



New Zealand Chambers of Commerce (Inc)

Local Government Policy Document

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 promote the 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.

To facilitate this, in addition to this document, we have produced a questionnaire for mayoral and councillor candidates to establish their views on key issues impacting on the business environment and a summary table template of candidates' policies so that comparisons can be made and assessed.

Local Government Policy

This Policy Document touches on each of the following:

1. The role of local government
2. Council spending and rates
3. Rating differentials
4. Itemised rates assessments/benchmarking
5. Fees and Charges
6. Infrastructure
7. Debt
8. Asset ownership and investments
9. Local government democracy/Consultation
10. Economic development
11. Resource Management Act
12. Cooperation and amalgamation

1. *The role of local government*

Local government is a vitally important institution. It has an important role in improving the overall living standards of New Zealanders. It is important however that local government remains efficient in undertaking its role and 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.

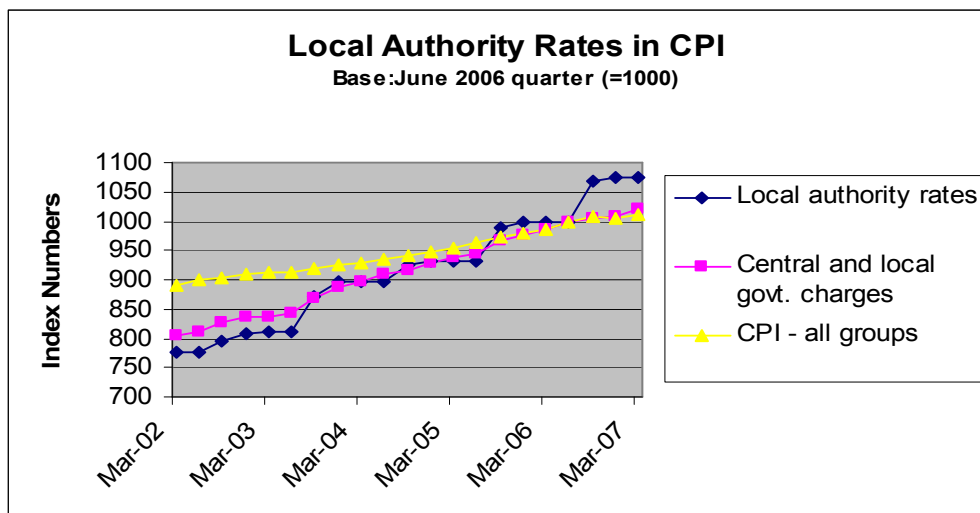
Circumstances where local government is better able to provide than central government are where local knowledge is required or the costs and benefits of government action accrue locally.

Core business comprises activities related to emergency management; roading and related activities; stormwater and wastewater systems; parks and reserves; and public health and safety such as the control of contagious diseases and food safety.

2. Council Spending and Rates

Local government is expanding both in terms of areas of activity and in volume of spending. Nationwide, rates per head of population have grown almost 30% in the last 20 years when adjusted for Inflation. This amounts to a per capita increase of around 1.3% per annum above the inflation rate on average.

The chart below shows that local authority rate increases have far outstripped growth in the consumer price index and the “central and local gov’t charges” sub-component of the CPI. In the year to June 2007, local authority rates increased 7.4% compared with 2.0% overall.



There is a misconception amongst a large part of the community that recent rate rises have been a consequence of the buoyant property market. It is true that when property values rise relative to the average those property owners face higher than average rate rises but it is not property values which determine rates and overall level of funding generally, it is the cost of council activities.

Quite simply, the main reason for the growth in the aggregate rate take over the recent period, has been the increasing cost of council activities as local government has expanded and efficiencies have not been great enough to compensate. Another driver has been the funding of increasing depreciation as assets are revalued.

In general, NZCCI believes that councils are expanding their sphere of activity too widely. Overall councils do a good job and have made an important contribution to the development and living standards of local communities. However, this is coming at an ever increasing cost to rate-payers. Because councils have a monopoly in the provision of many of their services and because much of their income is guaranteed by legislation, many activities could potentially be inefficiently delivered and/or overpriced.

Local government is not well placed to provide many of the non-core services it is increasingly providing. Overall local government politicians need to be focused on holding costs. One important way to do this is to be sure that new activities, particularly those that involve funding from rates or taxes are subject to close scrutiny.

3. *Rating policies must not penalise business / Rating Differentials*

Too often councils endeavour to shift the burden of rates and the costs of services onto minority groups such as business. The business sector, for example, pays about half of the country's total rates bill but consumes a relatively small proportion of council services. Businesses are often charged more under the dubious grounds that they benefit more from council services but this is seldom substantiated.

It is not in councils' interests to shift the rates burden onto business. Businesses are the lifeblood of the local economy. They provide employment, pay wages, produce goods and services, and determine the depth of the rating base. If businesses are ill-treated by council rating policies (for example rating differentials) they either relocate, closedown or contract -or, in some rare cases where they can, simply pass the cost onto customers. If businesses flourish cities and districts prosper; if business is in recession the standard of living of the people suffers.

When councils distribute their funding burden across ratepayers two alternative principles are available to dictate how this best be done: the "benefits principle" - payment in proportion of consumption of services received; and "ability to pay" - payment according to how much the ratepayer can afford.

NZCCI believes that funding of local government activities needs to better reflect the benefits principle than is currently the case. That is, ratepayers should pay for the services they benefit from. Ability to pay should always be taken into account but as a rule income distribution is the responsibility of central government not local government. Unlike central government (with the information it has through income tax), local authorities have no information on the incomes of their residents so any decisions they make to assist people in this regard have the potential to be flawed.

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.

The most common way of shifting the rates burden on to business is by way of **differential rates**. These are commonly applied to rateable property used by business ratepayers so that they pay more than residential ratepayers per dollar of rateable land. Currently businesses pay 4.2 times as much as residential ratepayers in Wellington City; 3.1 times as much in Dunedin City; 2.8 times in Christchurch City and 2.1 times in Auckland City.

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.

Differentials should be used only to 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.

4. *Itemised Rates Assessments/Benchmarking*

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. Compliance with the legislative requirement, and the degree that itemisation is currently occurring, varies across the country but overall the practice of providing itemised rates assessments has not been good.

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.

5. *Fees and Charges*

NZCCI believes 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.

6. *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. Local authorities have major infrastructure responsibilities and much can be done to improve the way they 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.

7. *Debt*

Councils generally are not highly geared and not making full use of debt. In aggregate, across New Zealand, ratepayers' equity amounts to 94% of total assets. Almost 70% of local authorities do not come with 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. Councils should be encouraged to use appropriate levels of borrowing to fund these projects to ease the rates burden on today's ratepayers.

The main argument for increased debt relates to inter-generational equity. 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.

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.

8. *Asset Ownership / Investments*

We believe councils should focus on their core business assets and steer away from ownership of trading activities such as ports, forestry, farming operations, and property investment. Such investments are not risk free and while they may be a good revenue source in the current environment, ongoing profitability is not guaranteed.

NZCCI believes that in general, ownership of these activities should be left to the private sector. 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 be used, and councillors should disqualify themselves. Investments should be professionally managed.

9. *Local Government Democracy/Consultation*

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. This 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.

Local authorities are required by the Local Government Act 2002 to consult with their communities about their Long Term Council Community Plans (LTCCPs), the financial policies that underpin them, the levels of service being delivered, and the rates that will be required.

The local government sector places considerable weight on this consultative process to justify its expenditure and rating policies. However much of the consultation 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.

10. 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. 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:

- 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.

11. 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.

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

Even without changes to the RMA, 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 off.

The RMA anticipated 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.

12. Cooperation and Amalgamation

A number of local authorities have moved in the direction of cooperating to provide services across their combined areas. This 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

This raises the question of combining local authorities. There are many situations where the benefits of combining local authorities appear to outweigh the costs. No local government politicians should take discussion and analysis of this off the agenda.

It doesn't always follow that amalgamation will lead to a better outcome. The risk is 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

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.

Summary

Financial management

- Financial management should be transparent.
- 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;
- The quality of information about council activities (core, trading and investments) should be improved to aid benchmarking;
- Formal processes for appointing boards to trading enterprises should always be used, and councillors should disqualify themselves. Investments should be professionally managed;
- Rates should be used sensibly. A target should be set of not increasing income from rates more than the combined rate of inflation and population growth per year. New functions should only be taken on when the cost benefit is clear;

Differential/User Charges

- 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.)
- 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.
- Differentials should be used only to 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.
- NZCCI believes 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.

Infrastructure and Debt

- 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
- 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. Independent advice should be sought when evaluating this option;
- Councils should be encouraged to use appropriate levels of borrowing. The main argument for increased debt for infrastructure development relates to inter-generational equity and the future benefits of that development. 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.

Asset Ownership and Investments

- We believe 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.
- We believe that there is a case for many councils to look at 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.

Economic development

- 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.

The RMA

- 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;

Cooperation and Amalgamation

- 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;