflect ability to pay. For example, the rateable value of commercial and industrial property represents only 22% of Wellington city's total rateable value but the city collects 50% of its total rate from the commercial and industrial sector.

NZCCI is particularly opposed to the differential. The main argument advanced by councils for the differential is that businesses benefit disproportionately from the services provided and so the higher rate is justified. We say councils should be required to substantiate the benefits before applying rating differentials to businesses. The higher rates are seldom justified. They should not be used as a revenue raising tool.

Similarly the application of fees and charges for services should reflect who benefits from them. We do not support fees and charges which are simply another revenue raising mechanism for councils. To justify a shift towards user pays for certain services good information on cost recovery and where the benefits lie should be made available.

NZCCI supports users of necessary infrastructure paying a share towards its capital cost and development contributions can be more equitable way of doing this than rates. However the current system of development contributions is not working in that they have become politically-arrived-at taxes for what can be distant, gold plated and sometimes unnecessary infrastructure.

NZCCI Recommendation

Differentials should not be permitted unless they facilitate equitable distribution of rates such that ratepayers bear the cost of the services they benefit from. They should not be used as a revenue raising tool.

Councils should be required to substantiate the benefits before applying rating differentials to businesses.

Fees and charges for services should reflect who benefits from them and not simply be another revenue raising mechanism for councils.

Councils should justify a shift towards user pays by providing good information on cost recovery and where the benefits lie.

4. Asset Ownership / Investments

Councils own a wide range of assets ranging from trading activities such as ports and airports to forestry and farming operations, to property investment.

NZCCI Position - Asset Ownership / Investments

Just as councils should focus on their core business activities, we believe they should not own non-core assets. Such investments are not risk free and while they may be a good revenue source in a benign economic environment, ongoing profitability is not guaranteed.

NZCCI believes that in general, ownership of trading activities should be left to the private sector. This is because of the private sector's superior ability to manage commercial assets, the risks associated with public ownership and the potential conflicts between the public and private sectors which mean that optimal decisions may not be made.

Many councils hold such assets while at the same time their infrastructure (such as stormwater, sewerage and roading assets) is in a poor state of repair. We believe that there is a case for councils to look at divesting some of their current assets and investments and reinvesting the proceeds in improved infrastructure.

Where councils do have trading enterprises, they should be run at arms length from the council. Formal processes for appointing boards should always be used, and councillors should disqualify themselves. Investments should be professionally managed.

NZCCI Recommendation

- Councils should focus on their core business assets and steer away from ownership of activities such as ports, forestry, farming, and property investment. In general, ownership of these activities should be left to the private sector.
- Councils should look to divesting some of their current assets and investments and reinvesting the proceeds in improved infrastructure.
- Where councils have trading enterprises, they should be run at arms length from the council. Formal processes for appointing boards should be used, and councillors should disqualify themselves. Investments should be professionally managed.

5. Infrastructure

Local authorities have major responsibilities in the provision and maintenance of transport, water and other infrastructure.

NZCCI Position – Infrastructure

New Zealand has experienced insufficient investment in infrastructure over the last two decades and consequently has infrastructural weaknesses in a wide range of areas. Economic growth is dependent on sound infrastructure and infrastructure should anticipate growth.

Much can be done to improve the way local authorities purchase and develop infrastructure.

The use of **public private partnerships** (PPPs) can help accelerate the process and provide improved access to capital and expertise. It can also ensure that whole-of-life costs are considered upfront and the right balance between initial capital cost and ongoing maintenance is achieved (i.e. to avoid both gold-plating and cost cutting in the initial purchase).

PPPs can have advantages even where the private partner doesn't take the risk on earning income from users. Local authority contracts that pay the private partner for availability at an agreed standard have resulted in better use of resources over the lifetime of the asset. Introducing PPPs is not a panacea. However, local authority politicians should actively consider PPPs as part of their approach to building, operating and maintaining its infrastructure.

Local government can also make a difference in using better **pricing** and in the way it purchases and manages infrastructure assets under its control.

Unfortunately, the opportunities for local authorities to charge for roads are limited under existing legislation. However, there is much scope for better pricing in other areas such as water. For example, many local authorities meter water at the retail level and charge on actual use. A few also charge for wastewater. These areas use less water per head of population (which means more growth can be accommodated before the need for further investment, and scarce water is freed up for other uses).

Introducing metering means that some will pay more and while others pay less. Charging by actual use need to be managed to ensure access to all, but the benefits of introducing charges are high.

Better pricing of services also means there is less justification for the use of higher rates on businesses, which are justified on the basis that businesses use more services and therefore should pay more.

Local government politicians who are willing to move towards the use of market mechanisms to allocate and price services should be encouraged.

NZCCI Recommendation

- Charging and other market approaches should be sympathetically assessed as an option when councils wish to fund new infrastructure
- Private partnerships should always be considered when councils are looking at building, operating or maintaining infrastructure

6. Debt and Financial Management

Councils generally are not highly geared. In aggregate, across New Zealand, ratepayers' liabilities amount to 6% of total assets. Almost 70% of local authorities do not come within 20% of their self-imposed debt limits at any time between now and 2012/13.

During the next 10 years, councils in aggregate expect to spend almost \$31 billion on capital expenditure, 2.4 times as much as they spent in 10 years to 2004/05.

NZCCI Position - Debt and Financial Management

NZCCI believes that in general, councils are not making full use of debt. A considerable amount of local authority capital spending on infrastructure is paid for by today's ratepayers but provides benefits for future ratepayers. Increased debt would spread this cost across future generations which will enjoy the benefits of that development.

An appropriate level of debt would encourage more scrutiny from lenders. It would also restrict the scope of councils to undertake large, low-priority projects without going to ratepayers.

NZCCI Recommendation

- Councils should be encouraged to use appropriate levels of borrowing to fund long-term projects to ease the rates burden on today's ratepayers and spread the cost across future generations.

7. Local Government Democracy

Relative to national politics, there is apathy towards local government in this country as evidenced by low voter turnouts and poor participation in the consultative process. Councils are also subject to much less scrutiny by the media and independent agencies than central government.

NZCCI Position - Local Government Democracy

NZCCI believes the lack of interest in local government politics goes a long way to explaining the creeping growth of local authority activities and expenditure and the consequential increase in the rating burden.

If councils grow through amalgamation, their increasing importance may attract more voter interest. Having good candidates standing is another factor.

Regional councils are becoming increasingly important. Electing regional council chairs directly by voters, as opposed to being chosen by councils, the same way Mayors are, would enhance local government democracy. Adding these high profile races into the mix would also serve to increase interest in future local body elections.

Local authorities are required to consult on their plans but much of the consultation done by local government is not meaningful. Busy councillors have a lot of submissions to read and listen to and in many hearings submitters are given limited time to make their points. Consequently, we consider additional mechanisms are necessary to improve accountability of local government.

Complex planning documents should be presented in a transparent way. In particular, they should be independently reviewed against benchmarks to help residents and ratepayers engage genuinely in consultations on them.

NZCCI supports the use of itemised rates assessments. This practice helps ratepayers see exactly how much they are paying for certain council activities. It enhances transparency, enables improved scrutiny by ratepayers and facilitates benchmarking comparisons across councils.

Increased use of benchmarking across councils would enable ratepayers to better assess council performance and allow best practices to come to the fore. Consistent reporting standards and procedures across councils are very important for this.

NZCCI Recommendation

We recommend:

- Minimum standards be adopted for the presentation of planning documents
- Increased use of benchmarking across councils be formalised
- Itemised rates assessments be introduced for rate-payers
- Regional council chairs should be voted directly by voters

8. Economic Development

The Local Government Act (2002) requires local government to promote the social, economic, environmental, and cultural well-being of communities. Since 2002, “Economic Development” has been a growing role for local government.

NZCCI Position – *Economic Development*

Care needs to be taken in identifying where local government can make a difference to the local economy.

The biggest criticisms of Economic Development activities are that they can:

- crowd out private sector initiatives;
- get involved in promoting activities that would happen anyway; or
- simply end up spending to attract businesses from other locations.

There are also issues around the cost effectiveness of Economic Development programs and whether targeted funding ends up where it is meant to.

The Controller and Auditor General has set out a number of ways to reduce the risk Economic Development activity is unsuccessful. These are to:

- make sure there is a strategy for economic development, and develop measures to judge it by;
- make sure the local authority has the skills necessary to implement the strategy (and consider combining with others as a way of achieving this);
- give preference to low cost, low risk activities,
- facilitating other agencies to undertake the activities, rather than the local authority directly running them; and
- have an exit strategy for programmes in case they don't work¹.

Add to this the idea that local authorities should focus on the big picture, so they and local government politicians don't get captured by pork barrel politics.

Local government politicians must understand where local authorities can facilitate economic growth, understand the limits of that role, and avoid getting sucked into the detail of specific interests.

Perhaps the best thing councils can do to contribute to local economic development is to create an environment which attracts people and is conducive to business. This includes running an efficient operation where bureaucracy is limited and rates are constrained and not distributed disproportionately on businesses vis a vis residential properties.

NZCCI Recommendation

Economic development activities undertaken by local authorities should be realistic in their aims, carried out within a clear strategy, be carefully evaluated, and focus on facilitation rather than direct provision.

¹ *Local Authority Involvement in Economic Development Initiatives - Choices for Successful Management*, Controller and Auditor General (2002)

9. The Resource Management Act

The Resource Management Act (RMA) sets out the process local authorities have to follow to promote the sustainable management of natural and physical resources.

NZCCI Position - *The Resource Management Act*

The RMA is currently being reviewed but even without changes to it, local government politicians can improve the implementation of the Act.

Local authorities need to decide if they should regulate to promote sustainable resource management, or whether there are other more appropriate responses (including doing nothing). There are a lot of pressures on local authorities to regulate. This pressure arises even when there are better alternative methods for achieving objectives, or when any intervention is likely to make matters worse.

The RMA anticipates these problems and sets down steps local authorities must follow before introducing regulations. In essence they must:

- address the extent to which regulation is needed at all, explore other possible means apart from regulation, and provide reasons for and against the proposed method and the principal alternative means;
- evaluate the benefits and costs of the proposed option and of the principal alternative means; and
- decide whether the proposed means is necessary to achieve the purpose of the RMA and is the most appropriate in terms of effectiveness and efficiency².

Local authorities are over-using regulation to promote sustainable resource management. This is having an adverse impact both on sustainability (because resource use is overly encouraged by regulation) and on growth (because of the inflexibility of regulation).

Local government politicians can help overcome this problem by insisting on rigorous analysis before accepting that regulation is the only option. If staff of the local authority lack the capability to do the required scientific and economic analysis then the councils should seek external advice (while developing their own capability).

Local government can further improve the outcome of the RMA by ensuring that the pursuit of economic growth is explicitly incorporated into local policies and plans prepared under the Act.

NZCCI Recommendation

- The RMA should be used to enable growth, not stifle it
- Resource management rules should be flexible and encourage innovation, not lock in the status quo. Regulation should be the option of last resort
- Independent scientific and economic advice should be taken to help make sure Councils are using the RMA to encourage innovation and growth

² Section 32 – *What are the Options*, Ministry for the Environment (2002). This is a handbook to help local authorities with this area of the RMA.

10. Cooperation and Amalgamation

As the Auckland super city looms, councils in the rest of the country are assessing the implications of this and considering their own regional amalgamations.

Independent of this, a number of local authorities have moved in the direction of cooperating to provide services across their combined areas.

NZCCI Position - *Cooperation and Amalgamation*

Cooperation amongst local authorities to provide services across their combined areas should be encouraged, not just for the potential efficiencies involved, but also in the case of regulatory activities because users find it easier to meet a single standard. A more collaborative approach particularly benefits smaller local authorities where they often do not have the necessary expertise to deliver on legislative requirements.

With regard to full amalgamation, there are many situations where the benefits of combining local authorities appear to outweigh the costs. As well as greater efficiencies amalgamated councils are likely to make better policy decisions in the best interests of the region as a whole.

It doesn't always follow that amalgamation will lead to a better outcome, though. We would be concerned if councils saw amalgamation as an opportunity to empire-build. There have been reports for example of one city council wanting to open an office in China. As well as this there is the risk that the lowest common denominator will become the norm for the amalgamated authority. However, if overall efficiencies can be achieved from amalgamations, then they should be supported

NZCCI Recommendation

- Combining service delivery with neighbouring authorities should always be considered as an option as part of the annual planning cycle
- Amalgamation with neighbouring authorities, or the creation of more unitary authorities should be pursued where efficiencies are to be found