

# **REFOCUSING THE ROLE OF LOCAL GOVERNMENT**

## **LOCAL GOVERNMENT FORUM**

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### **INTRODUCTION**

The 1989 reform of local government increased its efficiency and improved the quality and amount of information available to ratepayers. The rate of improvement within the local government sector has, however, slowed in the recent past. There is a need to initiate a new round of reform. This report examines the role of local government and the legislative framework within which it operates, and outlines proposals for further reform that would refocus local government on its proper role.

Local government is a large sector of the economy and affects the quality of life of communities which councils serve. New Zealand's economic performance has fallen back after the achievements of the early 1990s. A return to higher rate of growth of incomes and employment depends on improvements to the business environment and better performance by governments at all levels.

If resources used in the local government sector yield a lower social return than they would yield in other sectors, community welfare is reduced. This proposition holds whether the resources are employed in activities with financial returns or otherwise. Similarly, if the regulatory activities of local government impose unjustified costs on individuals and firms - perhaps by unduly delaying approvals or by imposing onerous conditions - the community's interests are harmed.

With few exceptions, councils in the main urban areas continue to engage in a wide range of activities that should be left to the private sector or to central government. Traditional activities such as roading, sewage disposal and drainage have been neglected to such an extent by some authorities that inadequate services may well limit growth and development. Roads in the Auckland region, for example, are becoming increasingly congested, with significant delays being common. Auckland City pours sewage into the Waitemata Harbour from outfalls not far from Queen Street.

There is limited contracting for services by councils, except where they are compelled to do so by central government, for instance in the case of roading. Contracting out typically produces cost savings of the order of 20-40 percent.

Rate collections continue to increase at an disturbing pace. The increases reflect the higher levels of rates levied on each dollar of rateable property, increases in the rateable value of existing property and net additions to the stock of rateable property. There is little evidence that the quantity and quality of services have increased commensurately with the growth in rate collections. Between June 1990 and June 1998 rates increased by 21 percent compared with a 16 percent increase in the Consumers Price Index. Rate

increases threaten the competitiveness of export and import competing firms, put pressure on interest rates and reduce the disposable incomes of ratepayers. Many councils have resisted the 'effects-based' approach of the Resource Management Act 1991. As a consequence, development is frustrated and excessive costs are imposed on individuals and businesses. More generally, the regulatory role of local government has not been subjected to close scrutiny. Few penalties are imposed on councils if they perform their regulatory functions poorly.

Councils often support their proposals with low-quality policy analysis. Some councils, for instance, argue that selling business operations which produce revenue would result in higher rates. An elementary economic analysis shows that this argument is not correct, because the market value of an asset is equal to the present value of its future income stream. In a competitive sale process, the sale price would reflect the capitalised income stream and a council's financial position would improve to the extent that private investors saw the potential to achieve efficiency gains.

The problems of local government stem from fundamental weaknesses of democracy at the local level. There is a low turnout at elections. Voters have little information about whom, or what, they are voting for, and mayors and chairpersons are often unable to implement their election manifestos given the make-up of councils. Many people are disillusioned with politics at all levels, and want to have as little as possible to do with the political process. As a result, council policies are unduly influenced by activists and special-interest groups. The adoption of differential rating has enabled councils to impose a disproportionate level of costs on businesses, which have fewer votes than households. The main solution to the shortcomings of town-hall democracy is to depoliticise activities that do not need to be undertaken collectively. Local authorities should only undertake those activities that are properly the responsibility of government at the local level. Because many councils are not adhering to this basic principle, local government is not making the best possible contribution to community well-being. A challenging but realistic reform programme, along the lines presented in this report, is needed to raise its performance.

*Note: The full text of this document is not available in PDF format. You can purchase the full report through the website.*