

**Kiwifruit Coast Chamber Of Commerce
Annual General Meeting**

Clarity And Confusion In Local Government

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CLARITY AND CONFUSION IN LOCAL GOVERNMENT

I am delighted to have the opportunity to attend your annual general meeting and to share with you some thoughts on local government.

I am sure your executive officer will not mind if I mention a couple of points that impressed me in the letter inviting me to this function. It noted that your Chamber is:

... in transition from the small 'self-serving old boys network' to a business membership organisation committed to developing the very best environment for profit and lifestyle to live in harmony.

The letter also said there is considerable business support for the Chamber's advocacy in your region to be based on quality research and information, and to recognise that such an approach takes time to be effective.

I think most business organisations in New Zealand have gone through such a transition over the last 10 years or so, to the very considerable benefit of the country as a whole. From the outset, the Business Roundtable has been committed to a national interest perspective, and to advocacy based on sound research. We take the view that the interests of consumers not producers should be paramount, and that it is the job of businesses large and small to serve consumers' needs. The open and competitive economy is giving consumers a far better deal, and it is also encouraging the growth of far more efficient and well-run businesses of which we can all be proud.

Certainly the Business Roundtable carries no special brief for the large business sector, and we enjoy the easiest of relationships with the chamber of commerce movement, which has been greatly revitalised up and down the country in recent years. Most business organisations today are closely in accord over what constitutes good government and sensible economic policies. The Auckland and Wellington chambers were associated with us earlier this year in a detailed report called *Moving into the Fast Lane* which set out a programme for building on New Zealand's new-found economic success in the decade ahead. It will be important that the new MMP parliament gets a clear message from all business organisations about the requirements as they see them for further improvements to the business environment in the interests of raising incomes and creating jobs.

The Business Roundtable is associated with the New Zealand Chambers of Commerce, the Manufacturers Federation, Federated Farmers, the Forest Owners Association and other business organisations in the Local Government Forum, a very useful network for exchanging information and undertaking joint projects on local government. Its existence reflects the importance the business sector attaches to local government and to improvements in its performance. Because local government represents a substantial sector of the economy, the quality of its operations impact significantly on business and the economy overall. For example, the 1994/95 statistics for non-trading activities alone indicate that local government accounted for:

- total operating income and expenditure of \$3 billion (3.3 percent of GDP);
- total annual capital expenditure of \$770 million;

- over 38,000 people employed;
- infrastructural assets to a value of approximately \$21 billion; and
- total ratepayer equity of approximately \$27 billion (1993/94).

To put some of these statistics in perspective, it can be noted that:

- the figure for employment amounts to around two thirds the number of full-time owners of farms in New Zealand;
- the figure for infrastructural assets is around twice the total assets of state-owned enterprises (following the sale of the Forestry Corporation); and
- the figure for ratepayer equity is around half the market capitalisation of all the companies listed on the New Zealand Stock Exchange.

By these standards alone, local government is clearly a very large business. In addition, its regulatory role, in particular through the Resource Management Act 1991 and the Building Act 1991, has a major impact on the private sector.

There have been notable improvements in the local government sector since the 1989 reforms. The process of amalgamations, the separation of governance and management roles, the establishment of business units and Local Authority Trading Enterprises (LATEs), contracting out, the introduction of annual plans and better financial reporting have all led to gains in efficiency. But the business sector is looking for continuous improvements in local government performance, just as the community rightly expects business today to keep on striving for higher standards, with international benchmarks being increasingly the norm.

Business organisations have been pleased to acknowledge the gains that have been made, and are certainly not engaged in some kind of 'holy war' with local government as a whole. The sector is very diverse, and performance varies markedly. Our own thinking has been influenced by the achievements of some of the best performers. Rodney District Council has stood out for some time as a highly innovative council with a clear focus on its proper role. I am happy to say that the Tauranga District Council is also well regarded nationally. Its top ranking in this year's *Management* survey was well deserved; the fact that it (and Rodney) scored badly in a *Consumer* poll says more about that poll than it does about those councils. Further south from here, Opotiki strikes us as a small council that is doing a good job. The Taranaki Regional Council and the Dunedin City Council are other good performers. In general, our impression is that less progress has been made by the large councils in Auckland, Wellington and Christchurch. We have concentrated our efforts on the main centres as their performance obviously has the greatest impact on the economy as a whole.

We have also noticed diverse attitudes on the part of councils to dialogue with the business sector. Several councils have initiated approaches asking for our views on their annual plans. The Christchurch City Council is an example of a council with rather more parochial attitudes. David Close, one of its prominent members, revealed

in an article last year that he thought we were based in Auckland. Despite the fact that our member organisations probably account for around 10 percent of the Christchurch economy, and that business and the country as a whole have a legitimate interest in the performance of any major city, some members of the Christchurch City Council seem to think its affairs are none of our business.

The general approach we have taken to local government is probably quite familiar to you; apart from anything else I know the *Bay of Plenty Times* and the local radio station have found some of our material of interest and have been good enough to carry it. In essence, the main arguments we have been advancing are that:

- local government has an important role to play but there are clear boundary lines between its role and those of both central government and the private sector;
- the core role of local government should be to ensure the provision of local 'public goods' - goods and services which would not be adequately supplied by the private sector - and to make and administer regulations with a local impact;
- there is no sound case for local government to be engaged in commercial activities. Moreover, the provision of many local government services is best handled by contracting out to the private sector;
- funding for local government services should be related to the benefits received by those who use them. Where local government services are in the nature of private goods, full or part user charges should apply, thereby confronting those who demand such services from local government with the costs they impose on society;
- local government should not be involved to any great extent in business development or employment schemes. These largely amount to a tax on other businesses, distort the local economy and crowd out private initiatives, such as the business promotion work of chambers of commerce; and
- income redistribution is a role for central government and the voluntary sector, not local authorities. They do not have the information or mechanisms to perform this role effectively.

In practical terms, these principles suggest that the core service activities of local authorities should at present comprise roading, parking enforcement, stormwater, open access parks and reserves, and certain other public goods. Core activities should also include local regulation dealing with things like health and safety and resource management. Local government should not be involved in producing private goods where there is no market failure to justify government intervention. We see no need for local authorities to be involved in running ports, airports, power companies and forestry operations, or providing such things as parking buildings, marinas or housing.

Today a good number of local authorities and individual members of their councils accept these general principles to a greater or lesser extent. Probably the main 'outlier' would be the Christchurch City Council, which has a much more expansive view of

the role of local government. As a recent *North and South* article entitled 'Think Big Buck' put it:

Just when the Business Roundtable thought it had big government beat, along came Vicki Buck and the Christchurch City Council Unlimited. Not content with majority ownership of water, power, sea and airports, the council is now embarking on a \$116 million spending spree which will see the city's portfolio of publicly-owned - and funded - assets expand exponentially by the year 2000.

The Muldoonist analogy is indeed apt in more ways than one. The Christchurch City Council likes to argue, as did Muldoon, that 'the people' support its policies. That entirely misses the point: no one argues that Muldoon lacked popular support, or that governments shouldn't reflect democratic preferences. But the argument doesn't stop there: the key issue is what constitutes sound public policies. The Great Interventionist had difficulty figuring out where government intervention should stop and the private sector should take over, and the lesson of 'Think Big' does not appear to have been grasped in Christchurch. Indeed Vicki Buck clearly misunderstands the arguments that are being made. In the article she is quoted as saying: "Can you imagine what Roger Kerr would have had to say about the city fathers' decision to lock up an area the size of Hagley Park for public enjoyment?". The answer is simple: parks such as Hagley are public goods and are precisely the kind of amenities councils should be providing; many of the projects on which the Christchurch City Council is spending large amounts of money are not.

To be fair, Christchurch has been for a long time a well-run city: it is an easy city to service, its financial reporting is good and to date it has kept its rates low. But just as it took three terms for the follies of Muldoonism to become chronic, so too does Christchurch appear bent on storing up problems for the future. The loss-making tramway project may be just the first equivalent of the Aotea Centre, the Auckland Regional Council head office and the Ngauranga abattoir.

Although it is a notable case, Christchurch is not the only council demonstrating confused thinking about the principles that should guide government intervention at the local level. The Auckland City Council has its own 'Think Big' project with the Britomart scheme. Recently I was astonished to discover that the Manukau City Council has a large engineering consultancy business, which is touting for work not just in Manukau but elsewhere in New Zealand and in Australia as well. Just as central government is divesting what is left of Works Corporation, we have a local authority engineering business expanding its role! Likewise the chairman of the Wellington Regional Council is one who still denies that ownership of businesses matters, and refuses to respond to evidence we have provided about the advantages of private ownership.

Local government has lagged behind central government in the public sector reform process, and in some of these debates one has the feeling of being back in a Muldoonist time-warp. In respect of privatisation, for example, there are still people who think it is a sufficient defence of public ownership of businesses to point out that some government-owned businesses have been very successful, at least for a time, while some private businesses have collapsed spectacularly. That is both quite true and a quite unsound basis for public policy. The evidence is clear that *on average* and *over time*, privately owned businesses out-perform publicly owned ones. Those who

want governments to run businesses are playing against the odds, and are gambling with taxpayers' or ratepayers' money. Taking such risks is not a responsible strategy.

Similarly there are those who argue that businesses such as Ports of Auckland or New Zealand Post are doing a fine job and should not be privatised. Often these are the same people who argued against corporatisation in the first place. However, the evidence is clear that there are additional gains to consumers from privatisation. Representatives of both those companies have made no secret of their belief that they could do an even better job under private ownership.

Thus business organisations and others still have a lot of work to do to present facts and arguments to council decision makers and the community at large about the scope for further improvements in local government. When mayors and chairs are not prepared to give a lead in researching options and exposing them for public consideration, business organisations may have to do so instead.

This process will be helped considerably, I believe, by the new local government financial management reforms. Although there was a good deal of political posturing about these measures at earlier stages, they were finally adopted by parliament last month without fanfare. The measures will force local authorities to become much clearer about their core functions, to look harder at whether services are public or private goods, to consider contracting-out options much more explicitly, and to relate rates and charges more closely to the benefits of services.

The legislation allows councils to adopt the new procedures either in their 1997 or 1998 planning rounds. It will be interesting to see which councils have got their financial management systems sufficiently in order to enable them to start in 1997 and which are the laggards. Of the major city councils, I fear Auckland and North Shore may be in the latter category, but I hope I am wrong.

I am aware that there is a lively debate in this region over amalgamation. Clearly the 1989 reorganisation of local government should not be regarded as the last word; almost certainly there will be a case for alterations to boundaries as circumstances change. I cannot say anything useful on the local issue other than perhaps to note that I would see the form of local government as being related to the functions it undertakes. If local authorities were to divest themselves of business activities such as ports, electricity companies and the like, that might well reveal the scope for new administrative economies. Clearly local body ownership of dozens of power companies was a highly inefficient structure. The process of privatisation and mergers is continuing to yield large efficiency gains, as shown most recently by the Energy Direct and Capital Power merger. In the near future, moves towards commercialisation of infrastructural services such as roading, water and sewerage may also encourage a rethink of the form of local authorities.

With the passage of the financial reform legislation, attention at the national level is turning to a new set of priorities. There seems to be general agreement that legislative change is needed to facilitate changes to the way water, sewerage and other infrastructural services are provided and charged for. The Department of Internal Affairs and local government are jointly embarked on a review of strategic directions. There is increasing talk of a basic review of the Local Government Act 1974 and the Rating Powers Act 1988. The Local Government Act 1974 in particular is like

grandfather's axe; it has had so many new handles fitted into it that it is probably time to throw it away and buy a new one. Some commentators think a simple statute of 20-30 pages is all that would be needed.

All these are indications that there is still a good deal of work ahead on the local government agenda. One of the encouraging things about New Zealand in the last 10 years is the development of an achievement orientation: a desire to keep moving forward. For its part, business needs continuing improvements in local government to help it increase its own efficiency and meet the challenges of international competition.

New electoral systems, local referenda and the like are not going to alter the fact that there are opportunities to be grasped if we are to make further progress, and penalties if we stand still. If anything, they make it even more important for the business sector to play an active role in researching issues and informing the community about options for better meeting its aspirations. Our organisation will certainly have local government issues high on its agenda for the foreseeable future, and I hope that yours will too.