

Local Government in the Wellington Region

There have been many useful contributions to the debate over the future of local government in the Wellington region, including a report by PricewaterhouseCoopers.

I agree with Mayor Celia Wade-Brown that Wellington should not blindly follow the Auckland 'super city' model. The argument that it should do so to exercise more influence with central government is weak.

Bigger is not necessarily best in local government – indeed (within limits) the opposite is often the case. In the Wellington region the PWC report has a chart showing that 2010 rates revenue per resident is over \$1,100 in Wellington City compared with around \$800 in Hutt and Upper Hutt cities. This is a big disparity. Hutt City has rebutted the claim that it is due to poorer services in its district.

Research indicates that there are not large economies of scale in local government generally. Local democracy is typically stronger in smaller councils too. In these ratepayers tend to be better informed about whom they vote for and the views of candidates, and are better placed to hold councillors accountable. Smaller local authorities may better reflect the diverse preferences of communities and foster more competition and innovation than bigger authorities.

Many of the contributions to the debate so far lack a framework for thinking about the issues.

The first question to ask is what the role of local government should be. The answer is to ensure the provision of public goods: services that the private sector cannot supply (except by contract). Examples include streetlighting, parks and reserves, civil defence, public health, and local regulatory functions. A rough rule of thumb is that if something can be charged for it is a private not a public good.

It follows that there is no need for councils to be involved in commercial activities such as ports, airports, rubbish disposal, cemeteries, carparks and cinemas. Generally the private sector can handle such functions better and they divert councils from performing their core functions well.

Another key part of a framework is captured in the maxim that form (the boundaries of councils on the map) should follow function.

There seems little need for a council stretching from Masterton to Miramar to handle issues such as graffiti, dog control and resource consents.

By contrast, there are clear advantages in having larger entities for some utility functions. Water and wastewater is a case in point. Some overseas experts have suggested that New Zealand should have perhaps three main water companies – two in the North Island and one in the South. If true, even the expanded Watercare in Auckland may not be optimal; perhaps it should include the Waikato as well.

Forming such companies would not imply privatisation: the single water company for Scotland is publicly owned and rationalisation has benefited customers. Over 200 water businesses in Scotland were amalgamated over time into one. Average household bills are now the fourth lowest in the United Kingdom and Scottish Water has reduced its running costs by almost 40 percent from their historic base.

Transport, particularly state highways and arterial roads, might also be better managed on a wider basis.

Determining the optimal shape of local government in the region should thus start with a function by function analysis. Consideration should be given to the possibility of shared services, eg for libraries, as an alternative to amalgamation.

Then the next question to be asked is whether councils need to undertake necessary public goods functions themselves or whether they should contract them out. Sandy Springs is a city in the United States with a population of around 100,000 that has contracted out everything other than

police and fire services. Its property taxes (rates) have been stable for years.

Finally, thought should be given to the fiscal framework for local government. There has been a blow-out in spending since the expansive Local Government Act of 2002: the sector's ratio of spending to GDP has increased by a whopping 50 percent. There is a strong case for a fiscal rule along the lines of that proposed in a bill currently before the House which would limit central government spending increases to the rate of population growth plus inflation, unless higher increases are authorised in a referendum. Hutt City has adopted a rule along these lines.

There is also a strong case for abolishing higher business rate differentials, as the Shand report proposed.

On the regulatory side, a framework to screen out poor regulation similar to that contained in the Regulatory Standards Bill, now before a select committee, should be applied.

Further reforms to local government are certainly needed. Because of parochialism I am doubtful whether they will occur without central government involvement and direction. But if New Zealand is serious about improving its economic prospects, the shape and performance of the important local government sector cannot be overlooked.

Roger Kerr is the executive director of the New Zealand Business Roundtable. Check out his blog on www.nzbr.org.nz