

## Relationships

All local authorities in New Zealand have the same statutory purpose, regardless of their size and type. This is to:

- (a) *to enable democratic local decision-making and action by, and on behalf of, communities and*
- (b) *to meet the current and future needs of communities for good quality local infrastructure, public services and regulatory functions in a manner that is most cost-effective for households and businesses.*<sup>1</sup>

Local government is a creature of statute, that is to say that it operates within the legal powers and duties that central government has provided. However local government in New Zealand is *not* part of, nor is it subordinate to, central government.<sup>2</sup> Local authorities are therefore subject to direction from Ministers only where local authorities are exercising an obligation on behalf of central government.

This has proved, on occasion, to be a source of frustration for individual Ministers (and less frequently for central government). There is an attitude amongst some Ministers that local government has not responded sufficiently to the impacts of the recession of 2007-2009

While relationships between the current government and the sector are cordial at 'headline' level, one of the legislative trends of the last six years has been to provide for a greater level of intervention in, and limitations to, the degree of discretion in local affairs. To take examples:

- central government has provided itself with a wider range of powers to intervene where there is a 'problem' (loosely defined as a circumstance that has or could have an impact on a local authority's ability to fulfil the purpose of local government). That is to say central government has given itself both wider powers to intervene and a lowered threshold at which these can be triggered
- a wider range of powers has been conferred on Ministers to call-in land use decisions on key projects or issues
- legislation currently before Parliament would establish a national planning template that will guide and constrain local land use and environmental planning.

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<sup>1</sup> Section 10, Local Government Act 2002 (as amended in 2012).

<sup>2</sup> One of the more interesting implications of this constitutional principle is in the relationship between Maori and local authorities. While the Crown (central government) is bound by obligations entered into with Maori under the 1840 Treaty of Waitangi, these obligations do not bind local authorities except where statute expressly states otherwise.

Interactions between central and local government at formal and informal levels occur almost on a daily basis and at all stages in the policy and legislative development phase. The main 'formal' interaction between the sectors comes with the Central/Local Government Forum – an annual meeting of Ministers whose portfolios intersect with local government and the National Council of Local Government New Zealand. Alignment of priorities occurs only at the most global level, for example at the last meeting the two partners agreed to cooperate on three priorities that are deemed to benefit local, regional and the national interest. These are

1. Creating strong regional economies across all of New Zealand;
2. Resilient local infrastructure; and
3. Ensuring resilient communities across New Zealand.

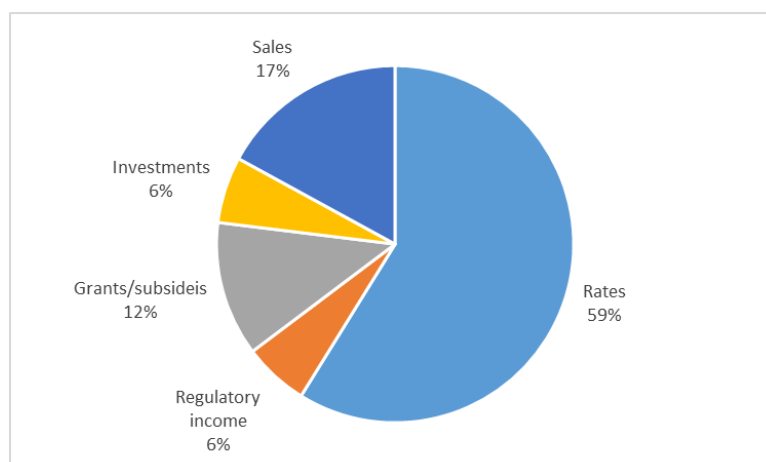
New Zealand local authorities take three basic types:

- territorial councils – City and District councils. These provide network and community infrastructure and facilities, regulate land-use, nuisance and community safety (including emergency management), and provide a miscellany of other local services
- regional councils – provide environmental regulation and management (including freshwater management and catchment control), biosecurity at sub-national level, regional level transport planning, passenger transport and regional level economic development
- unitary councils – six local authorities have the responsibilities of both territorial and regional councils.

Unlike other jurisdictions, local authorities in New Zealand have not traditionally and do not currently have any significant role in the provision of social services (some of the urban local authorities provide social housing, and some rural authorities fund General Practitioner and dental services but this is the extent). Services such as police and urban fire services are also state provided.

## Funding

Local government raises the overwhelming majority of its funding from local sources. The chart below shows the sector's operating revenue for the year ended June 2014 – this being both the most recent year and one that is representative of the general picture.



**Local Government Operating Revenue by Source, Year Ended June 2014**

By international standards, New Zealand local authorities raise an exceptionally high level of funding from local sources. Around one dollar in eight of the sectors operating revenue comes from central government. The bulk of revenue from central government comes in the form of partial funding of road construction, road maintenance and passenger transport. There are smaller scale schemes that support the upgrades to drinking water schemes in some smaller communities that are subject to high deprivation, and some grants for sporting and cultural programmes.

The sector's main source of locally raised revenue comes from property taxation ('rates'). These are a tax set and assessed on all 'rating units' (properties) regardless of use.<sup>3</sup> Local authorities have a great deal of flexibility in setting rates. Among other things, local authorities have the freedom to:

- set a rate over their entire community, to use for any lawful purpose of the local authority (a general rate). Local authorities have a choice of either or both of property value (land value, capital value or rental value) or charging per property
- set a rate to fund an identified service or services, or set a rate that will be recovered from an identified category or categories (a targeted rate). Local authorities have a choice amongst thirteen different bases for setting these rates, with metered water supply also legally regarded as a rate in most instances.

Rate-setting is largely a local policy decision. There is no legal maximum rate and no attempt to regulate increases in rates and charges.<sup>4</sup> Rating law does constrain some decisions about the mix of funding sources, especially on the use of per property charging. In a recent development central government has begun collecting and publishing a 'rough and ready' comparator of rating levels between local authorities.

Funding decisions are made through application of a statutory policy process, in which local authorities examine each of their activities and consider benefit principles, intergenerational equity, transparency and cost effectiveness, the relationship between their objectives and the funding of the activity, and the impact on the community. The funding process is set out in one piece of legislation (the Local Government Act 2002) alongside the general provisions relating to accountability, while the main revenue raising powers are specified in a separate statute.

In a similar vein, local authorities have wide powers to borrow. Beyond a prohibition on borrowing that is denominated in foreign currency, and some restrictions on borrowing and on-lending to their trading arms, it is left to each local authority to set its own limits. It is worth noting that no local authority has defaulted on a loan in the last ninety years!

While there is a balanced budget requirement, a local authority may run an unbalanced budget if it is financially prudent to do so. Central government does monitor financial management for prudence – through a prospective audit of long-term plans, and through a system of monitoring of fiscal performance.

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<sup>3</sup> There are a group of properties that are exempt from rates other than those for water supply, sewage disposal and refuse collection. In most instances the exempt property is being used for some purpose that is deemed to be socially desirable (such as educational institutions, conservation land or land being used for charitable purposes) .

<sup>4</sup> Local authorities are required to set targets for increases in rates, and the absolute level of rates, in their long-term plans, and to report against these targets annually and in their pre-election reports to the community.

By comparison, central government raises its revenue from taxation of incomes (60 percent), consumption (24 percent) and an assortment of other indirect taxes and levies (15 percent).

## Challenges and Issues

### Scale and Capability

Network infrastructure is a big ticket item for local authorities. In some rural authorities roads and water can account for as much as 80 percent of total expenditure. Nationwide around 65 percent of the capital programme for the next ten years will go into these services. Clearly efficient and effective delivery of these services forms a big part of local authority performance.

One of the characteristics of much of the network and community infrastructure is that there are a number of small scale schemes and assets that are geographically dispersed. For example, one predominantly rural council has no fewer than 15 water schemes and 14 wastewater schemes. This dispersal of schemes raises a funding challenge (especially smaller schemes, many of which will need upgrading to meet tougher drinking water standards) but also a management challenge. Recent reviews of asset management have concluded that most practice was adequate for the short to medium term, but improvement was needed to manage for the long-term. In particular local authorities needed a better understanding of their local economies and local demography to meet the long-term challenges.

Scale has been seen as the answer in central government, private sector and some local government sectors. Scale has been pursued on grounds of cost – though there is evidence that suggests that density is as much a driver of cost as size; the ability to network price; and the acquisition of strategic capacity.

To that end, law changes in 2013 were designed to simplify the process of amalgamating local authorities at political level. Several attempts were made to amalgamate groups of local authorities – each of which has proved unsuccessful.<sup>5</sup>

Subsequent the policy ground has shifted and the emphasis in moving towards scale acquisition by service amalgamation. Local authorities are being encouraged to investigate options such as regional infrastructure bodies, shared services and the like anew. A crown agency has been tasked with helping facilitate these processes, and the Government is reviewing legislation to ensure that any blockages to these approaches are removed.

### Skill Acquisition and Retention

New Zealand is quite literally 'the last stop on the planet' and as such has historically relied on growing its own skills. The sector has become increasingly concerned about the growing shortage of skills in key roles including regulatory and inspectorate staff, asset managers and land use planners. Even expertise in functions such as rate collection and election management is draining from the sector as the workforce ages.

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<sup>5</sup> Under current law, amalgamation proposals must have demonstrable support, represent good local governance and assuming these are met will generally require a successful poll of the affected area. Of the three proposals pursued since the change, two failed the demonstrable support test, and the third was decisively rejected at a poll.

Recent work on the implications of technology has highlighted that the sector is not currently well positioned to take advantages of the opportunities that big data and the internet of things generate. There is the potential for a digital divide created by access to the internet, there is also a similar divide in skills and (possibly) mindset.

To some extent local authorities have dealt with skill shortages in a 'devil take the hindmost' fashion – that is acquiring skills by cannibalisation from within the sector's existing resource. There has been little attempt to act as a sector in any systematic way, though there is some degree of promotion of local government as a career of choice and regional councils have developed a science skills strategy.

Moving forward the sector needs to develop a skills strategy that looks at the needs of the future workforce, informed out of an up to date assessment of the skill needs.

## **Funding**

Local government in New Zealand has the advantage of being largely self-reliant in its funding arrangements, which means that the sector can operate in an independent and largely autonomous way. It also means that the local government sector in this country was sheltered from the worst impacts of the global recession of 2007-2009. We have not, as yet, been required to undertake the kind of radical redesign of services that local authorities in the United Kingdom have.

Local government is frequently criticised for the level of rates increases – in particular that rates are increasing "faster than the rate of inflation". Although this statement is correct, it ignores that the cost drivers for a local authority are quite different from those that a household faces.

Local authority costs are driven by the costs of providing infrastructure – be it roads, water, or community infrastructure. By way of illustration, in the period between June 2005 and June 2015 the Consumers Price Index (CPI) has increased 25 percent, the Producers Price Index (Construction – Outputs) has increased 44 percent.

In addition to the price of the goods and services that local authorities consume, there are additional demands placed on local authorities both in terms of the quantity and quality of services they deliver. This includes:

- increases to service standards and demands for additional services on local government, often as a result of a policy direction from central government. Drinking Water standards are a textbook example. A more recent example are the additional costs involved in treating stormwater and wastewater to meet the standards in a National Policy Statement on Freshwater Management
- population growth and change - creates additional demand for infrastructure (both network infrastructure such as roads and water supplies and community infrastructure such as recreation centres) and
- economic growth and transformation,

In short, local authorities are faced with a perfect storm of increasing input costs, increasing demands for quantity and quality of services, and constraints on other sources of funding.

Our sister organisation, Local Government New Zealand, has seen this as an opportunity to lobby central government for supplementary sources of funding such as a share of royalties from mining and other extractive industry. To date these efforts have met with a notable lack of success – in the words of a previous Minister “we’re happy to talk about funding, but we also want to talk about your expenditure”.

SOLGM is following the lessons that local authorities in the United Kingdom, Ireland and the United States in their adaptation to the post-recession world (and noting that some of the generators of a need for change differ). The sector can no longer labour under the impression it faces fiscal constraint, when for most the decision is more about what level of increase to apply!