

LOCAL GOVERNMENT FORUM

LOCAL GOVERNMENT RESTRUCTURING: BETTER LOCAL GOVERNMENT?

All around the country debates are taking place as to whether to change local government structures. In most cases the debate is either to merge with neighbouring councils to form bigger regional entities or to create regional shared services arrangements particularly in large infrastructural areas such as roading and the 'three waters'.

The structure of local government is an important issue and there are many perspectives on whether structural change is a good or a bad thing. The Government has taken the approach not to impose a single solution, instead wanting to enable local communities to determine their future local government arrangements. This is wholly appropriate.

Consistent with this approach, the Local Government Forum does not have a formal position on local government restructuring. Individual members of the Forum have their own views on the issue, with many of them taking locally determined positions on a case-by-case basis and consistent with the principle of local democracy.

What this paper aims to do is provide information on the process for restructuring and to discuss some of the issues people should bear in mind when considering whether to put forward a proposal to restructure local government or when responding to a particular proposal.

This paper is not a heavy academic tome deeply exploring the theory of local government structure and governance. It is deliberately high level and hopefully accessible to those with a general interest in local government. Nor does it intend to push opinion in a certain direction. Instead we want to give people something to think about and pose some questions they could ask so they can come to their own conclusions.

Michael Barnett
Chairman

ABOUT THE LOCAL GOVERNMENT FORUM

The Local Government Forum comprises organisations that have a vital interest in the activities of local government. Its members include BusinessNZ, the Electricity Networks Association, Federated Farmers of NZ, NZ Initiative, NZ Chambers of Commerce, and NZ Retailers' Association. The Forum was established in 1994 to promote greater efficiency in local government and to contribute to the debate on policy issues affecting it.

Although Forum members are significant representatives of ratepayers in their own right, the Forum's perspective is to advance community welfare through the advocacy of sound public policy. We believe that local government can best service the interests of the community and ratepayers by focusing on the efficient provision of public goods at a local level.

HISTORY OF LOCAL GOVERNMENT RESTRUCTURING

Among OECD countries New Zealand has one of the most centralised systems of government and it has one of the smallest local government sectors compared to central government. Only Greece and Ireland spend more than New Zealand's central government on public spending. Approximately 11 percent of public spending is 'sub-central' compared to the OECD average of 30 percent.

In keeping with New Zealand's unwritten constitution, local government has no independent constitutional place. Local government is a creature of statute and the provisions for its structure, its powers, its roles and responsibilities, its funding, and its electoral arrangements are all set out in legislation.

From the earliest days of European settlement changes have been made to the structure of local government, with change sometimes driven by local communities and sometimes imposed by central government. Mostly change has been incremental but sometimes (most notably in 1876 and 1989) it has been convulsive.

Prior to the 1840s the only recognised geographical divisions were Maori tribal boundaries. This, like many other things, changed with colonisation and the transplanting of British laws and institutions.

In 1842 Wellington was established as New Zealand's first 'council' and in 1846 a Municipal Corporations Ordinance provided for elected councils for settlements with more than 2,000 people. Also in 1846 two provinces were established ('New Ulster' and 'New Munster')¹.

In 1853 the provincial system was reformed², with initially six provinces with elected councils (Auckland, New Plymouth, Wellington, Nelson, Canterbury, and Otago). There were also some municipal authorities set up under the provinces but this was done in an ad hoc manner and in 1867 central government regularised their establishment³.

In November 1876 central government abolished the nine provinces existing at the time⁴ and replaced them with a system of 63 counties and 45 municipalities (cities, boroughs, and town-districts)⁵. There were also a large number of special purpose authorities which looked after a wide range of activities, such as harbours, health, education, water catchments, drainage, and pest destruction.

Over the years the number of counties, municipalities and special purpose authorities grew as the country was settled and developed. At times, there were attempts to reduce the number of these 'local authorities' and in 1946 the Local Government Commission was established to oversee local authority reorganisation. However, changes were made in a piecemeal manner and the 1876 system for local government endured for over a century.

That said, the first regional authority was formed in 1963 when the Auckland Regional Authority was established and they spread more widely across the country from 1974⁶.

By 1989 there were 205 territorial authorities (counties, districts, cities, boroughs, and town-districts); 22 regional authorities; and more than 400 special purpose authorities.

¹ Constitution Act 1846 (UK)

² Constitution Act 1852 (UK)

³ Municipal Corporations Act 1867 (NZ)

⁴ Abolition of Provinces Act 1876 (NZ)

⁵ Counties Act 1876 and Municipal Corporations Act 1876.

⁶ Local Government Act 1974

In 1989, following a comprehensive review of local government, central government radically reformed the local government system⁷ by:

- Reducing the number of regional authorities to 13, re-designating them as regional councils.
- Reducing the number of territorial local authorities to 74, re-designating them as cities or districts (with the exception of Chatham Islands which remained a county).
- Abolition of most special purpose authorities, with many of their activities taken over by the regional and unitary councils.
- Major restructuring of local authorities both in terms of governance and staffing.

The 1989 structure of local government remained intact, with only a few exceptions, until 2010 when, following a Royal Commission on Auckland Governance, central government established the Auckland Council, a unitary council replacing the regional council and seven city and district councils⁸.

The 2010 Auckland governance reforms establishing a unitary Auckland Council (the 'Super City') have sparked interest in this approach in other parts of the country.

Seeing Auckland as a 'special case', the Government was reluctant to impose reform on the rest of the country. However, a belief that the existing processes for restructuring were too onerous led it in 2012 to amend the Local Government Act with the intent of making it easier for locals to advance their own proposals⁹.

⁷ Local Government Amendment Act (No 2) 1989.

⁸ Local Government (Auckland Council) Act 2010

⁹ Local Government Act 2002 Amendment Act 2012.

THE PROCESS FOR LOCAL GOVERNMENT REORGANISATION

2012's amendments to the Local Government Act have changed the process for reorganising local government.

The Local Government Commission (www.lgc.govt.nz) is the body responsible for receiving and considering reorganisation applications. After consideration and consultation, the Commission may decide to prepare a reorganisation proposal which could be subject to a poll of electors in the affected areas. If a proposal is finally approved, a reorganisation scheme will be implemented.

Under the Local Government Act, the purpose of local government reorganisation is to 'improve the effectiveness and efficiency of local government' by:

- Providing communities with the opportunity to initiate and participate in considering alternatives to local government arrangements for their area; and
- Requiring the Commission, in consultation with communities, to identify, develop, and implement in a timely manner the option that best promotes 'good local government'.

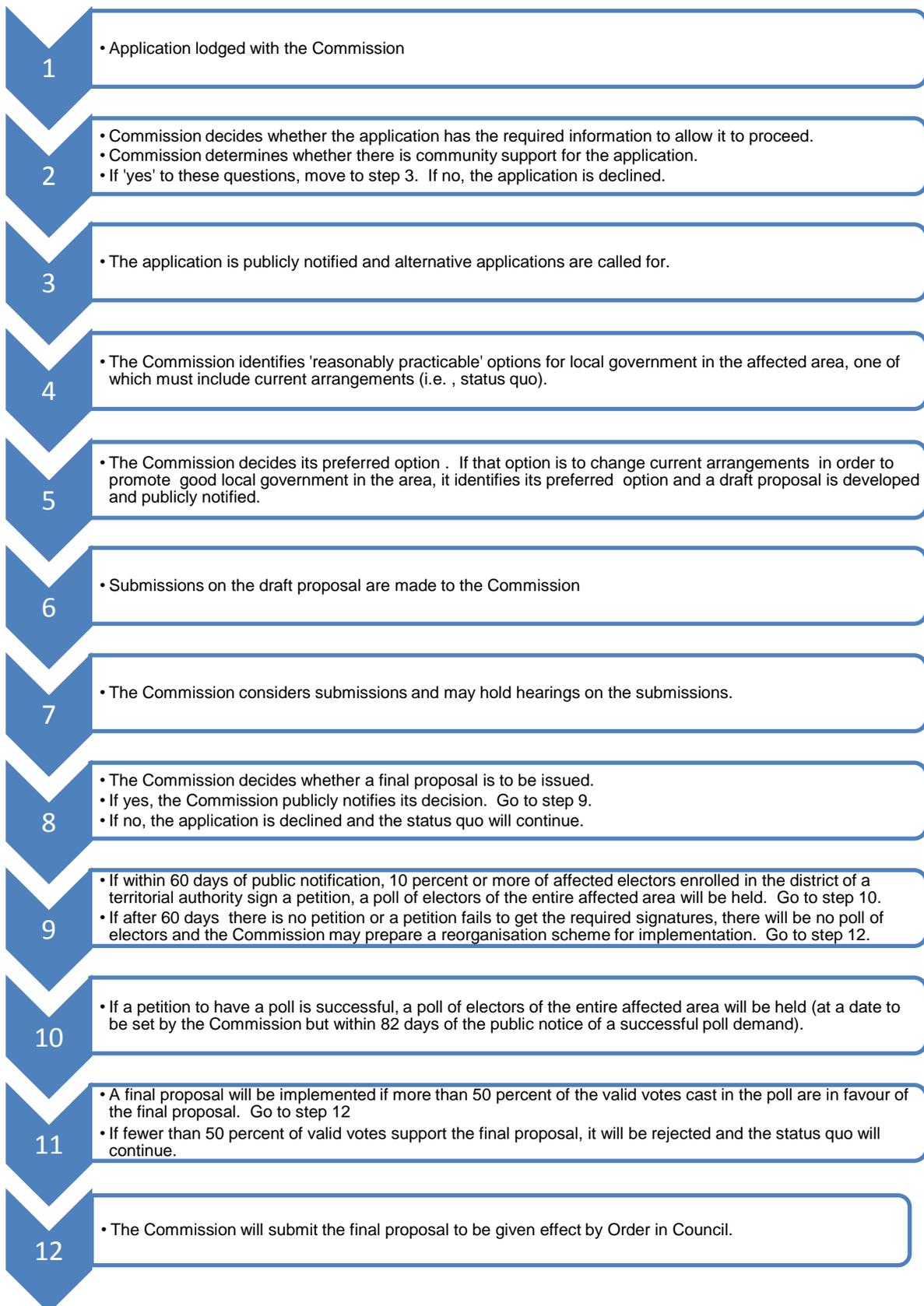
Any person, body, or group may make an application to reorganise a local authority or local authorities. Importantly, the Act now allows **anyone** to become involved in seeking 'good local government' for their areas through a reorganisation application.

Reorganisation applications can be made seeking one or more of the following things:

- The union of districts or regions;
- The constitution of new districts or regions;
- The abolition of districts or regions;
- The alteration of boundaries of a district or region;
- The transfer of a statutory obligation from one local authority to another; and
- Establishing a territorial authority as a unitary authority.

The new process is illustrated in the following flow chart:

THE REORGANISATION PROCESS



THINGS TO THINK ABOUT

If you are considering whether to make an application to reorganise local government in your area or even if you just want to have your say on a proposal, the key thing to think about is how it would 'improve the effectiveness and efficiency of local government'. With that in mind, it is important to consider this against the following issues (listed in no particular order):

1. Population change
2. Economic development
3. Role of councils
4. Costs of local government
5. Funding of local government
6. Local democracy
7. Local decision making

1. POPULATION CHANGE

New Zealand's population growth is relatively high compared to other developed economies but there is significant variation across local authorities in rates of growth and decline.

Between 2001 and 2013, New Zealand's usually resident population increased by 505,000 or 13.5 percent.

Of New Zealand's 67 territorial authorities in existence in 2013, 17 experienced a decline in population and a further 15 grew by less than 5 percent. On the other hand, 21 territorial authorities grew by more than 10 percent, with four of them growing by more than 25 percent (Queenstown-Lakes, Selwyn, Tauranga, and Waimakariri).

Auckland's growth, while not quite as spectacular in percentage terms (up 22 percent) nevertheless accounted for 51 percent of New Zealand's total population growth between 2006 and 2013.

Looking ahead, Statistics New Zealand forecasts that 17 territorial authorities will experience population declines over the period 2006-31 (according to its 'medium' projections), while 14 will experience growth of more the 20 percent. Two councils will each grow by more than 70 percent (Selwyn and Queenstown-Lakes) over the 25 year period.

Auckland will continue to account for most of the numerical increase. According to Statistics New Zealand's 'medium' projection, Auckland's population is forecast to increase by 595,000 between 2006 and 2031, or 59 percent of New Zealand's total population growth over that period.

Another demographic trend that will impact on councils is the ageing population. Although all councils will experience an increase in their median ages, there is a variance in starting points and some will increase by more than others. By 2031 eight councils will have median ages exceeding 50, while only 11 will have median ages under 40.

The country's population density as whole is relatively low (although much higher than Australia's or Canada's), but there is a wide range when comparing local authorities. For example, while New Zealand overall has a population density of around 16 people per square kilometre, 12 councils have densities of more than 100 and 26 councils have densities of less than 5. At the extremes Hamilton City has a population density of more than 1,500 while Mackenzie District has a density of just 0.5.

Decline and growth leads to significant challenges for local government.

Councils experiencing declining population face pressure from reducing rates income and capability challenges, particularly for maintaining and renewing their infrastructure but also for their regulatory performance.

Growing councils face different but equally serious challenges, for example around the need for upgraded or new infrastructure to meet higher populations and being able to respond to pressure to process resource and building consents.

The ageing population and its varying impact on councils will have implications for the incomes and for the infrastructure and services councils are expected to provide.

Population density also impacts on local government network infrastructure like roading and water.

An important thing to consider is whether the current structure of local government, which was largely put in place in 1989, is still optimal given nearly 25 years of demographic change. It is even more important to consider how local government should look in 25 years time after what will no doubt be further demographic change.

Question 1

Given population and demographic trends and forecasts, is the current structure of local government in my area likely to deliver good quality, cost effective infrastructure and services into the future?

Question 2

Would local government restructuring in my area result in population and demographic characteristics that will help deliver good quality, cost effective infrastructure and services into the future?

2. ECONOMIC DEVELOPMENT

Local government plays a crucial role in economic development, as a provider of infrastructure, a regulator, and in some cases a promoter of industries (such as tourism).

Local authorities have diverse economies. This is no surprise given that 'endowments', such as natural resources, vary greatly across the country. For some mainly larger urban areas industry composition is similar to that of the national economy, but others are highly specialised.

For example, a number of territorial authorities have a very strong reliance on agriculture, forestry, and fishing – with no fewer than 22 of them having more than 25 percent of their employment in those three sectors combined (compared to a national average of around 6 percent). There are also a few 'outlier' territorial authorities that are dominated by a single industry (e.g., Kawerau in the case of wood processing).

Economic growth has varied across the country, but has been particularly volatile for smaller territorial authorities with more specialised local economies. Industry specialisation exposes these councils to both positive and negative shocks. Industries that are in decline can devastate and decimate local communities and put councils under severe pressure to maintain existing infrastructure and services. On the other hand, industries that are

expanding can place a different set of pressures on councils to increase their infrastructure and services.

Despite this specialisation, it is important to consider that no local authority is an 'island' hermetically sealed from the outside world. All are part of larger regional economies and the national economy.

Also, a number of local authorities act as 'dormitories' for others – that is where, thanks to where lines are placed on a map, people are resident in one local authority but work in another. This can cause issues for councils that provide infrastructure and services used extensively by people living or working outside their borders.

The establishment of the Auckland Council has reduced this phenomenon in Auckland and has largely internalised the costs of local government and made local government a better fit for the regional economy. Today, the most notable examples of 'dormitories' are the councils neighbouring Wellington City and the councils neighbouring Christchurch, but the dormitory factor is also important for areas like Hamilton, Tauranga, Kawerau, Napier, Palmerston North, Masterton, Nelson, and Invercargill.

It would be useful to think about where local authorities sit within regional economies and how regional economies interact with each other. For example, much as been said about the 'golden triangle' of Northland-Auckland-Waikato-Bay of Plenty and how it should be considered an 'economic zone'.

Existing council spending on economic development and tourism promotion can, especially if made by cities and districts, result in spillover benefits to neighbouring councils. For example tourism promotion undertaken by Queenstown-Lakes District Council may attract tourists who travel through and spend time and money in other districts in Otago and Southland. Would it be more efficient and equitable for tourism promotion to be done by a regional entity?

Amalgamation is one answer to the need to ensure that local government reflects 'economic zones'. Other approaches include undertaking more activities (such as economic development and tourism promotion) at a regional level as opposed to a city or district level, and making use of shared services.

Question 3

How can local government respond to and help shape economic development not just in my immediate area but across the wider region and the country as a whole?

Question 4

Is the structure of local government helping or hindering economic development in my area?

3. ROLE OF COUNCILS

Modern local government does so much more than when it was established in the 19th century. Technological change, the expectations of the community and the requirements of central government have both seen local government expand well beyond traditional core activities.

Regarding infrastructure and services, councils were in the past primarily focused on a basic level of service for roads, water, and waste, and community facilities like parks, libraries, museums, art galleries and sometimes housing. They are now increasingly expected to provide higher levels of service for these traditional activities as well as new types of

infrastructure and services such as visitor centres, stadiums, sports centres, convention centres, and broadband.

Concern about large increases in spending, rates, and debt in the decade from 2002 prompted the Government to amend the Local Government Act in 2012 to narrow the purpose of local government to *“meeting the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses”*.

The jury is still out on whether this change will have a significant impact on the role of local government.

Regulation has also seen significant ‘creep’, at least in part due to central government imposing new and expanded requirements. The Productivity Commission’s recent inquiry into local government regulation found significant problems not just with the capacity of councils to implement what is often complex regulation but also with the quality of policy and legislative processes in central government¹⁰.

Gone are the days when councils merely regulated dogs, buildings, food hygiene, and a bit of town planning. Today there is a huge amount of regulation and planning taking place. The RMA has become an industry in itself but there are also newer responsibilities, imposed by central government, such as gambling and prostitution.

Councils need considerable resources and greater capability to cope with their current roles. It is hard to imagine the many of the very small counties and boroughs that existed up to the 1989 reforms coping in the current environment. In fact many small districts are now facing this conundrum.

On the other hand, bigger is not always better. Small councils that don’t have a lot of resources are often particularly focused on the basics which many ratepayers would no doubt prefer when the rates invoices arrive.

There are divergent views on the merits of greater consistency of regulation which local government restructuring might deliver versus the need to ensure that local communities can have regulations that suit their particular circumstances and preferences.

Some council roles, such as provision of roading and water infrastructure, have traditionally been the preserve of districts and cities but may in the 21st century be better undertaken at a regional level. There are international examples where reform of infrastructural services has led to considerably reduced costs. In Scotland, for example, the cost of delivering water services was cut by 40 percent when utilities were rationalised a decade ago.

While this could be an argument for merging districts and cities into bigger regional entities, an alternative would be to transfer these activities to regional entities, while keeping other local activities ‘local’, or districts and cities entering into shared services arrangements with their neighbours.

One thing for certain is that expectations of local government will evolve further and that this will act as a pressure for change in structure.

¹⁰ *Towards Better Regulation*, New Zealand Productivity Commission, May 2013.

Question 5

What do you see as the appropriate roles and responsibilities of local government? Is the current structure of local government in your area helping or hindering councils to perform their appropriate roles and responsibilities?

Question 6

Could roles and responsibilities be transferred to another tier of government (local or central) or be shared by groups of councils?

Question 7

Are the current arrangements for delivery of roading and water infrastructure the most cost effective?

4. COSTS OF COUNCILS

One of the most commonly used arguments in favour of local government restructuring is that fewer and bigger councils will result in cost savings and efficiencies through economies of scale.

In theory this proposition makes sense. There can be substantial one-off cuts in staff numbers and employment costs and this appears to have been the initial experience with the Auckland Council when it was established in 2010.

However, in practice there is not a lot of evidence of enduring reductions in staff numbers or employment costs. For example, Auckland Council's staff numbers have increased substantially since its establishment and it now has well over 8,000 full time equivalent employees - similar to the number of people employed by the previous councils prior to the merger - and a wage bill of more than \$670 million.

According to a recent report by TDB Advisory for Hutt City, there is "no international consensus on the optimal size of local government". It also found that while there might be "efficiency gains from amalgamating councils up to 50,000 people" there is "no evidence of efficiency gains from amalgamation of the majority of local public services provided by councils"¹¹.

Technological change and resource pressures have and will continue to change the cost drivers for local government. It has been argued that larger councils should be more able to embrace the potential for cost savings from technological change (e.g., greater use of on-line services and communication) and to manage future resource pressures (e.g., increased competition for skilled labour, higher oil prices impacting on bitumen costs).

However, restructuring local government cannot in itself guarantee enduring reductions in cost and improvements in efficiency. What is important in the period following any restructuring of local government is for the new council to demonstrate a sustained commitment to holding on to the benefits of economies of scale and keep a firm control over its costs.

It is also important to consider whether local government restructuring is the best option for driving cost savings and efficiencies. For example, many councils across the country are engaging in shared services across a range of activities, whether it be in the provision of infrastructure, public services, or regulatory functions. Shared services may in some

¹¹ *Governance Options for the Wellington and Wairarapa Regions: An Economic and Financial Assessment*, TDB Advisory for Hutt City Council, July 2013.

circumstances be the more effective way to reduce overhead costs while retaining the benefits of local democracy.

Question 8

What will be the cost savings from restructuring local government in my area and how will these cost savings be applied – debt reduction, rates reduction, or spent elsewhere in the council?

Question 9

What shared services and other cost savings initiatives are currently being pursued by councils in my area and will local government restructuring provide substantially greater cost savings?

5. FUNDING OF COUNCILS

For the year ended June 2013 the local government sector's operating revenue was \$7.9 billion, of which \$4.6 billion comprised rates, around 58.5 percent¹². This percentage is high by international standards.

Rates were appropriate when there was a strong relationship between council activities and rated properties, for example, when councils were focused on the provision of local infrastructure (e.g., roads) and the regulation of activities at a local level. However, as discussed under 'Role of Councils', modern local government is expected to do so much more than in the 19th century and therefore finds itself spending a lot more.

Although the rates system is administratively convenient, rates fail against the important test of 'ability to pay'. This is especially so for groups such as farmers and the elderly where the value of their properties is out of line with their incomes. Property value also has a poor relationship to the access to or use of council services, so making rates an inequitable funding tool for many council activities.

The financial blowouts at a growing number of councils, Kaipara and Westland being the latest, strongly suggests that the system of property value rates - with all of its flaws - is fast becoming overwhelmed by the demands for spending. Indeed the 2007 Independent Inquiry into Local Government Rates reported that "under current practices rates will not be sustainable in 10 years' time".

Despite this warning there has been no appetite for reform of local government funding to reduce the reliance on rates. This is mainly because the alternatives for councils involve choices which are regarded as regressive, such as more use of uniform property charges or more user pays. There is a strong case for central government to increase its funding, especially for roading and for the regulatory burdens it places on councils, but this means a fiscal cost to the Government, whether from revenue sharing, higher roading subsidies, or making currently exempt land (e.g., the DOC estate) rateable. Some in the local government sector are also reluctant to seek a higher proportion of central government funding if it means a loss of local government autonomy.

The Government's approach has been to encourage councils to contain the growth in spending (and therefore rates) by refocusing local government on efficiency and reducing cost.

¹² *Local Authority Statistics*, Statistics New Zealand, June 2013 Quarter.

As mentioned in the discussion above on the costs of local government, restructuring councils into larger entities might help reduce operating costs, especially initially, but bigger is not always better.

Advocates of local government restructuring argue that a bigger council will have more clout with Wellington and may be able to squeeze more money from central government than would otherwise be the case or would be able to make a stronger case for reform of local government funding.

The distribution of the rates burden is an important consideration. The experience with Auckland Council shows that restructuring can result in winners and losers, especially as the new council transitions to a unified rating system.

Question 10

What rating systems and funding policies are currently in place in my area? How would a restructured council's systems and policies redistribute the rates burden?

Question 11

Would local government restructuring result in a council that can advocate more effectively to central government for more resources or reform of local government funding?

6. LOCAL DEMOCRACY

As well as being a provider of infrastructure, public services, and regulation, local government also has the important function of enabling democratic local decision-making and action by, and on behalf of, communities. This purpose is enshrined in the Local Government Act.

Communities of interest have changed significantly over the years. Improvements in transport and communications have shrunk the distance between communities and will continue to do so. What may have been meant by 'local' in the 19th century will have a different meaning to what is 'local' today and will no doubt have a different meaning again into the future.

While this suggests that larger and more dispersed councils will be democratically viable, many people prefer to have accessible democracy. It is perhaps no coincidence that voter turnout and other engagement between councils and their communities is stronger for smaller rural councils where residents and ratepayers can have easy personal access to mayors, councillors, and staff.

Bigger councils have the potential of being more remote from their communities, especially to those areas that are far-flung from the major urban centre. There is also the potential for less representation on councils from these communities thanks to strict population quotas for wards (where they exist) and less knowledge or understanding of what is important to industries like agriculture.

These shortcomings are not insurmountable but it will require bigger councils to work extra hard to engage with their communities and to have in place representation arrangements that ensure communities, including remote communities, can continue to have their say. Auckland Council's 'local boards' structure might be a useful model, as might its 'Rural Advisory Panel'.

Question 12

What are the relevant communities of interest in my area? Would they be well served by local government restructuring?

Question 13

How effective is current local democracy and how will local democracy be improved through any restructuring? In particular, how would communities of interest, and any specific local needs, be represented on a restructured council and how will they be engaged with by that council?

7. LOCAL DECISION MAKING

Amalgamation has the potential to result in improved decision making and strategic capacity and capability. This might particularly be the case when a single urban area is divided into several territorial local authorities based on historic boundaries that are no longer relevant today. This was the case in Auckland before its merger has been cited for Wellington today.

In this situation rivalry between individual councils can often lead to parochial decisions which are not in their constituents' best interests or the region as a whole. Furthermore, regional decisions can be delayed because of the territorial battles that occur.

For example, territorial authorities often fight to have a regional facility (such as a stadium, museum, or art gallery) located within their boundaries or they might fight to have their own local facilities instead of or duplicating a regional facility. Similarly in the transport area, individual councils have been known to push to have stretches of regional roads within their boundaries prioritised for improvement.

Advocates of restructuring argue that decisions made from a regional perspective would not only result in better outcomes but would be more in line with citizens' wishes. Opponents counter that if decisions are made by bigger regional entities local communities could be deprived of facilities and services that are centralised in one major centre.

Question 14

How effective is local government decision-making in my area?

Question 15

How will local government decision-making processes and, more importantly, outcomes be improved through any restructuring?

SUMMARY OF QUESTIONS

Population change

1. Given population and demographic trends and forecasts, is the current structure of local government in my area likely to deliver good quality, cost effective infrastructure and services into the future?
2. Would local government restructuring in my area result in population and demographic characteristics that will help deliver good quality, cost effective infrastructure and services into the future?

Economic development

3. How can local government respond to and help shape economic development not just in my immediate area but across the wider region and the country as a whole?
4. Is the structure of local government helping or hindering economic development in my area?

Role of councils

5. What do you see as the appropriate roles and responsibilities of local government? Is the current structure of local government in your area helping or hindering councils to perform their appropriate roles and responsibilities?
6. Could roles and responsibilities be transferred to another tier of government (local or central) or be shared by groups of councils?

Costs of local government

7. What will be the cost savings from restructuring local government in my area and how will these cost savings be applied – debt reduction, rates reduction, or spent elsewhere in the council?
8. What shared services and other cost savings initiatives are currently being pursued by councils in my area and will local government restructuring provide substantially greater cost savings?
9. What shared services and other cost savings initiatives are currently being pursued by councils in my area and will local government restructuring provide substantially greater cost savings?

Funding of local government

10. What rating systems and funding policies are currently in place in my area? How would a restructured council's systems and policies redistribute the rates burden?
11. Would local government restructuring result in a council that can advocate more effectively to central government for more resources or reform of local government funding?

Local democracy

12. What are the relevant communities of interest in my area? Would they be well served by local government restructuring?
13. How effective is current local democracy and how will local democracy be improved through any restructuring? In particular, how would communities of interest, and any specific local needs, be represented on a restructured council and how will they be engaged with by that council?

Local decision-making

14. How effective is local government decision-making in my area?
15. How will decision-making processes and, more importantly, outcomes be improved through any restructuring?