

Council Democracy And Performance Must Be Improved

Parliament is considering a bill to amend the Local Government Act 2002 passed by the last government. It is a chance to improve democracy and performance in our councils.

The 2002 Act reflected an expansionist and unconstrained view of local government. As one mayor enthused, the “horse can now gallop around the paddock.”

And councils did take off like wild horses. For much of the past decade annual spending growth was over 8%. They engaged in a range of activities that went well beyond their proper role, often while neglecting their traditional services.

Last year’s OECD report on New Zealand noted that “Local governments have progressively moved beyond basic local services such as water, rubbish and sewerage into various cultural, social and economic activities ... Profligate spending has been funded by steadily increasing rates which has contributed to domestic inflation.”

The job of councils should be to provide public good services – services that can’t be provided efficiently by firms or the voluntary sector. Otherwise councils crowd out the private sector, run commercial businesses less efficiently on average, and harm economic growth.

There is much evidence for the OECD’s claim. In recent times Auckland councils have invested in airports in Australia through Auckland International Airport Limited, Wellington councils have been talking about going into trade promotion in China and banking, and many have made large losses on investments in businesses and investment portfolios.

Council ownership is a barrier to rationalisation in the ports industry. The Taranaki Regional Council is having to put up rates by a whopping 18.4% because of bad investment decisions in its port company.

Councils should not be making risky business decisions with ratepayers' money. Ratepayers should make such decisions themselves.

The OECD also noted that part of these problems “stems from weak democratic accountability at the local level, characterised by low turnout at local elections, undue influence by special interests, and opaque funding.”

Sector representatives often talk of local government democracy as though all that matters is a majority vote. That is a very stunted view of democracy. A good democratic framework embodies numerous checks and balances.

In New Zealand this framework is laid down by parliament in local government legislation.

The current bill goes a small way to improving this framework. It would require councils to have regard to their core services role (but doesn't define these as public good services or prohibit them from undertaking other activities); refocuses “community outcomes” on matters that councils aim to achieve (but fails to recognise that councils don't have a prime role in achieving outcomes like full employment, good health and education services and lower crime); does nothing to directly constrain spending; and includes weaker provisions on transparency than the Public Finance Act's requirements of central government.

Through the Local Government Forum, business organisations have advocated moves to strengthen the framework in these areas.

The Forum believes that the activist purpose statement of the Act should be repealed and replaced by a statement that local government's purpose is to “provide local public goods that cannot be efficiently provided by individuals, firms or voluntary groups, and administer appropriate regulation at a local level.”

A schedule to the Act could list a hierarchy of public goods as guidance for councils. This would not exclude libraries and museums, as some have argued; these have some public good characteristics.

It could also list private goods that are not a proper role of councils. This would include commercial activities like ports and forestry which councils should exit, just as they earlier ceased to run abattoirs and municipal gas and electricity services. It would not require ownership changes of services such as water, although public-private partnerships should not be ruled out.

Councils might be enabled to go beyond core public good services if they obtained consent from their ratepayers through referenda.

The Forum also advocates a direct spending limit, for example that rates should not increase by more than population growth plus inflation. Hutt City has commendably established a rule on these lines and adhered to it. The OECD proposed, and the Forum agrees, that “it should be legally binding, unless overwritten by specific voter approval.”

Sector representatives have argued that referenda are expensive, but officials advised the government that this is not the case. Wanganui City is one council that has used them to advantage.

The claim by councils that a higher ‘council rate of inflation’ should be the benchmark for rate increases rather than the CPI is also spurious. It would, for example, allow councils to award high wage increases to staff and pass them on in rates.

Some councils would have little difficulty operating within the framework proposed by the Forum, but it would rein in other ‘wild horses’. Councils would also benefit from less costly and largely meaningless council planning and consultation processes, as the bill proposes.

The government has made a start on local government reform with the reorganisation of Auckland. The opportunity of doing more to improve democracy and performance across all councils should be grasped as the select committee and the government consider submissions on the bill.

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